



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council
City of Pasadena, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Pasadena, California (the "City"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 28, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Honorable Mayor and Members of the City Council
City of Pasadena, California

City of Pasadena's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Solt & Lughard, LLP

Brea, California
December 28, 2023



To the Honorable Mayor and Members of the City Council
City of Pasadena, California

SCHEDULE OF FINDINGS AND RESPONSES

Reference Number

2023-001 – Timeliness of Bank Reconciliation Preparation

Evaluation of Finding

Significant Deficiency

Condition

A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared to determine that all cash transactions have been recorded properly and to discover bank errors. Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger controls. Not reconciling the accounts on a monthly and timely basis means that errors or other problems might not be recognized or resolved on a timely basis. We recommend that all bank accounts be reconciled each month prior to preparation of monthly financial statements.

Criteria

In order to make the financial reports generated by the accounting system as meaningful as possible, the City should reconcile to the general ledger accounts for cash on a monthly basis as timely as possible.

Cause of Condition

Due to the significant volume and detail of individual cash transactions, in addition to staffing and personnel issues experienced by the City, there were instances where the City did not possess the capacity to perform the monthly bank reconciliations on a timely basis.

Effect or Potential Effect of Condition

Not reconciling the accounts on a monthly and timely basis means that errors or other problems might not be recognized or resolved on a timely basis.

Recommendation

The Finance Department should look at ensuring that sufficient experienced personnel are available to help facilitate the monthly bank reconciliation processes.

Management Response

We agree with the finding. The City is currently implementing efficiency improvements to the monthly bank reconciliation process in hopes to alleviate this occurrence during Fiscal Year 2024.

Reference Number

2023-002 – Year-End Close and Financial Reporting

Evaluation of Finding

Significant Deficiency

Condition

During the audit, we found the following conditions that resulted in significant adjustments to the financial statements.

Accuracy in External Financial Reporting

The year-end closing process did not ensure that account balances were reconciled and accurate in advance of the audit requiring a significant number of correcting journal entries provided by the City to correct the final financial statements. It appears these errors were primarily caused by the trial balance being prepared from data that was not always complete, contained errors, and appropriate year end reconciliations had not been performed.



To the Honorable Mayor and Members of the City Council
City of Pasadena, California

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

Criteria

Management is responsible for the preparation and fair presentation, as well as the accuracy of its financial statements, including disclosures in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Cause of Condition

Due to the significant volume and detail of general ledger transactions of the City, in addition to newly issued complex Government Accounting Standards Board (GASB) Pronouncements, some processes were not fully executed and reflected in the City trial balance prior to being furnished to the auditors.

Effect or Potential Effect of Condition

Due to the items noted above, there is a potential for significant misstatements to be present in the initial trial balance that is provided to the auditors.

Recommendation

The City should put in place formalized year-end close procedures to ensure the close is complete and reduce the amount of journal entries needed and errors found after the closing process has been completed. We suggest management also establish effective review policies and procedures, including but not limited to; apply analytical procedures on the trial balance numbers and perform reconciliations of all significant accounts.

Management Response

Management agrees with the finding. Due to the implementation of the newly issued and complex GASB pronouncement, a number of journal entries and corrections were made by City staff. The City will implement and follow formal year-end closing processes and procedures to ensure sufficient review and corrections to the trial balance are made, prior to year-end close.