

Agenda Report

January 22, 2024

TO: Honorable Mayor and City Council/Successor to Pasadena
Community Development Commission

THROUGH: Finance/Audit Committee

FROM: Department of Finance

SUBJECT: FISCAL YEAR JUNE 30, 2023 ANNUAL FINANCIAL REPORTS

RECOMMENDATION:

It is recommended that the following reports for the year ended June 30, 2023 be reviewed, discussed, and filed by the City Council and/or the Successor Agency to the Pasadena Community Development Commission.

- A. Annual Comprehensive Financial Report
- B. 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* (This replaces what was called the "Management Letter.")
- C. Pasadena Center Operating Company Financial Statements
- D. Rose Bowl Operating Company Basic Financial Statements
- E. Pasadena Community Access Corporation Financial Statements
- F. Pasadena Fire and Police Retirement System A Pension Trust Fund of the City of Pasadena, California Financial Statements
- G. City of Pasadena, California Air Quality Management District Fund Financial Statements
- H. Pasadena Housing Successor Pasadena, California Financial Statements
- I. City of Pasadena, California Foothill Workforce Development Board Financial Statements
- J. Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets
- K. Independent Accountants' Report on Applying Agreed-Upon Procedures for review of Deferred Compensation
- L. The Auditors' Communications with the City's Finance/Audit Committee

EXECUTIVE SUMMARY:

This action is to receive and file the City's eight (8) annual financial statements and four (4) compliance-related reports for the fiscal year ended June 30, 2023. All financial statements received an unmodified (or clean) opinion. A presentation will be made by the City's Finance Department and external auditors, Lance, Soll, & Lunghard LLP, at the January 22, 2024, Finance/Audit Committee and City Council meetings. The Single Audit is still in progress, but will be completed by the federal deadline of March 31, 2024. The Single Audit Report will report on federal grant related findings, if any.

BACKGROUND:

This year's audit was the first annual audit performed by Lance, Soll, & Lunghard, LLP, who was awarded a three-year contract with two one-year optional extensions on June 12, 2023, to perform the City's audits. On June 12, 2023, the City Council approved the contract with Lance, Soll, & Lunghard, LLP that required sampling from all funds. The audit was conducted in a hybrid manner, on-site and in a remote setting. The remote audit was facilitated by the City's use of Tyler Munis and the electronic storage of documents.

All eight (8) financial statements received unmodified opinions from the external auditors. This is the highest or cleanest attestation report given by independent auditors and includes the phrase "the financial statements referred to above present fairly, in all material respects, the financial position..." The four (4) remaining reports, present compliance information, specifically requested test work, and provide comment on internal controls, errors, lack of errors, or suggestions for future improvements.

Annual Comprehensive Financial Report (ACFR) (Attachment A)

Section 912 of the City Charter requires that an independent audit of the City's records, books, and inventories be conducted annually and a report issued thereon. In the attached audited ACFR for the year ending June 30, 2023, the City received an unmodified opinion, which means that the statements are free of material misstatement and are presented in conformity with Generally Accepted Accounting Principles.

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* (This replaces what was called the "Management Letter") (Attachment B)

This report explains the auditors' audit of the City's financial reports in relation to their review of internal controls and reports two findings. The City's audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the

Government Auditing Standards, issued by the Comptroller General of the United States. Such audits utilize sampling of data, inquiries of staff and management, testing of procedures, confirmation with outside parties, spot-checking of internal files and documents, review of meeting minutes, specialized audit checklists, and numerous other techniques. The auditors considered the City's internal controls in determining what procedures to use and the size of samples to be selected. While audit procedures do not include review of 100 percent of transactions, the City contracted to have samples pulled from every fund, which is more than required under generally accepted audit procedures.

This report provides definitions of "deficiency in internal control," "material weakness," and "significant deficiency" involving the internal control structure. This year's financial statement audit identified no material weaknesses, but two significant deficiencies. A "material weakness" is defined as a deficiency in internal control, such that there is a reasonable possibility that a material misstatement of the entities' financial statements will not be prevented, or detected and corrected, on a timely basis. A "significant deficiency" in internal control, is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The first significant deficiency was related to the timeliness of the bank reconciliation preparation. Due to the complexity of the City, volume, and detail of the cash transactions, the bank reconciliations were delayed. A multi-department working group is reviewing processes to make efficiency improvements to the monthly bank reconciliation process.

The second significant deficiency, was related to the number of journal entries and corrections made to the trial balance, by City staff, after the start of the audit. While these correcting entries were mostly the result of implementation of complex Government Accounting Standards Board pronouncement, management agrees that implementation of formal year-end process and procedures are necessary for sufficient review and to ensure staff limits its post-closing entries after the start of the audit.

Component Unit Financial Statements

Financial statements for the Pasadena Center Operating Company (Attachment C), Rose Bowl Operating Company (Attachment D), Pasadena Community Access Corporation (Attachment E), and Pasadena Fire and Police Retirement System (Attachment F) are included, as they are component units of the City. Component units are legally separate entities in substance, but are part of the government's operations. Each of the City's component units received an unmodified opinion.

The Pasadena Fire and Police Retirement System financial statements were audited by another firm, Macias Gini and O'Connell.

Air Quality Improvement Fund Financial and Compliance Report (Attachment G)

Assembly Bill 2766 (AB2766) authorized the South Coast Air Quality Management District (SCAQMD) to impose an annual vehicle registration fee and to distribute a portion of those collected revenues to all local jurisdictions within the South Coast Air Basin. These revenues are to be used solely to reduce air pollution from motor vehicles by implementing new programs and studies necessary for the implementation of the California Clean Air Act. The City's Air Quality Improvement Fund accounts for the use of these funds received from SCAQMD. The Air Quality Improvement Fund Financial and Compliance Report received an unmodified opinion.

Pasadena Housing Successor Basic Financial Statements and Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Regarding the Low- and Moderate-Income Housing Asset Fund (Attachment H)

Since Fiscal Year 2016, the Pasadena Housing Successor Fund has been presented as a major fund with the major governmental funds in the ACFR. This facilitates meeting the state's required reporting and auditing requirements for this fund. To meet the reporting requirements, the draft of the Housing Successor Financial Statements and the draft Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance were submitted to the California Department of Housing and Community Development (HCD) on December 28, 2023. The final version of the Housing Successor Financial Statements, the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters regarding the Low-and Moderate-Income Housing Asset Fund, will be delivered to the Mayor and City Council members on January 22, 2024 and posted on the City's website. The final version of the reports will also be submitted to the HCD as well as the Housing Successor governing body. The auditors opined that the Housing Successor has complied in all material respects with the compliance requirements they must report on and they did not identify any noncompliance with the California Health and Safety Code requirements.

Foothill Workforce Development Board Basic Financial Statements and Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (Attachment I)

The City serves as the lead agency for this Joint Powers Authority. The Foothill Workforce Development Board (FWDB) financial statements, received an unmodified opinion. The auditors also opined that the FWDB has complied in all material respects with the compliance requirements they must report on.

Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheet (Attachment J)

Section 1.5 of Article XIII B of the California Constitution requires that the City follow the procedures agreed upon by the State of California and the League of California Cities (as presented in the League publication entitled Article XIII B Appropriations Limitation Uniform Guidelines) to determine the annual appropriations limit. The auditors perform "Agreed-Upon Procedures" where they recalculate the Gann Limit. They determined that the current year calculation is correct and found no exceptions.

Independent Accountants' Report on Agreed-Upon Procedures Applied to Employee Deductions for the Internal Revenue Code Section 457 Deferred Compensation Program (Attachment K)

At the request of the City, the auditors performed certain procedures as enumerated in the report to verify the accuracy and timely posting of contributions to the Deferred Compensation program provided by Great West Retirement Services. There were no exceptions noted as a result of the procedures.

The Auditors' Communications with the City's Audit and Finance Committees (Attachment L)

One auditing pronouncement, Statement of Auditing Standards No. 114, requires defined and documented communications between the auditors and the City's Finance/Audit Committee. This letter provides an opportunity for the auditors to report on any difficulties or major concerns discovered during the audit and to further explain their role. They provide commentary on management's responsibilities for accounting policies and states that no significant difficulties were encountered in performing the audit and no disagreements occurred with management. They point out whether management has corrected or passed on correcting all known misstatements.

COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced through the receipt and review of these reports.

FISCAL IMPACT:


There is no fiscal impact as a result of this action, nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,



MATTHEW E. HAWKESWORTH
Director of Finance

Approved by:



MIGUEL MÁRQUEZ
City Manager

Attachments: (12)

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- B. Independent Auditor's 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*
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