

**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**

Independent Auditor's Report

To the Honorable City Council
City of South Pasadena

We have audited, in accordance with 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, each major fund, and the aggregate remaining fund information of the City of South Pasadena (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated **September xx, 2020**.

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) to determine the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We identified deficiencies in internal control over financial reporting, described in the accompanying *Schedule of Findings and Responses* as items 2019-001, 2019-002, 2019-003, 2019-004 and 2019-005 that we consider to be material weaknesses.

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. We identified deficiencies in internal control over financial reporting, described in the accompanying *Schedule of Findings and Responses* as items 2019-006 and 2019-007 that we consider to be significant deficiencies

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 determination of financial statement amounts. 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. We identified noncompliance and other matters that are required to be reported under *Government Auditing Standards*, described in the accompanying *Schedule of Findings and Responses* as items 2019-008, 2019-009 and 2019-010.

City of South Pasadena's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
September xx, 2020

City of South Pasadena

Schedule of Findings and Responses
Year Ended June 30, 2019

**Finding 2019-001 Material Weakness – Bank Reconciliations
(previously reported as Finding 2018-002)**

Criteria

Bank reconciliations should be prepared, reviewed and approved in a timely manner.

Condition and Context

During our audit, we noted that bank statements for various accounts were not reconciled to the general ledger in a timely manner.

Cause

The City did not have controls in place to ensure bank reconciliations were performed in a timely manner.

Effect

Most of the problems encountered within the area of cash can be avoided if a proper system of checks and balances is incorporated into the City's procedures.

Recommendation

We recommend that all of the bank accounts be reconciled monthly to the general ledger and that all unusual reconciling items be promptly investigated and adjusted with adequate explanations.

Views of Responsible Officials and Planned Corrective Actions

See accompanying "Corrective Action Plan".

**Finding 2019-002 Material Weakness – Accounting and Management of Capital Assets
(previously reported as Finding 2018-003)**

Criteria

Capital asset listings should be complete and depreciation expense should be calculated on each asset individually, utilizing accounting software.

Condition and Context

During our audit, we noted that certain capital assets were missing from the detailed listing of capital assets, journal entries to record depreciation expense were recorded to incorrect accounts and the calculation of depreciation expense was done incorrectly and manually. We also noted that several projects were open for multiple years, and those projects were continued to be carried as construction in progress when they have been completed. Some projects were carried in the construction in progress account when the project has been abandoned and there is no plan to complete the construction.

Cause

The City did not have controls in place to ensure capital assets and related depreciation expense was properly recorded.

City of South Pasadena

Schedule of Findings and Responses
Year Ended June 30, 2019

Effect

The lack of procedures and controls over capital assets and related depreciation expense has led to inaccurate reporting of capital asset costs.

Recommendation

We recommend that the City utilize the accounting software to assist in tracking capital asset purchases and disposals and assist in calculating depreciation expense and recoding the related entries.

Views of Responsible Officials and Planned Corrective Actions

See accompanying "Corrective Action Plan".

Finding 2019-003 Material Weakness – Year-End Closing Process

Criteria

An important element of internal controls over financial reporting is for the entity to have procedures in place to ensure that all relevant accounts are reconciled at year-end.

Condition and Context

Over the past three years, the City has experienced a high turnover at the management level in the Finance Department. As a result, many accounts were not properly reviewed and/or reconciled at year-end in preparation for the audit. These accounts include (but are not limited to) capital assets amongst all funds, water fund inventory, interest income, fund balance and cash.

Cause

The City did not maintain the appropriate staffing levels to allow for the proper year-end closing process.

Effect

The City could be under/overstating amounts reported in the financial statements.

Recommendation

We recommend the City maintain proper staffing levels within the Finance Department to allow for the proper review and reconciliation at year-end.

Views of Responsible Officials and Planned Corrective Actions

See accompanying "Corrective Action Plan".

City of South Pasadena

Schedule of Findings and Responses
Year Ended June 30, 2019

Finding 2019-004 Material Weakness – System Segregation of Duties

Criteria

Having appropriate segregation of duties within the IT environment is important to ensure that physical security and access to programs and data are appropriately controlled to prevent modification, damage, or loss of data.

Condition and Context

During the audit, we noted the Management Assistant processes payroll and has access to change employee pay rates.

Cause

The Finance Department has not recently performed an internal risk assessment to decipher where potential risks and segregation of duties issues lie.

Effect

The lack of segregation of duties related to payroll and human resource processes could result in fictitious employees, or unapproved personnel rate changes.

Recommendation

We recommend the Finance Department perform regular risk assessment reviews to identify where segregation of duties issues need to be addressed.

Views of Responsible Officials and Planned Corrective Actions

See accompanying “Corrective Action Plan”.

Finding 2019-005 Material Weakness – Errors in OPEB Census Data

Criteria

In order for the City to record its liability for providing Other Post-employment Benefits (OPEB) to eligible participants, it must submit census data to actuaries who use this information to calculate the City’s liability.

Condition and Context

During the audit, we noted multiple employees that were included in the census data submitted that were ineligible for OPEB benefits.

Cause

Due to the turnover of key staff, there is a lack of knowledge from the City as to who is eligible to receive such benefits and should be included in the census data.

Effect

The City’s OPEB liability could be improperly calculated and misstated.

Recommendation

We recommend the Finance Department review the eligibility requirements for receiving OPEB benefits and ensure only eligible participants are included in the census data to be submitted.

City of South Pasadena

**Schedule of Findings and Responses
Year Ended June 30, 2019**

Views of Responsible Officials and Planned Corrective Actions

See accompanying "Corrective Action Plan".

Finding 2019-006 Significant Deficiency – Accounting Procedures and Policies Manual

Criteria

In order to ensure accuracy and consistency, the Finance Department should have an updated accounting procedures and policies manual readily available for reference.

Condition and Context

During the audit, we noted that the City's various accounting policies and procedures were either outdated or nonexistent and not readily available for all employees to review.

Cause

The Finance Department has not updated their accounting procedures and policies manual to conform to current practices and procedures.

Effect

The lack of an updated manual contributed to inconsistent procedures being performed within the Finance Department.

Recommendation

We recommend the City update its accounting procedures and policies manual and communicate with all City departments to ensure consistency and appropriate control procedures.

Views of Responsible Officials and Planned Corrective Actions

See accompanying "Corrective Action Plan".

Finding 2019-007 Significant Deficiency – Grants Management

Criteria

Grant reimbursement requests are to be tracked and submitted in a timely and routine fashion to the respective granting agency. Reimbursement requests will occasionally cross fiscal years, in which case, a grant receivable and offsetting revenue should be recorded, if the expenditures have already been incurred, thus increasing fund balance.

Condition and Context

During the audit, we noted multiple grant-related funds have deficit fund balance as of year-end.

Cause

The lack of proper grant management delays the reimbursement request process, and thus the recording of related revenue, which in turn causes a deficit fund balance.

Effect

Grant awards can expire if not spent and/or used within a certain timeframe.

Recommendation

We recommend the Finance Department implement policies and procedures to ensure grants and reimbursement requests are tracked and submitted in a timely manner.

City of South Pasadena

**Schedule of Findings and Responses
Year Ended June 30, 2019**

Views of Responsible Officials and Planned Corrective Actions

See accompanying "Corrective Action Plan".

Finding 2019-008 – Noncompliance with Debt Reporting

Criteria

In order to maintain compliance with bond requirements, annual filings must be made in a timely manner to Electronic Municipal Market Access (EMMA).

Condition and Context

During the audit, we noted reporting of continuing disclosure on the 2016 Water Revenue Refunding Bonds had not been submitted to Electronic Municipal Market Access (EMMA) agency in a timely manner.

Cause

Due to the delay of financial reporting and issuance of the June 30, 2019 financial statements, the City fell out of compliance with the requirements noted above.

Effect

The City is not in compliance with bond reporting requirements.

Recommendation

We recommend the City prioritize timely financial reporting in the future to allow for timely reporting to EMMA.

Views of Responsible Officials and Planned Corrective Actions

See accompanying "Corrective Action Plan".

Finding 2019-009 Significant Deficiency – Noncompliance with Budget Policy

Criteria

The City Manager may, without Council approval, amend individual line items within any fund, and between divisions and programs, in the personnel costs, maintenance and operations, capital outlay and capital projects portions of the budget without increasing total appropriations for that fund.

Condition and Context

During the audit, we noted budget amendments that were not approved by the City Manager.

Cause

The lack of formal policies and procedures within the Finance Department caused budget amendments to be processed without proper approval.

Effect

Budgets can be altered without proper authorization.

Recommendation

We recommend the Finance Department implement policies and procedures to ensure all budget amendments receive proper authorizations.

City of South Pasadena

Schedule of Findings and Responses
Year Ended June 30, 2019

Views of Responsible Officials and Planned Corrective Actions

See accompanying "Corrective Action Plan".

Finding 2019-010 – Noncompliance with Purchasing Policy

Criteria

The City has policies and procedures in place for entering into contractual agreements with vendors/service providers. Depending on the amount of the good/service, certain procurement methods and documentation must be obtained to support the adherence to these policies.

Condition and Context

During the audit, we noted various instances where the appropriate procurement method was not used prior to entering into a contractual agreement and insufficient supporting documents were maintained.

Cause

The City is not following their policies and procedures when entering into agreements with vendors/service providers.

Effect

There could be circumvention of the City's purchasing policy.

Recommendation

We recommend the Finance Department review contracts in place and ensure that appropriate supporting documents are maintained. We also recommend that the City put procedures in place to ensure the purchasing policy is followed and the proper procurement method is used prior to entering into agreements.

Views of Responsible Officials and Planned Corrective Actions

See accompanying "Corrective Action Plan".



CITY OF SOUTH PASADENA

1414 MISSION STREET, SOUTH PASADENA, CA 91030

TEL: (626) 403-7210 • FAX: (626) 403-7211

WWW.SOUTHPASADENACA.GOV

Corrective Action Plan

Finding 2019-001 Material Weakness – Bank Reconciliations

Corrective Action: Management is in agreement with the recommendation and has been working diligently to improve the reconciliation process, by creating a template that automates parts of the reconciliation process by matching GL revenue and expense postings to bank statement deposits and checks paid postings and only identifying reconciling items to investigate further. This process had made the bank reconciliation process much more efficient and has allowed for staff to move through the backlog of bank reconciliations a lot quicker.

Proposed Completion Date: Management anticipates to have the bank reconciliations completed through June 2020 in December 2020 and caught up to date by April 2021.

Finding 2019-002 Material Weakness – Accounting and Management of Capital Assets

Corrective Action: Management agrees with the recommendation and will be exploring the capability of the current accounting software to manage the capital assets and assist in tracking purchases, disposals and assist in calculating depreciation expense.

Proposed Completion Date: Management will continue utilizing the current up-to-date Capital Assets worksheet to track purchases, disposals and depreciation expense until such time that resources would be available to be delegated to the transition of the information from the current worksheet to the accounting software.

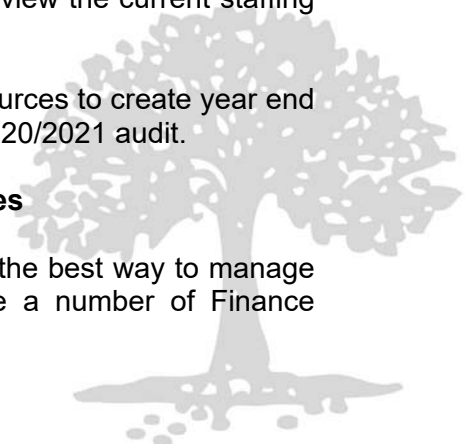
Finding 2019-003 Material Weakness – Year-End Closing Process

Corrective Action: Management agrees that there were issues regarding management staff turnover, and will be looking to implement procedures for the year end process to ensure all relevant accounts are reconciled at year end. Management will also review the current staffing levels to determine appropriate staffing levels are maintained.

Proposed Completion Date: Management will be sure to designate resources to create year end procedures to ensure all relevant accounts are reconciled prior to the 2020/2021 audit.

Finding 2019-004 Material Weakness – System Segregation of Duties

Corrective Action: While segregation of duties is most appropriate and the best way to manage risk, it is not always feasible in a small organizations. There were a number of Finance



employees that were given payroll and human resource access during the transition to ADP. The City has now transitioned its payroll processing to ADP. However even on ADP, selective few employees have practitioner access allowing for pay rate changes and payroll processing functions. As an added control, management will run quarterly reports of changes made on the system and have the HR manager review and sign off on all the changes.

Proposed Completion Date: Management will start generating system audit reports for review immediately.

Finding 2019-005 Material Weakness – Errors in OPEB Census Data

Corrective Action: Management agrees with recommendation. The census data is generated every two years for the calculation of the OBEP Liability by a third party. The census data utilized for the current OPEB Liability calculation was generated and provided in 2017. Management will be generating a new file for the upcoming audit period and will ensure accuracy of the census data utilized for the calculation of the OPEB liability.

Proposed Completion Date: Management anticipates starting this process prior to the end of the calendar year.

Finding 2019-006 Significant Deficiency – Accounting Procedures and Policies Manual

Corrective Action: Management strongly agrees with this recommendation. Accounting Policies and Procedures manual is critical to any organization. This process will be a huge undertaking that will require resources to be dedicated to this process.

Proposed Completion Date: While a critical task, it is one that will require resources to be dedicated to this progression. Given the current level of staffing within the department, we anticipate this process will take some time.

Finding 2019-007 Significant Deficiency – Grants Management

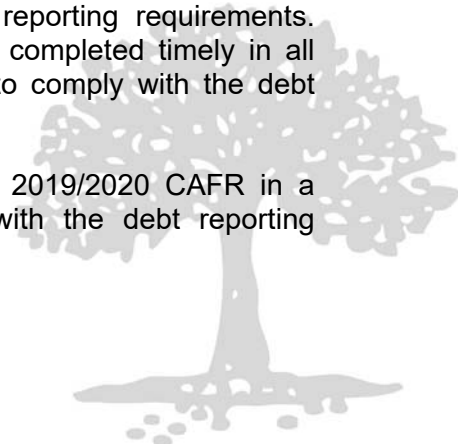
Corrective Action: Management agrees with the recommendation and will be working closely with our Grants Analyst to ensure grant reimbursement requests are tracked and submitted in a timely manner. In addition, Finance will ensure to record a receivable and offsetting revenue for when grants reimbursements are received in the following fiscal year.

Proposed Completion Date: Management will work through this process with an anticipated completion date of end of the fiscal year 2021.

Finding 2019-008 – Noncompliance with Debt Reporting

Corrective Action: Due to the delay of financial reporting and issuance of the June 30, 2019 financial statements, the City fell out of compliance with the debt reporting requirements. Management is working through the backlog to ensure the CAFR is completed timely in all future years and financial statements are available to be submitted to comply with the debt reporting requirements.

Proposed Completion Date: Management anticipates completing the 2019/2020 CAFR in a timely manner thereby placing the City in a position to comply with the debt reporting requirements by providing audited financials to the authoritative agency.



Finding 2019-009 – Noncompliance with Budget Policy

Corrective Action: Management is in agreement with the recommendation and is in the process of implementing system controls within the PO/RFP processes to ensure the system stops expenses from being processed prior to appropriate budgeted encumbrance. This will enforce submission of budget amendments with appropriate authorization prior to proceeding with disbursement process.

Proposed Completion Date: Management anticipates the upgrade along with system controls to be set up prior to the end of fiscal year 2021.

Finding 2019-010 – Noncompliance with Purchasing Policy

Corrective Action: Management is in agreement with the recommendation and is in the process of implementing system controls within the PO/RFP processes to ensure the system stops expenses from being processed if appropriate procurement procedures are not followed. This process is currently very manual and leaves room for noncompliance. This will be part of the system upgrade the department has initiated with its current accounting software provider.

Proposed Completion Date: Management anticipates the upgrade along with system controls to be set up prior to the end of fiscal year 2021.

Armine Trashian
Accounting Manager



September xx, 2020

Management of the City of South Pasadena

In planning and performing our audit of the financial statements of the City of South Pasadena (the City) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September xx, 2020 on the financial statements of the City. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comments are summarized as follows:

Observation 1:

During our audit procedures, we noted the City is utilizing the *Master Schedule of Fees for Service for Fiscal Year 2010/11, and Reallocation of Administrative Expenses Among Various Funds* as the basis for the allocation of administrative funds between the General Fund and the Water Fund.

We recommend the City have a cost analysis done by a third party, at a minimum, every 5 years, to ensure a true reflection of costs is charged amongst the funds.

Observation 2:

During our audit procedures, we noted that there was a lack of documentation for the review process within the payroll processing function.

We recommend the City consistently document their various review procedures for over the payroll cycle.

We believe that the implementation of these recommendations will provide the City with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you at your convenience.

This communication is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California

Please enter this general public comment into the record and, if possible, read this comment during the September Finance Commission meeting.

The South Pasadena YES on Measure U committee strongly urges your support to renew the Utility Users Tax (UUT) at the November 3 Election.

For decades, we have relied upon stable funding from a UUT that provides \$3.4 million annually. This second largest source of funds constitutes 12% of the budget.

The UUT has been consistently renewed. There's one crucial difference this time, however. Pandemic-related financial losses to the city are significant. Renewing the UUT is a way to maintain South Pasadena's services.

We want ensure that the city can:

- Maintain rapid 911 emergency response times
- Preserve firefighter and paramedic services
- Fund community, family, youth, senior, and library programs
- Keep City streets and sidewalks in good repair
- Support crime prevention and neighborhood safety

We look forward to your support for this ballot measure.

Ed Donnelly, Chair
South Pasadena YES on Measure U 2020

[words = 148]

Public Comment for the Finance Commission Meeting 9/24/2020

To be read aloud

Agenda Item 1 Finance Adhoc Subcommittee

From Alan Ehrlich, Lyndon Street, Candidate for Council District 3

Bravo! Finance commission for supporting the highest standards of financial accountability while facing substantial opposition from members of the city council and deposed city manager.

Stephen Rossi brings a depth of financial management skills to the council which are making our city healthier and more transparent. I applaud creating an operational finance sub-committee to roll-up its sleeves and assist staff in implementing new policies, controls, and procedures.

Mr. Rossi proposes a forensic audit as of July 2019 to present. I propose the forensic audit cover the last two years, from July 2018. January 2018 even better.

I disagree with Mr. Rossi's recommendation the ad hoc committee include members of the city council. The fiasco in the finance department is partly a result of the council's lack of understanding, expertise, and interference. Other than Mr. Rossi, no member of the council has demonstrated qualifications to be part of an ad hoc committee.