

CITY OF CHICO

Chico, California



Single Audit Report

Year Ended June 30, 2014

CITY OF CHICO, CALIFORNIA

**SINGLE AUDIT REPORT
(OMB CIRCULAR A-133)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CITY OF CHICO, CALIFORNIA

**SINGLE AUDIT REPORT
(OMB CIRCULAR A-133)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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**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**

Honorable Mayor and City Council
City of Chico, California

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Chico (the City), California, as of and for the year ended June 30, 2014, 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 23, 2014. Our report includes an emphasis of matter regarding the City's significant deficit fund equity in numerous funds, an emphasis of matter regarding the interfund payables of the General Fund, an emphasis of matter regarding the City's significant financial stress and management's plan to address the City's current financial condition, and an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities*.

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.

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 over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-002, 2014-003, 2014-004, and 2014-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
December 23, 2014



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

The Honorable Mayor and City Council
City of Chico, California

Report on Compliance for Each Major Federal Program

We have audited City of Chico's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining funding formation of the City as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 23, 2014, which contained unmodified opinions on those financial statements. Our report includes an emphasis of matter regarding the City's significant deficit fund equity in numerous funds, an emphasis of matter regarding the interfund payables of the General Fund, an emphasis of matter regarding the City's significant financial stress and management's plan to address the City's current financial condition, and an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
December 23, 2014

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	DIRECT OR PASS THROUGH IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<u>U. S. Department of Housing and Urban Development:</u>			
<u>Direct Programs:</u>			
Community Development Block Grants (CDBG)/Entitlement Grants [1]	14.218	B-07-MC-06-0031	\$ 921,560
Home Investment Partnerships Program	14.239	M-07-MC-06-0232	148,906
			<u>1,070,466</u>
Total Department of Housing and Urban Development			<u>1,070,466</u>
<u>U. S. Department of Justice:</u>			
<u>Direct Program:</u>			
Bulletproof Vest Partnership Program	16.607	N/A	6,020
Edward Byrne Memorial Justice Assistance Grant Program:			
Justice Assistance Grant (JAG 10) Program	16.738	2010-DJ-BX-1464	201
Justice Assistance Grant (JAG 12) Program	16.738	2012-DJ-BX-0875	13,669
Justice Assistance Grant (JAG 13) Program	16.738	2013-DJ-BX-1096	16,707
Equitable Sharing Program	16.922	CA0040200	55,188
OCDETF (Crystal Ball) Program	16.PA-CAE-0369	PA-CAE-0369	4,561
OCDETF (Bad Bunny) Program	16.PA-CEA-0392	PA-CEA-0392	159
<u>Total Direct Programs:</u>			<u>96,505</u>
<u>Passed Through Board of State and Community Corrections:</u>			
Juvenile Justice and Delinquency Prevention - Allocation to States: Gang Reduction, Intervention & Prevention (CalGRIP) Program	16.540	BSCC 827-13	92,526
<u>Total Passed Through Board of State and Community Corrections:</u>			<u>92,526</u>
Total Department of Justice			<u>189,031</u>
<u>U. S. Department of Transportation:</u>			
<u>Direct Program:</u>			
Airport Improvement Program [1]	20.106	3-06-0041-33	302,747
<u>Total Direct Programs:</u>			<u>302,747</u>
<u>Passed Through California Department of Transportation:</u>			
Highway Planning and Construction:			
Congestion Mitigation Air Quality (CMAQ)	20.205	03-BUT-0-CHC/5037 (020)	210,638
Congestion Mitigation Air Quality (CMAQ)	20.205	03-BUT-0-CHC/5037 (019)	3,023
Salem Street @ LCC	20.205	BRLO-5037 (022)	5,333
Guynn Rd @ Lindo Channel	20.205	BRLO-5037 (023)	5,449
Pomona Rd @ LCC	20.205	BRLO-5037 (024)	11,196
<u>Total Passed Through California Department of Transportation:</u>			<u>235,639</u>
<u>Passed Through California Department of Parks and Recreation</u>			
Recreational Trails Program:			
Bidwell Park Middle Trail Rehabilitation	20.219	NRT-CA-2009/RT-04-004	14,610
<u>Total Passed Through California Department of Parks and Recreation:</u>			<u>14,610</u>
<u>Passed Through Town of Paradise:</u>			
Alcohol Impaired Driving Countermeasures Incentive Grants I: Avoid the Eight OTS Grant	20.601	AL1413	11,100
<u>Total Passed Through Town of Paradise:</u>			<u>11,100</u>
Total Department of Transportation			<u>564,096</u>

[1] Denotes a major Federal Program

See notes to schedule of expenditures of federal awards.

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	DIRECT OR PASS THROUGH IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<u>U.S. Environmental Protection Agency</u>			
<u>Direct Program:</u>			
Brownsfields Assessment and Cleanup Cooperative Agreements	66.818	00T93301	46,399
<u>Total Direct Program:</u>			<u>46,399</u>
Total Environmental Protection Agency			<u>46,399</u>
<u>U. S. Department of Homeland Security</u>			
<u>Direct Program:</u>			
Assistance to Firefighters Grant:			
FEMA CAD Interface	97.044	EMW-2009-FO-06494	3,643
FEMA AED's	97.044	EMW-2012-FO-06288	3,453
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2013-FH-00506	271,768
Total Department of Homeland Security			<u>278,864</u>
Total Expenditures of Federal Awards			<u>\$ 2,148,856</u>

[1] Denotes a major Federal Program

See notes to schedule of expenditures of federal awards.

CITY OF CHICO, CALIFORNIA

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Chico, California.

B. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting except for programs recorded in the City's enterprise funds, which are presented using the full accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE #2 – DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

NOTE #3 – SUBRECIPIENTS

Of the Federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, the City provided Federal awards to subrecipients as follows:

CFDA No.	City Program Title	Amount
14.218	Community Development Block Grants (CDBG) Entitlement Grants	\$ 154,156
66.818	Brownsfields Assessment and Cleanup Cooperative Agreements	34,905
		<u>\$ 189,061</u>

CITY OF CHICO, CALIFORNIA

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE #4 – CLUSTERS OF PROGRAMS

The schedule of expenditures of federal awards does not summarize clusters of programs. The following summarizes those programs that are part of a cluster:

<u>Program Title</u>	<u>CFDA#</u>	<u>Pass Through Agency</u>	<u>Amount</u>
CDBG - ENTITLEMENT GRANTS CLUSTER			
Community Development Block Grants/Entitlement Grants	14.218	Direct program	\$ 921,560
		Cluster Total	<u>\$ 921,560</u>
JUSTICE ASSISTANCE PROGRAM (JAG) CLUSTER			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Direct program	\$ 30,577
		Cluster Total	<u>\$ 30,577</u>
HIGHWAY PLANNING & CONSTRUCTION CLUSTER			
Highway Planning and Construction	20.205	Department of Transportation	\$ 235,639
Recreational Trails Program	20.219	Department of Transportation	14,610
		Cluster Total	<u>\$ 250,249</u>
HIGHWAY SAFETY CLUSTER			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	Town of Paradise	\$ 11,100
		Cluster Total	<u>\$ 11,100</u>

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>None Reported</u>
Significant deficiencies identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Clusters</u>
<u>14.218</u>	<u>Community Development Block Grants (CDBG) Entitlement Grants</u>
<u>20.106</u>	<u>Airport Improvement Program</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530?	<u>No</u>

**CITY OF CHICO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENT FINDINGS

The following findings represent significant deficiencies, material weakness or instances of noncompliance related to the financial statements that are required to be reported in accordance with generally accepted government auditing standards.

FINDING 2014-001

DEFICIT FUND POSITION & FORMAL BORROWING ARRANGEMENTS

Criteria:

Governmental Accounting Standards requires that interfund loans only include amounts that are expected to be repaid within a reasonable time and that the borrowing fund should have the ability and intent to repay the loan in that reasonable time. The requirement also stipulates that if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer.

Best practices for governments are to adopt “Interfund Loan Policies” to ensure that arrangements do not offend legal principles and generally accepted accounting principles related to long-term interfund loans. Governmental entities should also ensure that there are formal borrowing arrangements in order to document the purpose of the interfund loan, identify the specific source fund, terms and repayment dates of the interfund loan, and any other relevant considerations.

Condition:

Significant Deficiency – During our review of the deficit fund balances of the City, we noted that the City has various funds in deficit fund balance or negative cash position including but not limited to the General Fund, Development Impact Fees Funds, and other funds included in the remaining aggregate fund information.

A formal deficit reduction plan was created by the City Council and incorporated into the budget policies during the fiscal year 2013-14. The City however had not formalized long term interfund loans to address the long-term cash borrowing of certain funds during the year ended June 30, 2014

Subsequent to June 30, 2014, the City Council adopted formal agreements for the General Fund and Airport Funds in November 2014. However, it was noted that the City has not adopted an interfund loan policy in order to utilize in the evaluation of the usage of interfund loans.

Context:

The condition pertains to the General Fund negative cash balance of \$6,375,209, the Airport Fund negative cash balance of \$496,274, and certain development impact fee funds had negative cash balances as of June 30, 2014.

Cause:

The City has cash deficits in certain funds and has not put into place formal borrowing agreements to address long-term cash deficits existing in City funds as of June 30, 2014.

**CITY OF CHICO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENT FINDINGS

Effect:

The City is at risk that certain funds may ultimately not have the ability or intent to repay cash borrowed from the treasury due to not having formal arrangements and terms as of June 30, 2014.

Recommendation:

This is a repeat condition from the fiscal year 2013 audit.

The City should implement and follow policies to address the borrowing to cover long term negative cash balances. The City should consider implementing an interfund loan policies and procedures to ensure that all long term interfund borrowing (borrowing longer than one year) is governed by formal interfund loan agreements that have an appropriate level of authorization (i.e. City Council). The City should also continue policies and procedures to review funds that have annual operating losses or annual deficit fund position and determine a course of action to prevent the accumulation of deficit fund balance.

View of Responsible Officials and Planned Corrective Action:

Management agrees with the recommendation as this year's interfund loans were approved by Council in November 2014. In addition, the City will implement an interfund loan policy that will ensure that future interfund loan agreements are clearly stated, specific in nature, and comply with legal requirements. Finally, the City's budget policies will help prevent funds from falling into a deficit position.

FINDING 2014-002

PROCUREMENT POLICIES AND PROCEDURES

Criteria:

Government Auditing Standards note that management is responsible for implementing systems designed to achieve compliance with applicable laws and regulations; and for establishing and maintaining internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported.

Condition:

Significant Deficiency – As a result of our audit as of June 30, 2013, we identified, the following conditions related to internal controls related to over the procurement process:

- *Procurement Policies* – We noted that the procurement policies were scattered throughout the Administrative Policies and Procedures (AP&P) document and had not been updated recently and there was not one user friendly document to utilize for reviewing all procurement policies.

During fiscal year 2014, it was noted that the City had created a centralized procurement policy binder and revisions were made in the process however the updated policies were not formally approved by the City Council.

**CITY OF CHICO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENT FINDINGS

Context:

The conditions noted above were noted during review of the City's internal controls over the procurement process for fiscal year 2013 and 2014.

Cause:

While the City has prepared a comprehensive procurement binder, the policies have not been accepted by the City Council. Thus, several of the conditions identified in the Fiscal year 2013 audit continue to exist. Additionally, the City's decentralized procurement process increases the risk associated with the procurement process, which results in reduced oversight by those charged with governance.

Effect:

The risk associated with long complex procurement policies and multiple documents governing procurement policies increases the risk of noncompliance with the City's policy.

Recommendation:

This is a repeat condition from the fiscal year 2013 audit.

We recommend that the City continue to implement formal procurement policies and procedures that are centralized and approved by the City Council.

View of Responsible Officials and Planned Corrective Action:

Management agrees with the recommendation and staff has taken steps to create a comprehensive purchasing manual. In addition, the City will begin recruitment of a purchasing officer who will be responsible for updating related policies and forms to ensure that the City follows all legal requirements and implements best practices in its purchasing function.

**CITY OF CHICO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENT FINDINGS

FINDING 2014-003

INFORMATION TECHNOLOGY ACCESS REVIEW

Criteria:

Government Auditing Standards note that management is responsible for implementing systems designed to achieve compliance with applicable laws and regulations; and for establishing and maintaining internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported.

Condition:

Significant Deficiency – During our review over the information technology function at the City, we noted that access reviews to critical systems were not performed on a routine basis. Reviews over system access to the financial system were being performed on an ad hoc basis when changes were made to individual employees however a city-wide review of access levels provided to employees was not performed.

Information Technology (IT) access reviews should be performed on a periodic basis (i.e. quarterly, semiannually) to ensure that users are not provided with access rights that contradict their user role or that may create a risk of segregation of duties. The City should retain documentation of the results of these access reviews performed.

Context:

The condition above was noted in our review over the IT access roles at the City.

Cause:

The City has not developed policies and procedures to ensure that IT access reviews are performed on a periodic basis.

Effect:

The City is at risk that users may inadvertently have access to functions that contradict their user role and may create the risk of segregation of duties.

Recommendation:

This is a repeat condition from the fiscal year 2013 audit.

We recommend that the city implement policies and procedures to perform user access reviews for critical IT applications such as the finance system and retain documentation of these reviews.

View of Responsible Officials and Planned Corrective Action:

The City agrees with the recommendation and has performed an initial review of system access rights. In addition, the City is developing a technology access policy that ensures that critical systems are analyzed so that employees have required system access while maintaining an effective and efficient internal control structure.

**CITY OF CHICO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENT FINDINGS

FINDING 2014-004

CHICO URBAN AREA JOINT POWERS FINANCING AUTHORITY LOAN

Criteria:

Governmental Accounting Standards require the recognition of long term liabilities which include unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. The recognition of these liabilities should utilize the appropriate basis of accounting.

Condition:

Significant Deficiency – During our procedures over the Long-Term Debt of the Chico Urban Area Joint Powers Financing Authority (JPFA), it was noted that the city had under reported the amount of debt payable on their Sewer Nitrate Compliance loan payable from the State Water Resources Control Board (SWRCB).

Context:

The condition above resulted in a prior period restatement of the JPFA as of June 30, 2013, and increased the Loan Payable balance at June 30, 2014 from \$15,970,088 to \$19,164,182.

Cause:

The City did not have a full accounting of the unique financing arrangement used by the SWRCB in the creation of the JPFA Nitrate Compliance loan. The loan requires a local match where the city will match 16.667% of each dollar spent on project costs. The City can draw down 83.333% of each dollar spent on the project. However, in order to obtain a 0% interest rate loan, the city is required to pay back in principal \$100 for each \$83.333 dollars borrowed from the SWRCB. The City only recorded the amount of the draw down as the amount payable in previous years.

Effect:

The JPFA financial statements required a restatement in order to report to the appropriate amount of principal payable to the SWRCB based on the amounts drawn down pursuant to the loan agreement.

Recommendation:

We recommend that the City ensure that all long term indebtedness is captured and reported within the financial statements at the appropriate amounts.

View of Responsible Officials and Planned Corrective Action:

The City agrees with the recommendation and believes that all debt of the City is properly recorded. In the case of the JPFA debt, the financing instrument is indeed unique and is no longer utilized by the State. The change in the JPFA debt has no impact on the ability of the JPFA to fully repay its debt. It should also be noted that the JPFA debt is strictly an obligation of the JPFA, and not of the City of Chico or County of Butte.

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

II. FINANCIAL STATEMENT FINDINGS

FINDING 2014-005

DONATED INFRASTRUCTURE

Criteria:

Governmental Accounting Standards Board Statement No. 34 requires “Donated capital assets to be recorded at their estimated fair value at the time of acquisition plus ancillary changes, if any.”

Condition:

Significant Deficiency – During our testing over capital asset infrastructure additions, it was noted that the City attempted to use the GIS system to measure the amount of donated infrastructure during fiscal year 2014. The City as a result counted all infrastructure additions which resulted in double counted infrastructure acquired through the Capital Improvement Program (CIP). The double counted assets subsequently had to be removed from the financial system.

Context:

The condition above resulted in an audit adjustment reducing the capital assets balances by the double counted assets of \$5,574,001 and \$1,053,665 in the Governmental Activities and Sewer Fund, respectively.

Cause:

The City changed the process and procedures during the year in order to attempt to streamline the accounting of donated infrastructure which primarily is received from developers of new subdivisions within the city.

Effect:

The impact of not properly valuing and inventorying donated assets results in improper capital asset accounting records that do not reflect the true cost and value of City infrastructure. The City depreciation amounts would be distorted in future years as a result of the improper capitalization.

Recommendation:

We recommend that the City create policies and procedures for the tracking and accounting of donated infrastructure during the year to ensure that they are captured at the time of acquisition. We also recommend the city also create policies and procedures of how to determine the fair value of the donated infrastructure to ensure consistency in valuation from year to year.

View of Responsible Officials and Planned Corrective Action:

The City agrees with the recommendation and believes the misstatement (which has no budgetary impact) was an anomaly and will not occur in the future. A change in Public Work’s staffing led to new staff calculating the donated infrastructure. A new procedure has been developed to ensure that a proper accounting of donated infrastructure in the future.

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance including question costs that are required to be reported by OMB Circular A-133, section .510(a).

None Reported.

CITY OF CHICO, CALIFORNIA

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2014**

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of audit findings and questioned costs.

Finding No.	Finding	CFDA No.	Compliance Requirement	Status of Corrective Action
2013-01	Cost Allocation Plan	Financial Statement Finding	N/A	Implemented.
2013-02	Development Impact Fee Borrowing	Financial Statement Finding	N/A	Implemented.
2013-03	Deficit Fund Position	Financial Statement Finding	N/A	Partially Implemented – See finding 2014-001 – Deficit Fund Position & Formal Borrowing Arrangements
2013-04	Authorized Signors for Expenditures	Financial Statement Finding	N/A	Implemented
2013-05	Procurement Policies and Procedures	Financial Statement Finding	N/A	Partially Implemented – See finding 2014-002
2013-06	Bank Reconciliations & Signors	Financial Statement Finding	N/A	Implemented.
2013-07	Computer Loans Program	Financial Statement Finding	N/A	Implemented.
2013-08	Disaster Recovery	Financial Statement Finding	N/A	Implemented.
2013-09	Information Technology Access Review	Financial Statement Finding	N/A	Partially Implemented. See finding 2014-003
2013-10	Capital Improvements Budget Violation	Financial Statement Finding	N/A	Implemented.
2013-11	Community Development Block Grant	14.218	Reporting	Implemented.
2013-12	Airport Improvement Program	20.106	Special Tests and Provisions	Implemented.