

**CITY OF CHICO, CALIFORNIA**

**MANAGEMENT LETTER**

**JUNE 30, 2015**



To the Honorable Mayor and City Council  
and Management  
City of Chico, California

In planning and performing our audit of the financial statements of the City of Chico, California (the City), as of and for the year ended June 30, 2015, 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 auditing procedures that are appropriate in the circumstances 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.

We previously communicated to you about the City's internal control in our separate report dated December 7, 2015. This letter does not affect our report dated December 7, 2015, on the financial statements of City.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

## PROCUREMENT PRACTICES

### OBSERVATION:

Accounting to the Principles and Practices of Public Procurement published by the National Institute of Government Procurement (NGIP), Public Procurement should to the greatest extent practicable, be transparent in its practices, processes, procedures and relationships with all stakeholders, while ensuring protection of confidential information.

Based on performance of our procedures and testing over the City's procurement transaction cycle, we noted certain observations where the City should consider enhancing transparency. This is a repeat observation from the fiscal year 2014 audit of the City of Chico.

- *Contract Oversight* – We noted during our audit that the City's policy did not require significant procurement contract awards to be taken to the City Council for approval; and the City Council is not made aware of procurements that have been approved by City personnel and the City Manager.
- *Competitive Bidding* – Currently the City of Chico Municipal Code (CMC) Section 3.08.060 Bidding Procedures Dispensation – Funds that have been appropriated in the annual budget for the purchase of "Consulting, professional, and technical services" are exempt from certain procurement requirements. This provision allows the City to not require competitive bids for any services the city deems as consulting, professional and technical services.

To the Honorable Mayor and City Council and Management  
City of Chico, California  
December 7, 2015  
Page 3 of 6

**RECOMMENDATION:**

We recommend that the City consider reviewing its procurement policies and procedures to ensure that the Council has the opportunity to approve large contracts or are made aware of management awards of large contracts. We further recommend the City consider whether competitive bidding should be required for all types of contracts (above a minimum threshold deemed appropriate) which is the best practice for governmental procurements, and required by federal and state granting agencies.

**MANAGEMENT'S RESPONSE:**

The City agrees with the recommendation and have updated the purchasing policies that incorporate best practices and ensure compliance with federal, state and local regulations as of September 15, 2015. The City Council approves each department's operating and capital budget. Contracts will be posted to the City's website each month. The updated policy requires a formal request for qualifications/request for proposal for consulting, professional and technical services estimated at \$25,000 or more.

To the Honorable Mayor and City Council and Management  
City of Chico, California  
December 7, 2015  
Page 4 of 6

## **STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS**

Summarized below is the status of corrective action on the 2014 management letter comments:

<b>Topic</b>	<b>Status</b>
Information Technology Strategic Plan	Implemented.
Internal Service Fund Charges	Implemented.
Procurement Practices	Not implemented, see current year observation.

## NEW FINANCIAL REPORTING AND AUDITING STANDARDS

### INFORMATIONAL ONLY

**GASB Statement No. 72** - In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015.

**GASB Statement No. 73** – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

**GASB Statement No. 74** – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures*. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.

**GASB Statement No. 75** – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.

**GASB Statement No. 76** – In June 2015, GASB issues Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is not effective until the fiscal year ending June 30, 2016.

**GASB Statement No. 77** – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. This statement is not effective until the fiscal year ending June 30, 2017.

To the Honorable Mayor and City Council and Management  
City of Chico, California  
December 7, 2015  
Page 6 of 6

\*\*\*\*\*

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the City Council, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Vavrinik, Trine, Day & Co. LLP*

Sacramento, California  
December 7, 2015