CITY OF CHICO

Chico, California

Compliance Reports

Year Ended June 30, 2011

CITY OF CHICO CALIFORNIA

COMPLIANCE REPORTS

June 30, 2011

CITY OF CHICO, CALIFORNIA

COMPLIANCE REPORTS

June 30, 2011

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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*

City Council
City of Chico, California
Chico, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Chico, California (the City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 15, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the City Council
City of Chico, California

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2011-1.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

We noted certain other matters that we reported to management of the City in a separate letter dated November 15, 2011.

This report is intended solely for the information and use of the City Council, management, and the federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company

November 15, 2011

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Chico, California
Chico, California

Compliance

We have audited the City of Chico, California's (the City) compliance with the types of compliance requirements described (OMB) *Circular A-133 Compliance Supplement* that could have a direct material effect on each of the City's major federal programs for the year ended June 30, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 of America; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-1.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a

major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2011-1. 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 15, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on the response.

To the City Council
City of Chico, California

This report is intended solely for the information and use of the City Council, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Richardson & Company

November 15, 2011

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued:	Unqualified
2. Internal controls over financial reporting:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified not considered to be material weaknesses?	No
3. Noncompliance material to financial statements noted?	No

Federal Awards

1. Internal control over major programs:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified not considered to be material weaknesses?	Yes
2. Type of auditor's report issued on compliance for major programs:	Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a)?	Yes
4. Identification of major programs:	

CFDA Number	Name of Federal Program
14.239	Home Investment Partnership Program
16.710	Community Oriented Policing Services Hiring Recovery Program - ARRA
20.205 and 20.219	Highway Planning and Construction Cluster - ARRA
81.128	Energy Efficiency and Conservation Block Grant Program - ARRA
97.044	Assistance to Firefighters Grant

5. Dollar Threshold used to distinguish between Type A and Type B programs?	$385,980
6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?	Yes

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding 2011-1	Subrecipient Monitoring
Program:	CFDA #14.239 U.S. Department of Housing and Human Development, Home Investment Partnership Program
Criteria:	OMB Circular No. A-133 requires that pass-through entities identify Federal awards made by informing each subrecipient of the CFDA type and number, award name and number, award year, if the award is R&D, and the name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
Condition:	The City was not able to provide evidence to us that it provided federal award information to its subrecipient.
Cause:	An oversight by program management resulted in federal award information not being provided to the subrecipient.
Effect:	Subrecipient could be unaware of federal award information.
Recommendation:	We recommend that the City implement procedures to provide federal award information to subrecipients and retain documentation for use during the audit.
Management Response:	Management will notify the subrecipient of federal award information as recommended.

D. PRIOR YEAR AUDIT FINDINGS

None

CITY OF CHICO, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors' Number	Expenditures
MAJOR FEDERAL AWARDS:			
U.S. Department of Housing and Urban Development			
Home Investment Partnership Program	14.239	M-07-MC-06-0232	$ 439,348
U.S. Department of Justice			
Community Oriented Policing Services	16.710	2009RKWX0090	357,455
Hiring Recovery Program - ARRA			
U.S. Department of Transportation			
Passed-through the State of California,			
Business Transportation and Housing Agency			
Highway Planning and Construction			
State Route 99 Skyway Interchange - ARRA	20.205	ESPL-5037(016)	5,224,640
State Route 99 Corridor Bikeway - ARRA	20.205	ESPLSE-5037(018)	1,891,556
Congestion Mitigation Air Quality	20.205	03-BUT-0-CHC/5037(020)	153,169
Bidwell Park Middle Trail Rehabilitation	20.219	NRT-CA-2009/RT-04-004	40,473
Highway Planning and Construction Cluster			7,309,838
U.S. Department of Energy			
Energy Efficiency and Conservation			
Block Grant Program - ARRA	81.128	DE-SC0003464	649,764
U.S. Department of Homeland Security			
Federal Emergency Management Agency			
Assistance to Firefighters Grant	97.044	EMW-2009-FO-06494	545,124
TOTAL MAJOR FEDERAL AWARDS			9,301,529
NON-MAJOR FEDERAL AWARDS:			
U.S. Department of Agriculture			
Passed-through California Releaf			
Wildland Fire Management - ARRA	10.688	09-CR-ARRA-02	47,600
U.S. Department of Housing and Urban Development			
Community Development Block Grant	14.218	B-07-MC-06-0031	836,668
U. S. Department of Justice			
Bureau of Justice Assistance			
Bulletproof Vest Partnership Program	16.607		13,818
Federal Bureau of Investigation, Safe Streets Task Force			
Community Prosecution and Project Safe Neighborhoods	16.609	166E-SC-C37231	18,766

CITY OF CHICO, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors' Number	Expenditures
Bureau of Justice Assistance			
Justice Assistance Grant (JAG07)	16.738	2007-F4-CA-DJ	$ 164
Justice Assistance Grant (JAG09)	16.738	2009-DJ-BX-1185	1,138
Justice Assistance Grant (JAG09) - ARRA	16.804	2009-SB-B9-2362	3,234
Justice Assistance Grant (JAG 10)	16.738	2010-DJ-BX-1464	25,104
JAG Program Cluster			29,640
U. S. Department of Transportation			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-06-0041-29	27,014
Airport Improvement Program	20.106	3-06-0041-30	2,405,769
			2,432,783
Small Community Air Service Department	20.930	12N8100001	29,157
Passed-through California Department of Alcoholic Beverage Control			
State and Community Highway Safety			
ABC Mini Grant	20.600	09-MST06	3,697
Passed through the Town of Paradise Office of Traffic Safety			
Alcohol Impaired Driving Countermeasures			
DUI Enforcement, Education and Recognition	20.601		6,178
Passed through California Department of Alcoholic Beverage Control			
DUI Enforcement and Awareness Program	20.608	AL1149	94,059
Highway Safety Cluster			103,934
U.S. Environmental Protection Agency			
Passed-through the State of California Water Resources Control Board			
Capitalization Grant for State Revolving Funds - ARRA			
1st and Verbena Master Plan	66.458	ARRA-6918-110	52,129
			$ 12,866,024

CITY OF CHICO, CALIFORNIA

Corrective Action Plan

For the Year Ended June 30, 2011

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Chico, California and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE B – SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

Federal Program	Federal CFDA Number	Amount Provided to Subrecipients
Home Investment Partnership Program	14.239	$ 173,466

CITY OF CHICO, CALIFORNIA

Corrective Action Plan

For the Year Ended June 30, 2011

Finding 2011-1

Program: Home Investment Partnership Program
CFDA No: 14.239
Federal Agency: U.S. Department of Housing and Human Development
Award Year: 2010-11
Compliance Requirement: Subrecipient Monitoring

City's Response

We concur.

Corrective Action Plan

The City will notify the subrecipient of the federal award information and will review and add federal award identification information in future contract agreements between the City and subrecipients.

Name of Responsible Person:	Frank Fields, Accounting Manager
Name of City Contact:	Frank Fields, Accounting Manager
Projected Implementation Date:	Immediately