



Federal Awards Reports in Accordance
with the Uniform Guidance
For the Fiscal Year Ending June 30, 2019
City of Chico, California

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* 1

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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***

To the 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 *Government 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, California (City), as of and for the year then 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 November 25, 2019.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 result 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sacramento, California
November 25, 2019



**Independent Auditor’s Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Chico, California’s (City) compliance with the types of compliance requirements described in the *OMB 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, 2019. 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 federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor’s 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2019.

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 the Uniform Guidance, 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 and significant deficiencies and therefore, material weaknesses and significant deficiencies 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 fund information of 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. We issued our report thereon dated November 25, 2019, which contained unmodified opinions on those financial statements. 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 the Uniform Guidance 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sacramento, California
November 25, 2019

City of Chico, California
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Direct or Pass-through Entity Identifying Number	Federal Expenditures	Amounts Passed- Through to Subrecipients
U.S. Department of Housing and Urban Development				
Direct Programs:				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218		\$ 1,120,746	\$ 175,154
Home Investment Partnerships Program	14.239		212,971	72,331
Home Investment Partnerships Program	14.239	Program Income	90,778	-
Total Home Investment Partnerships Program			<u>303,749</u>	<u>72,331</u>
Total Department of Housing and Urban Development			<u>1,424,495</u>	<u>247,485</u>
U.S. Department of Justice				
Direct Program:				
Bulletproof Vest Partnership Grant Act of 1998	16.607		12,981	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2017-DJ-BX-0748	24,434	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2018-DJ-BX-0815	22,965	
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>47,399</u>	
Total U.S. Department of Justice			<u>60,380</u>	
U.S. Department of Transportation				
Direct Programs:				
Airport Improvement Program (35)	20.106	3-06-0041-035	16,478	
Airport Improvement Program (37)	20.106	3-06-0041-037	38,444	
Airport Improvement Program (39)	20.106	3-06-0041-039	22,127	
Total Airport Improvement Program			<u>77,049</u>	
Highway Planning and Construction Cluster:				
Highway Planning and Construction - Congestion Mitigation Air Quality (CMAQ)	20.205	03-BUT-32-CHC/5037 (026)	479,293	
Highway Planning and Construction - Congestion Mitigation Air Quality (CMAQ)	20.205	03-BUT-0-CHC/5037 (027)	8,217	
Highway Planning and Construction - Congestion Mitigation Air Quality (CMAQ)	20.205	03-BUT-0-CHC/5037 (028)	225,015	
Highway Planning and Construction - Congestion Mitigation Air Quality (CMAQ)	20.205	03-BUT-0-CHC/5037 (037)	59,162	
Highway Planning and Construction - Walnut Ave (SR32) Road Diet	20.205	03-BUT-0-CHC/HSIPL-5037 (029)	(8,142)	
Highway Planning and Construction - Emergency Vehicle Preemptive System	20.205	03-BUT-0-CHC/HSIPL-5037 (030)	137,679	
Highway Planning and Construction - City-wide Countdown Heads	20.205	03-BUT-0-CHC/HSIPL-5037 (034)	120,501	
Passed Through California Department of Transportation				
Highway Planning and Construction Cluster:				
Highway Planning and Construction - Salem Street @ LCC	20.205	BRLO-5037 (022)	31,231	
Highway Planning and Construction - Gwynn Rd @ Lindo Channel	20.205	BRLO-5037 (023)	42,361	
Highway Planning and Construction - Pomona Rd @ LCC	20.205	BRLO-5037 (024)	19,072	
Total Highway Planning and Construction Cluster			<u>1,114,389</u>	
Total U.S. Department of Transportation			<u>1,191,438</u>	
U.S. Environmental Protection Agency				
Direct Programs:				
Brownsfield Assessment and Cleanup Cooperative Agreement	66.818	00T93301	14,141	
Total U.S. Environmental Protection Agency			<u>14,141</u>	
U.S. Department of Homeland Security				
Direct Programs:				
Assistance to Firefighters Grant	97.044	EMW-2017-FO-06059	15,831	
Assistance to Firefighters Grant	97.044	EMW-2016-FO-06537	261,260	
Passed Through the California Governor's Office of Emergency Services				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-09-CA-4407-PW-0014	6,571	
Total U.S. Department of Homeland Security			<u>283,662</u>	
Total Expenditures of Federal Awards			<u>\$ 2,974,116</u>	<u>\$ 247,485</u>

See Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the City of Chico, California (City) under programs of the federal government for the year ended June 30, 2019. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, *net position*, *fund balance*, or cash flows of the City.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting, except for subrecipient expenditures, which are recorded on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - 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 4 - Indirect Cost Rate

The City has elected not to use the 10% de minimis cost rate allowed under the Uniform Guidance.

Note 5 - Subrecipients

Of the Federal expenditures presented in the accompanying Schedule, the City provided Federal awards to subrecipients from the following programs:

CFDA No.	Program Title	Pass- Through Entity	Amount
14.218	Community Development Block Grant (CDBG)	Butte College Small Business Development Center	\$ 25,000
14.218	Community Development Block Grant (CDBG)	Housing Authority of the County of Butte	25,530
14.218	Community Development Block Grant (CDBG)	Catalyst Domestic Violence Services, Inc.	19,208
14.218	Community Development Block Grant (CDBG)	Innovate Health Care Services, Inc.	19,208
14.218	Community Development Block Grant (CDBG)	Jesus Provides Our Daily Bread	19,208
14.218	Community Development Block Grant (CDBG)	Community Action Agency of Butte County	26,000
14.218	Community Development Block Grant (CDBG)	Chico Housing Action Team	24,000
14.218	Community Development Block Grant (CDBG)	Chico Area Council on Aging, Inc.	17,000
	Total		<u>\$ 175,154</u>

CFDA No.	Program Title	Pass- Through Entity	Amount
14.239	Home Investment Partnership Program (HOME)	Housing Authority of the County of Butte	\$ 72,331
	Total		<u>\$ 72,331</u>

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?:	No

Identification of major programs:

Name of Federal Program/Cluster	CFDA Number
CDBG - Entitlement Grants Cluster	14.218

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

**2019-001 Segregation of Duties – Permit Center
*Significant Deficiency***

Criteria:

The internal controls over cash receipts should include segregation of duties over authorizing, recording, custody, and reconciliation of activities.

Condition:

As a result of our audit procedures, we observed that City personnel in the City's Permit Center (Permit Technicians) currently use a single cash drawer and computer terminal, which is accessed utilizing a single, shared login. Additionally, it was noted that the same Permit Technicians also have the ability to modify permit rates and fees within the permit system. This is a repeat finding from prior year. See prior year finding 2018-002.

Context:

The condition noted above was identified during our testing of internal controls over cash receipts in the Permit Center. Proper segregation of duties is essential to ensure that revenues for the Permit Center are complete and collected at the proper rates.

Cause:

The City's Permit Technicians are not assigned individual cash drawers or system logins, and Permit Center personnel are not restricted from modifying rates or fees.

Effect:

As a result of not requiring individual, unique logins and separate cash drawers, and not restricting systems access to modify rates and fees from personnel responsible for issuing permits and collection of payments, there is an increased risk of misstatements as a result of error or fraud not being prevented.

Recommendation:

We recommend that the City require each permit technician to have separate cash drawers, unique user login and passwords and restrict their ability to modify rates and fees.

Views of Responsible Officials:

The City has purchased the new TRAKiT permits software to replace the old system. The TRAKiT system went live on August 26, 2019. The software features security that prevents fees from being adjusted unless rights have been granted by the system administrator. Cashiers do not have these rights assigned. TRAKiT also features an audit trail report which shows any adjustments that were made to the system. A unique login has been created for each cashier. Each day one individual is designated as "cashier of the day", that person is entirely responsible for the cash drawer. At the end of the day the cash drawer is validated by a separate individual from the administrative staff.

Responsible Individual: Scott Dowell, Administrative Services Director.

Section III – Federal Award Findings and Questioned Costs

None reported.

City of Chico, California
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

Finding No.	Program/Description	CFDA No.	Compliance Requirement	Status
2018-001	Segregation of Duties - Journal Entries	N/A	N/A	Implemented
2018-002	Segregation of Duties - Permit Center	N/A	N/A	Not implemented, see current year finding 2019-001