



Independent Auditor's Report and Schedule  
of Expenditures of Passenger Facility Charges  
For the Fiscal Year Ended June 30, 2019  
**City of Chico, California**

**CITY OF CHICO, CALIFORNIA**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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CITY OF CHICO, CALIFORNIA

SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES  
FOR THE YEAR ENDED JUNE 30, 2019

<u>Program Description</u>	<u>Beginning PFC Asset Balance</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Ending PFC Asset Balance</u>
FEDERAL AVIATION ADMINISTRATION				
Passenger Facility Charges (PFC): Application No. 10-05-C-00-CIC	\$ 342,026	\$ 8,241	\$ -	\$ 350,267
Total	<u>\$ 342,026</u>	<u>\$ 8,241</u>	<u>\$ -</u>	<u>\$ 350,267</u>

See accompanying notes to the Schedule of Expenditures of Passenger Facility Charges.

**CITY OF CHICO, CALIFORNIA**

**NOTES TO THE SCHEDULE OF EXPENDITURES  
OF PASSENGER FACILITY CHARGES  
FOR THE YEAR ENDED JUNE 30, 2019**

**1. PROGRAM DESCRIPTION**

The Schedule of Expenditures of Passenger Facility Charges presents only the activity of the Passenger Facility Charges (PFC) Program of the City of Chico (City).

PFC are fees imposed by the City on enplaned passengers for the purpose of generating revenue for City projects that increase capacity, increase safety and/or mitigate noise impact.

**2. BASIS OF ACCOUNTING**

The Schedule of Expenditures of Passenger Facility Charges is presented using the accrual basis of accounting. Under this basis of accounting, revenues are recorded when earned and expenditures are recognized when the related liability is incurred.



**Independent Auditor’s Report on Compliance for Passenger Facility Charge Program;  
Report on Internal Control Over Compliance; and Report on the  
Schedule of Expenditures of Passenger Facility Charges**

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

**Report on Compliance**

We have audited the City of Chico, California’s (City) compliance with requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration (FAA) that could have a direct and material effect on the City’s passenger facility charge (PFC) program for the year ended June 30, 2019.

**Management’s Responsibility**

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its PFC program.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on compliance 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 Guide. Those standards and the Guide 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 the PFC 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 with the Guide. However, our audit does not provide a legal determination of the City’s compliance.

**Opinion**

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 its PFC program for the year ended June 30, 2019.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guide and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002. Our opinion on compliance is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is 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 compliance and, accordingly, we express no opinion on the responses.

#### **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 it's PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is 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 compliance and, accordingly, we express no opinion on the response.

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 Guide. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Passenger Facility Charges**

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 passenger facility charges is presented for purposes of additional analysis as specified by the Guide issued by the FAA 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 passenger facility charges is fairly stated in all material respects in relation to the basic financial statements as a whole.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sacramento, California  
November 25, 2019

**CITY OF CHICO, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**FINDING 2019-001**

**RECONCILIATION OF SOAR**

**Criteria:**

Section 158.63 requires that the public agency provide quarterly reports to carriers collecting PFC revenues for the public agency, with a copy to the appropriate FAA airport's office. Per the *Passenger Facility Charge Audit Guide for Public Agencies*, data from the quarterly reports should reconcile to supporting documentation and accounting records maintained by the public agency.

**Condition:**

*Significant Deficiency, Instance of Noncompliance* – We noted that the City utilizes the FAA's PFC reporting module SOAR to submit the required quarterly reports. We noted the cumulative and PFC account balance reported within SOAR does not agree back to the accounting records. Additionally, we noted the fiscal year 2019 activity reported on the quarterly reports does not reconcile to accounting records.

**Context:**

The conditions noted above were identified during review of the City's procedures for accounting for PFC activity and identifying and reporting PFC interest for fiscal year 2019. The cumulative balance reported in SOAR was \$470,060 and the City's PFC ending asset balance was \$350,267, resulting in a difference of \$119,793 for fiscal year 2019. The interest activity reported on the quarterly reports was \$100 and the City's PFC interest allocation was \$8,240, resulting in a difference of \$8,140 for fiscal year 2019. We noted the correct interest allocation would have resulted in a cumulative and PFC account balance difference of \$127,933, consistent with prior year differences.

**Cause:**

Based on discussion with City management, the reconciling differences between the SOAR system and the City's accounting records occurred over several years before June 2014, and the SOAR program does not allow for direct reconciliation adjustments without approval by the FAA. The City has reached out to the FAA several times to discuss this reconciliation process. The City has identified and reported the reconciling items to the FAA but due to the challenges of correcting the SOAR system by FAA personnel, the reconciling items have not been reported in the SOAR system. The City is awaiting a solution from the FAA on how best to correct the SOAR accounting. Additionally, the City does not have procedures in place to prevent or detect errors on the quarterly report.

**Effect:**

By not maintaining documentation to support the data elements included on the quarterly reports, the City is at risk of noncompliance with section 158.63.



**CITY OF CHICO, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**Recommendation:**

This is a repeat finding from the fiscal year 2018 audit. We recommend that the City continue to work with FAA representatives to ensure that the amounts reported within the FAA SOAR reporting module reconcile back to the City's accounting records.

**Questioned Costs:**

None

**Views of Responsible Officials and Planned Corrective Actions:**

The City has continued multiple discussions with the FAA regarding the status of the FAA SOAR system and the reconciliation differences that occurred in prior years. A reconciled amount has been calculated and the City continues to work with the FAA to adjust the SOAR reporting.

**FINDING 2019-002**

**REPORTING**

**Criteria:**

Section 158.63 requires that the public agency provide quarterly reports on or before the last day of the calendar month following the calendar quarter or other period agreed by the public agency and collecting carrier.

**Condition:**

*Significant Deficiency, Instance of Noncompliance* – During our testing of the quarterly reporting requirements, we identified that the City did not submit the fiscal year 2019 quarterly reports timely (within the period stated in Section 158.63). Additionally, we noted the fiscal year 2019 activity reported on the quarterly reports does not reconcile to the City's accounting records.

**Context:**

The conditions noted above were identified during our testing of the quarterly reports. We found that 3 of 4 fiscal year 2019 quarterly reports were not submitted on or before the last day of the calendar month following the calendar quarter end. The interest activity reported for the quarter ending June 30, 2019 was \$100 and the City's PFC interest allocation was \$8,240, resulting in a difference of \$8,140 for fiscal year 2019.

**Cause:**

The City's procedures do not ensure that the quarterly reports are submitted in compliance with Section 158.63 and the City does not have procedures in place to prevent or detect errors on the quarterly report.

**CITY OF CHICO, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**Effect:**

Without the timely submission of the quarterly reports and review of the quarterly reports, the City increases its risk of noncompliance with the passenger facility charges program.

**Recommendation:**

We recommend that the City ensure that the quarterly reports are submitted timely in accordance with section 158.63. In addition, we recommend the quarterly reports are reviewed by a member of management outside of the preparer prior to submission to the FAA.

**Questioned Costs:**

None

**Views of Responsible Officials and Planned Corrective Actions:**

The City has implemented an approval process where the Airport Manager completes a draft of the quarterly report and submits it to the Accounting Manager for approval prior to submission on the FAA SOAR portal.

The City is exploring options to submit reporting annually since there is no activity in the PFC.

**CITY OF CHICO, CALIFORNIA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2019**

Finding:	Compliance Requirement	Status
2018-001	Reconciliation of SOAR report to City accounting records.	Not implemented, see current year finding 2019-001.
2018-002	Submission of quarterly SOAR reports	Not implemented, see current year finding 2019-002