

CITY OF CHICO
PASSENGER FACILITY
CHARGES REPORT
YEAR ENDED JUNE 30, 2020



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CITY OF CHICO

**PASSENGER FACILITY
CHARGES REPORT**

YEAR ENDED JUNE 30,

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INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF PASSENGER FACILITY CHARGES

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

Report on the Schedule

We have audited the accompanying Schedule of Passenger Facility Charges (Schedule) of the City of Chico (City), for the year ended June 30, 2020, and the related notes.

Management's Responsibility

Management is responsible for the preparation and fair presentation of this schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit 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 requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) issued by the Federal Aviation Administration. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Honorable Mayor and City Council
City of Chico

Opinion on Schedule of Passenger Facility Charges

In our opinion, the Schedule referred to above presents fairly, in all material respects, the passenger facility charges received, held, and used by the City for the period and each quarter during the period from July 1, 2019 through June 30, 2020, as defined by the Federal Aviation Administration of the U.S. Department of Transportation.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Roseville, California
December 18, 2020

CITY OF CHICO
SCHEDULE OF PASSENGER FACILITY CHARGES
YEAR ENDED JUNE 30, 2020

<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	\$ 350,267	\$ 7,730	\$ -	\$ 357,997
Total	<u>\$ 350,267</u>	<u>\$ 7,730</u>	<u>\$ -</u>	<u>\$ 357,997</u>

See accompanying Notes to Schedule of Passenger Facility Charges.

CITY OF CHICO
NOTES TO THE SCHEDULE OF PASSENGER FACILITY CHARGES
JUNE 30, 2020

NOTE 1 PROGRAM DESCRIPTION

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

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.

NOTE 2 BASIS OF ACCOUNTING

The Schedule of Passenger Facility Charges is prepared 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 AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGES PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Passenger Facility Charges

We have audited the compliance of the City of Chico (City) with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration, for its Passenger Facility Charge program for the period from July 1, 2019 to June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

Auditors' Responsibility

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 the 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 compliance requirements referred to above that could have a direct and material effect on the passenger facility charge 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.

Opinion on Compliance

In our opinion, the City of Chico complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the Passenger Facility Charge program.

In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the Passenger Facility Charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 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 the passenger facility charge program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of the passenger facility charge 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 the passenger facility charge 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

The City's response to the 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 it.

Purpose of this Report

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. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



CliftonLarsonAllen LLP

Roseville, California
December 18, 2020



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE SCHEDULE OF PASSENGER FACILITY CHARGES PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
City of Chico
Chico, California

We have audited, in accordance with the 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 Schedule of Passenger Facility Charges (Schedule) of the City of Chico (City), as of and for the year ended June 30, 2020, and the related notes to the financial Schedule and have issued our report thereon dated December 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedule, 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 schedule, 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 schedule 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider to be significant deficiencies..

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Schedule is 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 Schedule 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 of Chico’s Responses to Findings

The City’s responses to the 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 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 results of that testing, and not to provide an opinion on the effectiveness of the City’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.



CliftonLarsonAllen LLP

Roseville, California
December 18, 2020

CITY OF CHICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2020

2020 – 001

Type of Finding:

- Significant Deficiency in internal control over Compliance
- Significant Deficiency in internal control over Financial Reporting

Condition: 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.

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.

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 2020. The cumulative balance reported in SOAR was \$485,931 and the City's PFC ending asset balance was \$357,997, resulting in a difference of \$127,934 for fiscal year 2020.

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.

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.

Recommendation: This is a repeat finding from the fiscal year 2019 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.

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.

CITY OF CHICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2020

2020 – 002

Type of Finding:

- Significant Deficiency in internal control over Compliance
- Significant Deficiency in internal control over Financial Reporting

Condition: During our testing of the quarterly reporting requirements, we identified that the City did not submit the fiscal year 2020 quarterly reports timely (within the period stated in Section 158.63).

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.

Context: The conditions noted above were identified during our testing of the quarterly reports. We found that all of the fiscal year 2020 quarterly reports were not submitted on or before the last day of the calendar month following the calendar quarter end.

Effect: By not submitting the quarterly reports by the required dates, the City is at risk of noncompliance with section 158.63.

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.

Recommendation: This is a repeat finding from the 2019 audit. 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.

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.