

**CITY OF CHICO, CALIFORNIA**  
**SINGLE AUDIT REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**CITY OF CHICO, CALIFORNIA**

**SINGLE AUDIT REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**INDEPENDENT AUDITORS' 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 *Governmental 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 (City), California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 22, 2019. Our report included an emphasis of matter paragraph regarding the City's significant deficit fund equity in numerous funds and the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, effective July 1, 2017.

**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 over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not 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 items 2018-001 and 2018-002 that we consider to be significant deficiencies.

## **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 no instance 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 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 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 results 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.

*Vavrinik, Trine, Day & Co. LLP*

Sacramento, California  
January 22, 2019



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE 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, 2018. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' 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; 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, 2018.

## **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 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 or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses 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 funding information of the City as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 22, 2019 which contained unmodified opinions on those financial statements. Our report included an emphasis of matter paragraph regarding the City's significant deficit fund equity in numerous funds and the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, effective July 1, 2017. 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 financial statements as a whole.

*Vavrinik, Trine, Day & Co. LLP*

Sacramento, California  
January 22, 2019

**CITY OF CHICO, CALIFORNIA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

<b>FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE</b>	<b>FEDERAL CFDA NUMBER</b>	<b>DIRECT OR PASS THROUGH IDENTIFYING NUMBER</b>	<b>FEDERAL EXPENDITURES</b>	<b>EXPENDITURES TO SUBRECIPIENTS</b>
<b><u>U. S. Department of Housing and Urban Development:</u></b>				
<b><u>Direct Programs:</u></b>				
<b>CDBG - Entitlement Grants Cluster:</b>				
Community Development Block Grants/Entitlement Grants	14.218		\$ 904,000	\$ 235,263
Home Investment Partnerships Program	14.239	M-17-MC-06-0232	238,730	84,510
Home Investment Partnerships Program	14.239	Program Income	70,179	
Home Investment Partnerships Program	14.239	Loan adjustments	(76,342)	
Home Investment Partnerships Program	14.239	Loans	5,628,800	
Total Home Investment Partnerships Program			<u>5,861,367</u>	<u>84,510</u>
<b>Total Department of Housing and Urban Development</b>			<b><u>6,765,367</u></b>	<b><u>319,773</u></b>
<b><u>U. S. Department of Justice:</u></b>				
<b><u>Direct Program:</u></b>				
Edward Byrne Memorial Justice Assistance Grant Program (JAG 16)	16.738	2016-DJ-BX-0148	24,544	
<b>Total Department of Justice</b>			<b><u>24,544</u></b>	
<b><u>U. S. Department of Transportation:</u></b>				
<b><u>Direct Program:</u></b>				
Airport Improvement Program - AIP 35 - Airport Layout Plan	20.106	3-06-0041-35	11,460	
Airport Improvement Program - AIP 36 - Pavement Maintenance Management Plan	20.106	3-06-0041-36	51,508	
Airport Improvement Program - AIP 37 - Rehabilitate Taxiways	20.106	3-06-0041-37	228,446	
Airport Improvement Program - AIP 38 - Reconstruct Aircraft Parking	20.106	3-06-0041-38	927	
Sub-total			<u>292,341</u>	
<b>Highway Safety Cluster:</b>				
State and Community Highway Safety - Walnut Ave (SR32) Road Diet	20.600	HSIPL-5037 (029)	91,078	
State and Community Highway Safety - Emergency Vehicle Preemptive System	20.600	HSIPL-5037 (030)	36,993	
State and Community Highway Safety - Emergency Vehicle Preemptive System	20.600	HSIPL-5037 (034)	39,694	
Total Highway Safety Cluster:			<u>167,765</u>	
<b><u>Passed Through California Department of Transportation:</u></b>				
<b>Highway Planning and Construction Cluster:</b>				
Highway Planning and Construction - Salem Street @ LCC	20.205	BRLO-5037 (022)	50,482	
Highway Planning and Construction - Guynn Rd @ Lindo Channel	20.205	BRLO-5037 (023)	52,640	
Highway Planning and Construction - Pomona Rd @ LCC	20.205	BRLO-5037 (024)	60,349	
Highway Planning and Construction - Congestion Mitigation Air Quality (CMAQ)	20.205	03-BUT-0-CHC/5037 (027)	96,829	
Highway Planning and Construction - Congestion Mitigation Air Quality (CMAQ)	20.205	03-BUT-0-CHC/5037 (028)	152,909	
Highway Planning and Construction - Safe Routes to School	20.205	03-BUT-0-CHC/5037(037)	39,415	
Total Highway Planning and Construction Cluster			<u>452,624</u>	
<b>Total Department of Transportation</b>			<b><u>912,730</u></b>	
<b><u>U.S. Environmental Protection Agency</u></b>				
<b><u>Direct Program:</u></b>				
Brownsfields Assessment and Cleanup Cooperative Agreements	66.818	00T93301	\$ 48,837	
<b>Total Environmental Protection Agency</b>			<b><u>48,837</u></b>	
<b><u>U. S. Department of Homeland Security</u></b>				
<b><u>Direct Program:</u></b>				
Assistance to Firefighters Grant	97.044	EMW-2015-FP-00523	12,200	
<b>Passed Through County of Butte:</b>				
Disaster Grants - Public Assistance - Spillway Incident	97.036	FEMA-4308-DR	59,051	
<b>Total Department of Homeland Security</b>			<b><u>71,251</u></b>	
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 7,822,729</u></b>	<b><u>\$ 319,773</u></b>

See notes to schedule of expenditures of federal awards.

**CITY OF CHICO, CALIFORNIA**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

***NOTE #1 – BASIS OF PRESENTATION***

The accompanying Schedule of Expenditures of Federal Awards (the “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, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 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 position, or cash flows of the City

***NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in the prior years.

***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-percent de minimis indirect cost rate allowed under the Uniform Guidance.

***NOTE #5 – LOAN PROGRAM WITH CONTINUING COMPLIANCE REQUIREMENTS***

The City administers loans that are made from funds provided by the Home Investment Partnerships Program (CFDA No. 14.239), and balances and transactions relating to the program are included in the City’s basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. As of June 30, 2018, the outstanding loan receivables balance is as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2018</u>
14.239	Home Investment Partnerships Program	\$ 5,611,635

**CITY OF CHICO, CALIFORNIA**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**NOTE #6 – SUBRECIPIENTS**

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

<b>CFDA No.</b>	<b>Program Title</b>	<b>Pass- Through Entity</b>	<b>Amount</b>
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	31,835
14.218	Community Development Block Grant (CDBG)	GRID Alternatives	33,574
14.218	Community Development Block Grant (CDBG)	Innovate Health Care Services, Inc.	24,032
14.218	Community Development Block Grant (CDBG)	Jesus Provides Our Daily Bread	18,206
14.218	Community Development Block Grant (CDBG)	Chico Community Children's Center	16,000
14.218	Community Development Block Grant (CDBG)	Community Action Agency of Butte County	26,206
14.218	Community Development Block Grant (CDBG)	Chico Housing Action Team	27,204
14.218	Community Development Block Grant (CDBG)	Chico Community Shelter Partnership	33,206
	<b>Total</b>		<u>\$ 235,263</u>

<b>CFDA No.</b>	<b>Program Title</b>	<b>Pass- Through Entity</b>	<b>Amount</b>
14.239	Home Investment Partnership Program (HOME)	Housing Authority of the County of Butte	\$ 84,510
	<b>Total</b>		<u>\$ 84,510</u>

**CITY OF CHICO, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**I. SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major federal programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u>No</u>

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Clusters</u>
<u>14.218</u>	<u>Community Development Block Grants/Entitlement Grants (CDBG)</u>
<u>14.239</u>	<u>Home Investment Partnerships Program (HOME)</u>

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

**CITY OF CHICO, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**II. FINANCIAL STATEMENT FINDINGS**

**Finding 2018-001**

**SEGREGATION OF DUTIES – JOURNAL ENTRIES**

**Criteria:**

The internal controls over journal entries into the financial reporting system should include control activities to either prevent or detect inaccurate or unauthorized journal entries on a timely basis.

**Condition Found:**

*Significant Deficiency* – Through our testing of internal controls over journal entries, we observed that certain individuals with the authority to approve journal entries have the ability to initiate/approve the same entry within the financial reporting system. We noted that it is a management practice to require the review and approval by an individual separate from the journal entry initiator; however, the system does not prevent the same individual from initiating and approving the entry. Furthermore, we identified that there is currently no documented process in place in which approved entries are reconciled against the financial reporting system to ensure that all journal entries were appropriately reviewed and approved by an individual separate from the individual initiating the journal entry.

**Context:**

The condition noted above was identified during our testing of the financial reporting and closing processes.

**Cause:**

The financial reporting system does not prevent the same individual from initiating and approving the same entry.

**Effect:**

Without internal control activities segregating the ability to initiate and approve the same journal entry or internal control activities in which approved journal entries are reconciled against the financial reporting system to detect unauthorized or inaccurate journal entries on a timely basis, there is an increased risk of misstatements as the result of error or fraud.

**Recommendation:**

We recommend that management implement policies and procedures to either segregate the ability to initiate and approve the same the same journal entry, or implement and document a periodic reconciliation of approved journal entries against the financial reporting system.

**CITY OF CHICO, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**II. FINANCIAL STATEMENT FINDINGS**

**View of Responsible Officials and Corrective Action:**

An updated accounting system was implemented by the Finance Department in April of 2018 to replace a system used for over twenty years. As such, the finance staff has been working through the nuances of the new accounting system. A new workflow system was created to digitally streamline and document the approval process of journal entries. The new workflow restricts approval of all journal entries to three managers in the Finance Department. The one challenge is that a manager can create and approval their own journal entry. While Finance Department procedure is to have all journal entries created by one manager be reviewed and approved by a different manager, the accounting software did not provide that control. As such, Finance staff worked with the software vendor, and has provide a permanent fix to this issue. In the meantime, written journal entry non originating managerial approval is required to be attached to all entries initiated by an originating manager. Thus, written documentation is attached to reflect proper approval of all journal entries created by managers.

See separate corrective action plan.

**Finding 2018-002**

**SEGREGATION OF DUTIES – PERMIT CENTER**

**Criteria:**

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

**Condition Found:**

*Significant Deficiency* – Through our inquiries with City management and observation of internal controls and processes in the City’s Permit Center, we observed that City personnel in the 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.

**Context:**

The condition noted above was identified during our testing of the internal controls over cash receipts in the Permit Center.

**Cause:**

The City’s Permit Center’s does not assign individual cash drawers or system logins, the 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.

**CITY OF CHICO, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**II. FINANCIAL STATEMENT FINDINGS**

**Recommendation:**

We recommend that the City require separate logins to access the permit tracking system and that the City restrict the ability to modify rates and fees to individuals separate from the permit issuance and cash collection process.

**View of Responsible Officials and Corrective Action:**

The current permits software utilized by the City is over twenty years old and has limited controls. As such, a nightly independent review and reconciliation is conducted by a staff person not responsible for collecting and recording cash receipts. A daily fees collection detail report is prepared identifying the staff members initiating applicable transactions. This report is reconciled to the cash register and credit card report and a deposit is prepared. The Finance Department then reviews and receipts the daily activity from the permits center. Management acknowledges the current permits software limitations and has implemented controls as noted to minimize exposure to software control weaknesses. The City has also purchased the new TRAKiT permits software to replace the old system. The new TRAKiT system is set to “go live” in the spring of 2019.

See separate corrective action plan.

**CITY OF CHICO, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None reported.

**CITY OF CHICO, CALIFORNIA**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**  
**YEAR ENDED JUNE 30, 2018**

None Reported.

