

CITY OF CHICO, CALIFORNIA

**SINGLE AUDIT REPORT
(OMB CIRCULAR A-133)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

CITY OF CHICO, CALIFORNIA

**SINGLE AUDIT REPORT
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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**

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 (the City), California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 7, 2015. Our report includes an emphasis of matter regarding the City's significant deficit fund equity in numerous funds, an emphasis of matter regarding the City's significant financial stress and management's plan to address the City's current financial condition, and an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions* and Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, effective July 1, 2014.

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. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a significant deficiency.

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 Responses to Findings

The City's responses to the findings identified in our audit are 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 the financial statements and, accordingly, we express no opinion on them.

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
December 7, 2015



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

The Honorable Mayor and City Council
City of Chico, California

Report on Compliance for Each Major Federal Program

We have audited City of Chico's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit 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 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, 2015.

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 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. *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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 7, 2015, which contained unmodified opinions on those financial statements. Our report includes an emphasis of matter regarding the City's significant deficit fund equity in numerous funds, an emphasis of matter regarding the City's significant financial stress and management's plan to address the City's current financial condition, and an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition For Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, both effective July 1, 2014. 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 OMB Circular A-133 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
December 7, 2015

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	DIRECT OR PASS THROUGH IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<u>U. S. Department of Housing and Urban Development:</u>			
<u>Direct Programs:</u>			
Community Development Block Grants (CDBG)/Entitlement Grants	14.218	B-07-MC-06-0031	\$ 632,815
Home Investment Partnerships Program	14.239	M-07-MC-06-0232	227,105
			859,920
Total Department of Housing and Urban Development			
<u>U. S. Department of Justice:</u>			
<u>Direct Program:</u>			
Bulletproof Vest Partnership Program	16.607	N/A	6,998
Edward Byrne Memorial Justice Assistance Grant Program:			
Justice Assistance Grant (JAG 12) Program	16.738	2012-DJ-BX-0875	10,858
Justice Assistance Grant (JAG 13) Program	16.738	2013-DJ-BX-1096	1,715
Justice Assistance Grant (JAG 14) Program	16.738	2014-DJ-BX-1176	11,213
Equitable Sharing Program	16.922	CA0040200	19,895
OCDETF (Bad Bunny) Program	16.PA-CEA-0392	PA-CEA-0392	10,764
<u>Total Direct Programs:</u>			61,443
<u>Passed Through Board of State and Community Corrections:</u>			
Juvenile Justice and Delinquency Prevention - Allocation to States: Gang Reduction, Intervention & Prevention (CalGRIP) Program	16.540	BSCC 827-13	191,106
<u>Total Passed Through Board of State and Community Corrections:</u>			191,106
Total Department of Justice			
252,549			
<u>U. S. Department of Transportation:</u>			
<u>Direct Program:</u>			
Airport Improvement Program	20.106	3-06-0041-34	2,113,735
<u>Total Direct Programs:</u>			2,113,735
<u>Passed Through California Department of Transportation:</u>			
Highway Planning and Construction Cluster:			
Salem Street @ LCC	20.205	BRLO-5037 (022)	719
Guyann Rd @ Lindo Channel	20.205	BRLO-5037 (023)	854
Pomona Rd @ LCC	20.205	BRLO-5037 (024)	1,015
<u>Total Passed Through California Department of Transportation:</u>			2,588
<u>Passed Through California Department of Parks and Recreation:</u>			
Recreational Trails Program:			
Bidwell Park Middle Trail Rehabilitation	20.219	NRT-CA-2009/RT-04-004	9,161
<u>Total Passed Through California Department of Parks and Recreation:</u>			9,161
<u>Passed Through National Highway Traffic Safety Admin (NHTSA):</u>			
Highway Safety Cluster:			
Selective Traffic Enforcement Program (STEP)	20.600	PT1571	46,666
Selective Traffic Enforcement Program (STEP)	20.608	PT1571	13,708
<u>Total Passed Through National Highway Traffic Safety Admin (NHTSA):</u>			60,374
<u>Passed Through Town of Paradise:</u>			
Alcohol Impaired Driving Countermeasures Incentive Grants I: Avoid the Eight OTS Grant	20.601	AL1413	2,541
<u>Total Passed Through Town of Paradise:</u>			2,541
Total Department of Transportation			
2,188,399			

See notes to schedule of expenditures of federal awards.

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	DIRECT OR PASS THROUGH IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<u>U.S. Environmental Protection Agency</u>			
<u>Direct Program:</u>			
Brownsfields Assessment and Cleanup Cooperative Agreements	66.818	00T93301	<u>51,537</u>
<u>Total Direct Program:</u>			<u>51,537</u>
Total Environmental Protection Agency			<u>51,537</u>
<u>U. S. Department of Homeland Security</u>			
<u>Direct Program:</u>			
Assistance to Firefighters Grant:			
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2013-FH-00506	<u>1,898,113</u>
Total Department of Homeland Security			<u>1,898,113</u>
Total Expenditures of Federal Awards			<u>\$ 5,250,518</u>

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, 2015**

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Schedule of Expenditures of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Chico, California.

B. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting except for programs recorded in the City's enterprise funds, which are presented using the full accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE #2 – 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 #3 – SUBRECIPIENTS

Of the Federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, the City provided Federal awards to subrecipients as follows:

CFDA No.	City Program Title	Amount
14.218	Community Development Block Grants (CDBG) Entitlement Grants	193,884
66.818	Brownsfields Assessment and Cleanup Cooperative Agreements	16,478
		<u>\$ 210,362</u>

CITY OF CHICO, CALIFORNIA

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE #4 – CLUSTERS OF PROGRAMS

The Schedule of Expenditures of Federal Awards does not summarize clusters of programs. The following summarizes those programs that are part of a cluster:

<u>Program Title</u>	<u>CFDA#</u>	<u>Pass Through Agency</u>	<u>Amount</u>
CDBG - ENTITLEMENT GRANTS CLUSTER			
Community Development Block Grants/Entitlement Grants	14.218	Direct program	\$ 632,815
		Cluster Total	<u>\$ 632,815</u>
HIGHWAY PLANNING & CONSTRUCTION CLUSTER			
Highway Planning and Construction	20.205	Department of Transportation	\$ 2,588
Recreational Trails Program	20.219	Department of Transportation	9,161
		Cluster Total	<u>\$ 11,749</u>
HIGHWAY SAFETY CLUSTER			
Selective Traffic Enforcement Program (STEP)	20.600		\$ 46,666
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	Town of Paradise	2,541
		Cluster Total	<u>\$ 49,207</u>

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None Reported</u>

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) No

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Clusters</u>
<u>20.106</u>	<u>Airport Improvement Program</u>
<u>97.083</u>	<u>Staffing for Adequate Fire and Emergency Response (SAFER)</u>

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530? No

CITY OF CHICO, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

II. FINANCIAL STATEMENT FINDINGS

The following findings represent significant deficiencies, material weakness or instances of noncompliance related to the financial statements that are required to be reported in accordance with generally accepted government auditing standards.

FINDING 2015-001

PROCUREMENT POLICIES AND PROCEDURES

Criteria:

Government Auditing Standards note that management is responsible for implementing systems designed to achieve compliance with applicable laws and regulations; and for establishing and maintaining internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported.

Condition:

Significant Deficiency – We identified the following conditions related to internal controls related to the procurement process:

- *Procurement Policies* – We noted that the procurement policies were disorganized throughout the Administrative Policies and Procedures (AP&P) document. The AP&P document had not been updated recently. Additionally, the AP&P document was not user friendly, resulting in the review of procurement difficult to navigate.

During fiscal year 2015, it was noted that the City had created a centralized procurement policy binder and revisions were made in the process however the updated policies were not formally approved by the City Council. Our testing of procurement contracts, during the fiscal year 2015, noted no noncompliance with the City’s current policies.

Context:

The conditions noted above were noted during review of the City’s internal controls over the procurement process for fiscal year 2015. This is a repeat condition from the fiscal year 2013 and 2014 audit.

Cause:

While the City has prepared a comprehensive procurement binder, the policies have not been formally approved by the City Council. Thus, several of the conditions identified in the fiscal year 2013 audit continue to exist. Additionally, the City’s decentralized procurement process increases the risk of noncompliance with the City’s procurement policies.

Effect:

The risk associated with long complex procurement policies and multiple documents governing procurement policies increases the risk of noncompliance with the City’s policy.

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

II. FINANCIAL STATEMENT FINDINGS

Recommendation:

We recommend that the City continue to implement formal procurement policies and procedures that are centralized and approved by the City Council.

View of Responsible Officials and Planned Corrective Action:

Management agrees with the recommendation and staff has taken steps to create a comprehensive purchasing manual. In addition, the City will assign a Management Analyst who will be responsible for updating related policies and forms to ensure that the City follows all legal requirements and implements best practices in its purchasing function.

CITY OF CHICO, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None Reported.

CITY OF CHICO, CALIFORNIA

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2015**

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of audit findings and questioned costs.

Finding No.	Finding	CFDA No.	Compliance Requirement	Status of Corrective Action
2014-001	Deficit Fund Position	N/A	N/A	Implemented
2014-002	Procurement Policies and Procedures	N/A	N/A	Partially Implemented – See finding 2015-001
2014-003	Information Technology Access Review	N/A	N/A	Implemented
2014-004	Chico Urban Area Joint Powers Financing Authority Loan	N/A	N/A	Implemented
2014-005	Donated Infrastructure	N/A	N/A	Implemented