

CITY OF YUBA CITY
MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER

June 30, 2011

CITY OF YUBA CITY
June 30, 2011

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November 22, 2011

Members of the City Council
City of Yuba City
1201 Civic Center Blvd.
Yuba City, CA 95993

In planning and performing our audit of the financial statements of City of Yuba City (City), as of and for the fiscal year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 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. No material weaknesses have been identified during the audit and, thus, none are being communicated.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

During our audit we noted certain other matters involving internal controls and their operations, and are submitting for your consideration, related recommendations designed to help the City make improvements and achieve operational efficiencies. These recommendations are described in the current year recommendations section as Findings 2011-1 through 2011-5. Our comments reflect our desire to be of continuing assistance to the City.

The City's written responses to the findings identified in our audit are described in the current year recommendations section. We did not audit the City's responses and, accordingly, we express no opinion on them. In addition, we would be pleased to discuss the recommendations in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

We have included in this letter a summary of communications with the members of the City Council as required by professional auditing standards. We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement. The accompanying communications and recommendations are intended solely for the information and use of management, the members of the City Council, and others within the City, and are not intended to be, and should not be, used by anyone other these specified parties.

Moss, Levy & Hartzheim

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November 22, 2011

Members of the City Council
City of Yuba City
1201 Civic Center Blvd.
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We have audited the financial statements of the City of Yuba City for the fiscal year ended June 30, 2011, and have issued our report thereon dated November 22, 2011. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 6, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Yuba City are described in Note 1 to the basic financial statements. As discussed in Note 1 of the notes to the basic financial statements, two new accounting policies were adopted during the fiscal year. The new policies are GASB Statement No. 54 and 59, with GASB Statement No. 54 having an effect on the financial statements. We noted no transactions entered into by the City during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were the estimated historical cost and useful lives of certain capital assets, the funding progress of the CalPERS pension plan, and the Other Postemployment Benefits actuarial values. Management's estimates of the estimated historical cost and useful lives of certain capital assets are based on historical data and industry guidelines, while the funding progress of the CalPERS pension plan and the Other Postemployment Benefits actuarial values are based on consultants' estimates. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, there were three adjustments detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole. These three adjustments were for the transfer of land from the RDA to the City, the fair market value (GASB 31) adjustment for investments, and to adjust loans receivable to their actual balances.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 22, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Yuba City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Yuba City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of the City Council of the City of Yuba City and management of the City of Yuba City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



MOSS, LEVY & HARTZHEIM, LLP
Culver City, CA

CURRENT YEAR RECOMMENDATIONS

Other Matters

2011-01 Finding – Deficiencies in internal control at the Parks and Recreation Department:

During the review of internal control at the Parks and Recreation Department, we noted that there is no random spot-checking and roll-taking of participants (by a City employee) in the recreation classes.

Effect:

A deficiency in internal control increases the risk that errors and irregularities may occur and go undetected. It adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably, which can lead to a misappropriation of funds.

Recommendation:

We recommend that a supervisor perform random spot-checking and roll-taking of participants in the recreation classes, to ensure that the roster reconciles to the actual participants in attendance.

City's Response:

This recommendation relates only to special classes that are provided on a contract basis. The City does not have sufficient Recreation Department supervisory staff to provide random spot-checking and roll-taking of participants. With further budget reductions, special classes may be eliminated entirely. In addition, there are not that many recreation classes that are provided on a contract basis compared to the total recreation programs by the City. The other programs offered by the City do provide for oversight by Recreation Supervisor staff.

2011-02 Finding – Deficiencies in internal control at the Police Department:

During our test of police receipts, we noted that there is no referencing on daily or weekly cash receipt reports for alarm fees.

Effect:

Without proper referencing on daily or weekly cash receipt reports for alarm fees, the risk that errors and irregularities may occur and go undetected increases. It adversely affects the City's ability to record and track cash receipts reliably, which can lead to a misappropriation of funds.

Recommendation:

We recommend that the City strengthen its control over cash receipts at the police department by implementing proper referencing on daily and weekly cash receipt reports for alarm fees, to ensure an adequate audit trail.

City's Response:

Recommendation has been implemented.

2011-03 Finding – Deficiencies in internal control at the Fire Department:

During our test of fire receipts, we noted that there were numerous differences in fee calculations, according to what was collected and what the fee schedule states. Also, the cash receipts are not locked up after receipt and prior to being sent over to Finance department for deposit.

Effect:

A deficiency in internal control increases the risk that errors and irregularities may occur and go undetected. It adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably, which can lead to a misappropriation of funds. Also, incorrect fees charged to customers results in a misstatement of revenues.

Recommendation:

We recommend that the City review its existing fee rates being charged against the most current Council approved master fee schedule to ensure that the rates in the system are correct. Also, we recommend that the City ensure that all cash receipts be stored in a safeguarded location prior to being sent over to the Finance department for deposit.

City's Response:

Recommendation has been implemented.

2011-04 Finding – Excessive cell phone usage charges:

During our review of cell phone bills, we noted that there are various phones with overage charges, ranging from \$5.87 to \$197.00. It was also noted that these plans have subsequently been modified so no further overage charges would be incurred.

Effect:

Excessive cell phone usage charges indicate that the City is incurring unnecessary expenses.

Recommendation:

We recommend that the City review its cell phone bills on a regular basis to ensure that its cell phone plans reflect current needs and that there is no excessive usage by employees.

City's Response:

Recommendation has been implemented.

2011-05 Finding – Deficiencies in internal control over employee reimbursements and credit card usage:

During our test of employee reimbursements and credit card use, we were unable to substantiate the attendance and expenses of four employees' training, due to a lack of retention of proof of attendance or certification of training.

Effect:

Without obtaining proof of attendance or certification of training to substantiate participation, the risk that an employee didn't actually attend the training increases. It adversely affects the City's ability to track training expenses, which can lead to a misappropriation of funds.

Recommendation:

We recommend that the City require its employees to obtain proof of attendance and/or certification of training during conferences and trainings, for future verification.

City's Response:

Recommendation has been implemented.

STATUS OF PRIOR YEAR RECOMMENDATIONS

2010-01 Finding – No pre-numbered receipts are utilized at the Fire Department:

During the review of the cash receipts system at the Fire Department, we noted that pre-numbered receipts are not being utilized and burn permits that are issued are also not pre-numbered.

Effect:

Without proper numeric control of the cash receipts and permits, it is impossible to determine completeness, or if any receipts or permits were misappropriated.

Recommendation:

We recommend that the City ensure all receipts and permits issued by the Fire Department be tracked by pre-printed number and issued in sequential order.

Status:

Implemented.

2010-02 Finding – Delay in request of grant reimbursement:

During our review of the grant reimbursements, we noted that the reimbursement request for the period of 4/11/2010 – 7/10/2010 for the 2007 SAFER grant had not been prepared as of 10/29/2010.

Effect:

Delayed reimbursement requests can affect the cash flows of the City. Also, the failure to file claims for reimbursement on a timely basis may cause claims for reimbursement to be denied.

Recommendation:

We recommend that the City request reimbursements for all amounts on a timely basis.

Status:

Implemented.

2010-03 Finding – Deficiencies in internal control at the Wastewater Department:

During the review of internal control at the Wastewater Department, we noted that inventory items removed from the warehouse are not being tracked with requisitions or similar documentation.

Effect:

Without tracking the requisitions, the City cannot verify where the goods went or how many of them were removed from the warehouse, also unauthorized usage may occur.

Status:

Implemented.

2010-04 Finding – Deficiencies in internal control at the Parks and Recreation Department:

During the review of internal control at the Parks and Recreation Department, we noted that there is no random spot-checking and roll-taking of participants (by a City employee) in the recreation classes.

Effect:

A deficiency in internal control increases the risk that errors and irregularities may occur and go undetected. It adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably, which can lead to a misappropriation of funds.

Recommendation:

We recommend that a supervisor perform random spot-checking and roll-taking of participants in the recreation classes, to ensure that the roster reconciles to the actual participants in attendance.

Status:

Not implemented. See Finding# 2011-01.

2010-05 Finding – No approval on utility billing adjustments:

During our review of the utility billing adjustments, we noted that the adjustments are not being explicitly approved by supervisory personnel, instead, they are reviewed on a random basis.

Effect:

Without proper approval by supervisory personnel, unauthorized utility billing adjustments may occur and go undetected.

Recommendation:

We recommend that the City ensure all utility billing adjustments are being reviewed and approved by supervisory personnel on a regular basis.

Status:

Implemented.

2010-06 Finding – Deficiencies in internal control at the Gauche Aquatic Park:

During the review of internal control at the Gauche Aquatic Park, we noted that tally sheets are not being used to track the number of paying customers (by fee type/amount) that enter the park. Instead, same colored tickets are being issued to adults and seniors, even though the fee amounts are different.

Effect:

Without a reconciliation of customers (by fee type/amount), it is impossible to reconcile the number of participants to the total amount of receipts collected.

Recommendation:

We recommend that the Gauche Aquatic Park implement the use of a log or tally sheet to track the number of customers entering the park (by fee type/amount).

Status:

Implemented.