

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

June 30, 2016

CITY OF YUBA CITY
June 30, 2016

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November 28, 2016

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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Yuba City, California (City), as of and for the fiscal year ended June 30, 2016, 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 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.

Our consideration of internal control was for the limited purpose described in the preceding 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.

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 City'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. During our audit, we noted no deficiencies that would be considered a significant deficiency.

We have included, in this letter, a summary of communication with 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 City Council, and others within the organization, and is not intended to be and should not be used by anyone other these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California



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November 28, 2016

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Yuba City (City) for the fiscal year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, including OMB Uniform Guidance, 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 June 13, 2016. 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 are described in Note 1 of the notes to the basic financial statements. As discussed in Note 1 of the notes to the basic financial statements, one new accounting policy was adopted during the fiscal year. The new policy is Governmental Accounting Standards Board (GASB) Statement No. 72. See Note 2 for the 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:

Management's estimates included the funding progress and net pension liability of CalPERS, the estimated historical cost and useful lives of capital assets, the assumptions used for estimating the other postemployment benefits liability, and the allowance for doubtful accounts receivable. These estimates are based on CalPERS' actuarial estimates, historical data and industry guidelines for capital assets, consultant's estimates for postemployment benefits payable, and historical data for allowance for doubtful accounts receivable. We evaluated the key factors and assumptions used to develop the estimates above in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant 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, three of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. These adjustments were for the fair market value (GASB 31) adjustment for investments, to adjust the net pension liability and deferred inflows and outflows related to pensions, and to adjust loans receivable to their actual balances.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 28, 2016.

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'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'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 Matters

We applied certain limited procedures to the management's discussion and analysis, the Pension Trend Information, the Schedule of Funding Progress of Other Postemployment Benefits, the Schedule of the City's Proportionate Share of the Net Pension Liability, the Schedule of Contributions, and the Budgetary Comparison Schedules of the General Fund and major special revenue funds, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

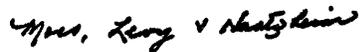
We were engaged to report on the Budgetary Comparison Schedules for the Nonmajor Governmental Funds, the Combining Financial Statements for the Nonmajor Governmental Funds, Internal Service Funds, Private-Purpose Trust Funds, and Agency Funds, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the Introductory or Statistical Sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on them.

Restriction on Use

This information is intended solely for the use of the City Council and management of the 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

None noted in the current fiscal year.

STATUS OF PRIOR YEAR RECOMMENDATIONS

2015-01 Finding – Deficiencies in cash receipts:

During our test of cash receipts, we noted deficiencies in the following departments:

- a.) One receipt at the Police Department was 6 days from the date of receipt until the time of deposit with Finance (#01098185428).
- b.) At the Community Development Department, the building permit calculation program does not contain enough decimal places, which results in mischarging of the fire plan check fee.

Effect:

Lack of timeliness in depositing cash receipts to the Finance Department results in lost investment income and could result in the receipts being misplaced or a misappropriation of funds occurring. Locking the cash receipts in the cash register is a deficiency in internal control due to the access of the cash register. A deficiency in the building permit calculation program results in incorrect charges to customers.

Recommendation:

We recommend that all receipts be deposited with the Finance department on a daily basis during business days and that cash receipts be locked in the safe/vault at night. We also recommend that the building permit calculation program be modified to have the ability to calculate fees correctly and in accordance with the City's master fee schedule.

Status:

Implemented

2015-02 Finding – Control deficiencies on credit card transactions:

During our test of credit card receipts, we noted the following deficiencies:

- a.) One monthly procurement report did not contain an approval signature (#198172).
- b.) One monthly procurement report was approved by the cardholder (#201414).
- c.) One restaurant receipt was a summary receipt, which did not contain details of the purchases made (#198662).

Effect:

Without approval signatures on monthly procurement reports by authorized personnel, there is potential for a misappropriation of funds to occur and go undetected. When detailed receipts are not submitted with the respective credit card statement, it is difficult to determine if the purchases were allowable and/or appropriate to be paid with public funds.

Recommendation:

We recommend that all monthly procurement reports be reviewed and approved by authorized personnel prior to processing. We also recommend that the City ensure that all credit card statements contain the appropriate detailed receipts to support the purchases made, prior to processing.

Status:

Implemented

STATUS OF PRIOR YEAR RECOMMENDATIONS (Continued)

2015-03 Finding – Deficiency of capital asset list:

During our audit of capital assets, we noted that one parcel, which was sold in FY 14-15, was not on capital asset list (2520 Live Oak Blvd.).

Effect:

There is potential for incorrect recognition of a gain/loss on sale of capital asset when the capital asset is not recorded as such. Also, if capital assets are not recorded, this results in an understatement of assets in the financial statements and potentially could lead to uninsured assets.

Recommendation:

We recommend that all capital assets be recorded on the capital asset list, which should be reviewed annually by all departments.

Status:

Implemented

2015-04 Finding – Loan was not entered into the loan system (GMS) in a timely manner:

During our audit of loans receivable, we noted that one loan (loan #205) was not entered into the loan system (GMS) at the time of issuance, resulting in the loan not being entered as of 6/30/2015.

Effect:

Loans not entered into the GMS system could be unaccounted for during the audit and could also result in incorrect year-end balances in the general ledger.

Recommendation:

We recommend all loans be entered into the system in a timely manner.

Status:

Implemented