

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

June 30, 2012

CITY OF YUBA CITY
June 30, 2012

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December 26, 2012

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, 2012, 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.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. 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 consider the deficiencies presented in the current year recommendations section as Findings 2012-01 and 2012-02 to be significant deficiencies in internal control.

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 2012-03 through 2012-10. 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.

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.

Moss, Levy & Hartzheim

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December 26, 2012

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 City of Yuba City for the fiscal year ended June 30, 2012, and have issued our report thereon dated December 26, 2012. 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 25, 2012. 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, one new accounting policy was adopted during the fiscal year. The new policy is GASB Statement No. 64, which had no 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 a third party actuary's 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 two adjustments were for 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 December 26, 2012.

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.

Mrs. Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, CA

CURRENT YEAR RECOMMENDATIONS

Significant Deficiencies

2012-01 Finding – Error in charges on commercial utility accounts:

During our interviews of staff, and subsequent test of utility receipts, we noted that commercial utility accounts were not being charged both the base rate and consumption fees for sewer service.

Effect:

Sewer fees were not charged correctly, according to the Council approved fee schedule.

Recommendation:

We recommend that the City review sewer utility accounts to ensure that they are currently being charged the correct Council approved fees. Also, staff should receive direction from City Council on how to correct the prior underbilling of accounts.

Management's Response:

Recommendation has been implemented. The correct authorized rates are being billed and the \$215,000 in under-billings is being billed to commercial wastewater customers over a twelve month period.

2012-02 Finding – Deficiencies in cash receipt deposits:

During our test of police cash receipts, we noted that one deposit was prepared on 4/12/12 but was not receipted by the Finance Department until 5/7/12. Additionally, the Police Department recap reports do not list out each check included in each deposit.

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 could occur. Without a list of checks that are being deposited noted on the deposit recap, there is no way to track payments individually and this could also result in a misappropriation of funds.

Recommendation:

We recommend that cash deposits be delivered to the Finance Department on a daily basis and that deposit reports list out each individual check that is included in each deposit.

Management's Response:

Recommendation has been implemented.

CURRENT YEAR RECOMMENDATIONS (Continued)

Other Matters

2012-03 Finding – Late fees and disconnect fees for utility accounts were not assessed consistently:
During our test of utility receipts, we noted that fees for late payments and service disconnects were not consistently applied in accordance with the fee schedule.

Effect:

Inconsistent application of late fees and disconnect fees could result in a loss of revenue to the City.

Recommendation:

We recommend that all fees on utility account be consistently applied and be in accordance with the Council approved fee schedule.

Management's Response:

Recommendation has been implemented.

2012-04 Finding – Deficiencies in internal control at the Parks and Recreation Department:
During our review of internal control at the Parks and Recreation Department, we noted that there was no random spot-checking and roll-taking of participants (by a City employee) in recreation classes.

Effect:

There is an increased 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.

Management'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 very few 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.

CURRENT YEAR RECOMMENDATIONS (Continued)

Other Matters (Continued)

2012-05 Finding –Lack of a formal capital asset policy:
During our audit, we noted that the City has no formal capital asset policy.

Effect:
Employees do not have a policy to follow in regards to the capitalization of fixed assets.

Recommendation:
We suggest that the City implement a written policy that is in compliance with the City's current practice of capitalizing fixed assets.

Management's Response:
The City properly capitalizes all assets in accordance with the requirements of GASB 34 as disclosed in the Notes to Financial Statements. There has merely been no written policy formalizing this practice. A formal policy will be developed which documents the City's procedures as recommended by the City's auditors.

2012-06 Finding –Lack of operational video cameras at City facilities:
During our observation of City locations, we noted that video cameras were not operating in the front and rear of City Hall. Additionally, there were only video cameras at the gate and in the chlorine room at the South Plant.

Effect:
Video surveillance helps reduce the risk of crime and also enables the City to investigate any occurrence of fraud or crime.

Recommendation:
We recommend that the City repair the video cameras at the front and rear of the City Hall to ensure that they are operating correctly. We also recommend installing additional video cameras at the South Plant, at additional sensitive locations.

Management's Response:
The City will partially implement this recommendation. The City will repair the video camera installed in front of City Hall in order to capture video of persons coming into City Hall or dropping payments in the drop box in the front parking lot. The City doesn't feel it is financially cost effective to repair cameras in the back parking lot which monitor staff vehicles.

CURRENT YEAR RECOMMENDATIONS (Continued)

Other Matters (Continued)

2012-07 Finding – Control deficiencies over Fire Department cash receipts:

During our fieldwork, we noted that Fire Department deposits are not reviewed by a second party prior to remittance to the Finance Department. Also, the Fire Department only obtains a receipt from the Finance Department when depositing checks of large amounts.

Effect:

Without a receipt from the Finance Department, there is no audit trail to ensure that the receipts were received and deposited by the Finance Department.

Recommendation:

We recommend that an employee from the Fire Department, other than the preparer of the deposit, review each deposit prior to being remitted to the Finance Department. We also recommend that a receipt be given to the Fire Department by the Finance Department for all deposits.

Management's Response:

Recommendation to review Fire Department cash receipts by a second employee will not be implemented as there are times when only one employee is present and there is not a second to do the review. This procedure would create redundancy with little benefit gained. Recommendation that a receipt be provided to the Fire Department by the Finance Department for all deposits has been implemented.

2012-08 Finding – Lack of a fraud reporting policy:

During our fraud interviews with various City employees, we noted that many formal written employees were not aware of the procedures to report suspected fraud. Moreover, there is no formal written City policy for employees to report suspected fraud.

Effect:

If employees are not aware of their options to report suspected fraud, there is a less likely chance of the employees actually reporting their suspicions, which could cause fraud to occur and go undetected.

Recommendation:

We recommend that the City implement a formal fraud reporting policy and educate City employees of the procedures to report suspected fraud.

Management's Response:

Recommendation has been implemented.

CURRENT YEAR RECOMMENDATIONS (Continued)

Other Matters (Continued)

2012-09 Finding – Businesses operating with an expired business license or no business license:
During our audit of business license receipts, we noted one business was operating with an expired license and one was operating without a business license.

Effect:

Two businesses operating with an expired business license and no business license results in a lack of business license revenue for the City. Also, there could be code enforcement issues with these two businesses that are operating without licenses.

Recommendation:

We recommend that the City collect the business license revenues for these two businesses immediately. Also, a procedure should be implemented to spot-check businesses that are operating in the City, to ensure that they have a business license.

Management's Response:

Recommendation has been implemented.

2012-10 Finding – Lack of transfer of property to Successor Agency:
During our audit, we noted that real property that was originally transferred to the City to repay interfund advances from the general fund has been deemed an invalid transfer. Due to this invalid transfer, the properties need to be deeded to the Successor Agency, but were not as of June 30, 2012.

Effect:

The Successor Agency is the rightful owner of these properties, yet they have not been deeded to the Successor Agency as of yet.

Recommendation:

We recommend that the City deed the titles of this property to the Successor Agency immediately.

Management's Response:

Recommendation will be implemented.

STATUS OF PRIOR YEAR RECOMMENDATIONS

- 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.
- Status:
Not implemented – see Finding 2012-04.
- 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.
- Status:
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:
Implemented.

STATUS OF PRIOR YEAR RECOMMENDATIONS (Continued)

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.

Status:

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.

Status:

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.

Status:

Implemented.