

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

**June 30, 2013**

**CITY OF YUBA CITY**  
June 30, 2013

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December 14, 2013

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, 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, 2013. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, 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 17, 2013. 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 to the basic financial statements. As discussed in Note 1 of the notes to the basic financial statements, four new accounting policies were adopted during the fiscal year. The new policies are Governmental Accounting Standards Board (GASB) Statements No. 60, 61, 62, and 63. Only GASB Statement No. 63 had an effect on the financial statements. See Note 1L 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 of CalPERS, the estimated historical cost and useful lives of capital assets, and the assumptions used for estimating the other postemployment benefits liability. These estimates are based on CalPERS' actuarial estimates, historical data and industry guidelines for capital assets, and consultant's estimates for postemployment benefits payable. 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 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, two 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 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 December 14, 2013.

#### 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

With respect to the supplementary information accompanying the financial statements, 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.

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*

MOSS, LEVY & HARTZHEIM, LLP  
Culver City, CA

## CURRENT YEAR RECOMMENDATIONS

### Significant Deficiencies

2013-01 Finding – Deficiencies in cash receipt deposits:  
During our test of cash receipts, we noted that two Parks and Recreation receipts and two senior center daily receipts were not deposited timely (within one week).

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.

Recommendation:

We recommend that cash receipts be deposited on a daily basis.

Management's Response:

Recommendation will be implemented.

### Other Matters

2013-02 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, 2013.

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:

The City opted to wait until all appeals with the Department of Finance through the meet and confer process were complete prior to transferring title to any properties held by the General Fund to the Successor Agency. The City has now finished this process and has received a Finding of Completion from the Department of Finance, we will therefore begin the process of transferring these properties to the Successor Agency as recommended.

2013-03 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.

## CURRENT YEAR RECOMMENDATIONS (Continued)

### Other Matters (Continued)

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:

Recommendation will be implemented.

2013-04 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:

Recommendation will be implemented.

2013-05 Finding – Control deficiencies over Parks & Recreation cash receipts:

During our test of cash receipts, we noted that any overage amounts collected for Parks and Recreation cash receipts are kept in a separate envelope and the money is used to balance any deficit balances the next day or two. If it is not used, the amount is deposited with cash receipts. Also the key to the cash drawer is kept hidden on an employee's desk.

Effect:

By using overage amounts to balance any deficit amounts, it adversely affects the City's ability to record and track cash receipts reliably, which can lead to a misappropriation of funds. Also, without the key to the cash drawer being kept in a secured and locked location, a misappropriation or theft of funds could occur.

Recommendation:

We recommend that the City deposit all cash receipts daily regardless of any overage or under amounts and that the key to the cash drawer be kept in a secured and locked location with limited access.

Management's Response:

Recommendation will be implemented.

## CURRENT YEAR RECOMMENDATIONS (Continued)

### Other Matters (Continued)

#### 2013-06 Finding – Control deficiencies over Fire Department cash receipts:

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

1. Fire Department deposits are not reviewed by a second party prior to remittance to the Finance Department.
2. The Fire Department deposits their cash receipts in the Finance Department's inbox instead of taking the deposit to the cashier.
3. Two Fire Department receipts were entered as zero into the general ledger and shown as cash overage for one day in the amount of \$7.
4. There is no double-checking by the Fire Department to ensure that all receipts are entered into the general ledger.

#### Effect:

Without a second review of receipts prior to remittance to the Finance Department, a misappropriation of funds could occur and go undetected. By depositing the cash receipts in the Finance inbox there is no way to ensure that all of the cash receipts are being deposited. Also without the double-checking by the Fire Department to ensure that all receipts are entered into the general ledger, it could lead to incorrect postings in the general ledger and misstatements in the financial statements.

#### 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 and that the Fire Department bring all of their cash receipts directly to the cashier for receipting. We also recommend that an employee review the general ledger to ensure that all receipts are being properly recorded on a monthly basis.

#### 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. The recommendation to provide a Finance Department cashier with receipts rather than placing the inbox the inbox will be implemented. The recommendation that Fire Department staff double check to ensure Finance properly entered all receipts has already been implemented.

#### 2013-07 Finding – Lack of a fraud reporting policy:

During our fraud interviews with various City employees, we noted that many 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.

## CURRENT YEAR RECOMMENDATIONS (Continued)

### Other Matters (Continued)

#### Management's Response:

Recommendation will be implemented.

#### 2013-08 Finding – Control deficiencies over senior center cash receipts:

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

1. Activity cards at the senior center are not pre-numbered.
2. Cash receipts are kept in an unlocked drawer during the day.
3. The multi-media class instructor collects class fees during the class on occasion, and then slips the money under the door of the office.
4. Rummage sales are held once per year, but no receipts are issued to customers.
5. The petty cash money, for change, is kept in an unlocked drawer.

#### Effect:

Without the pre-numbering of activity cards, there is a possibility of fraud to occur in which duplicate activity cards are produced. Unlocked cash drawers and petty cash and the collection of class fees during the class could result in a misappropriation of funds occurring and going undetected. Also, without the issuance of receipts there is no way to track rummage sales, which could also lead to a misappropriation of funds.

#### Recommendation:

We recommend that the City pre-number the activity cards at the senior center and that cash receipts and petty cash be kept in a locked drawer at all times. We also recommend that class fees be collected at the front desk only. In addition, we recommend that pre-numbered receipts be utilized at all rummage sales.

#### Management's Response:

Recommendation will be implemented.

#### 2013-09 Finding – Four loans written off without Council approval or notification:

During our audit of loans receivable, we noted four loans that were written off in fiscal year 12/13 without City Council approval or notification.

#### Effect:

Without City Council approval or notification, we are unable to determine if the City Council was aware of these write-offs.

#### Recommendation:

We recommend that all loan write-offs be brought before the City Council for notification, guidance, and approval of writing off, if desired.

#### Management's Response:

City Council will be advised of the need for Finance to write off any bad debt loans due to bankruptcy or foreclosure with a Memo documenting the same.

## STATUS OF PRIOR 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.

Status:

Implemented.

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.

Status:

Implemented.

## STATUS OF PRIOR 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.

Status:

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.

Status:

Not implemented – see Finding 2013-03

## STATUS OF PRIOR 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.

Status:

Not implemented – see Finding 2013-04.

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.

Status:

Implemented.

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.

Status:

Partially implemented – see Finding 2013-06.

## STATUS OF PRIOR YEAR RECOMMENDATIONS (Continued)

### Other Matters (Continued)

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.

Status:

Not implemented – see Finding 2013-07.

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.

Status:

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.

Status:

Not implemented – see Finding 2013-02.