

**CITY OF NEVADA CITY,
CALIFORNIA**



**MANAGEMENT REPORT
FOR THE YEAR ENDED
JUNE 30, 2009**

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**CITY OF NEVADA CITY, CALIFORNIA
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2009**

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TRANSMITTAL LETTER

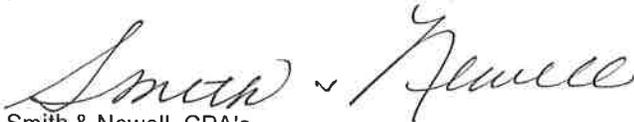
To the Honorable Mayor and Members of the City Council
City of Nevada City
Nevada City, California

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 Nevada City, Nevada City, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Professional standards require that independent auditors communicate with the City about matters that are important to the City's oversight role. We previously reported on internal control and compliance in our 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 and in our Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 dated November 5, 2009.

However, during our audit we became aware of certain other matters that are opportunities for strengthening internal controls and operating efficiency, the following report summarizes our comments and suggestions including immaterial noncompliance and control deficiencies that are not considered significant deficiencies or material weaknesses. In addition, this report provides the status of prior year management comment recommendations.

This report is intended solely for the information and use of management, others within the organization, the City Council and its regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.



Smith & Newell, CPA's
Yuba City, California
November 5, 2009

**CITY OF NEVADA CITY, CALIFORNIA
MANAGEMENT REPORT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2008**

09-MC-01 FUND CLASSIFICATION

Condition

During our audit we noted that the General fund was made up of approximately 10 separate funds. Generally each governmental entity has one General fund which is used to account for all financial resources except those required to be reported in another fund. This is a repeat of a prior year finding.

Cause

All funds have not been analyzed to evaluate whether they are properly classified according to the definitions that are provided in GASB Statement No. 34.

Criteria

GASB Statement No. 34, paragraphs 64 - 73 require governments to report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds.

Effect of Condition

The City may be inappropriately classifying various funds when classification to another fund type would more appropriately reflect the activity.

Recommendation

We recommend that the City analyze all funds to evaluate whether they are properly classified according to GASB Statement No. 34.

Corrective Action Plan

The City will continue to reduce the number of funds that make up the general fund.

09-MC-02 RENTAL INCOME

Condition

We noted that the rental income from City owned property was less than the amount stated in the lease contract. This is a repeat of a prior year finding.

Cause

The City does not have formal policies and procedures regarding rent collection or adequate review procedures to verify that rent received is in the amount specified in the contract.

Criteria

Good accounting procedures require that all revenue, including rental income, be monitored and that approved collection procedures be in place and regularly reviewed.

Effect of Condition

The City was underpaid \$1,650 for one of its rental contracts.

Recommendation

We recommend that the City monitor rental income on City owned property and adopt and follow approved collection procedures to ensure amounts collected are accurate and timely.

CITY OF NEVADA CITY, CALIFORNIA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-MC-02 RENTAL INCOME (CONTINUED)

Corrective Action Plan

The City is resolving the differences.

09-MC-03 INTERNAL CONTROL - SEGREGATION OF DUTIES

Condition

We noted that although two signatures are required for check issuance, the individual responsible for the accounting functions, such as cash account reconciliations and maintaining the City's general ledger, is one of the authorized check signers for the City's bank account.

Cause

Due to limited staff there is not adequate segregation of duties with regard to accounting functions and check signing.

Criteria

Good internal control requires that the individual responsible for the accounting functions not also sign checks.

Effect of Condition

The risk of errors or irregularities occurring and not being detected is increased when there is not adequate segregation of accounting functions and check signing.

Recommendation

We recommend that the person responsible for the accounting functions not be authorized to sign checks.

Corrective Action Plan

The City is changing the signature cards to include the City Manager and Treasurer as authorized signers.

**CITY OF NEVADA CITY, CALIFORNIA
MANAGEMENT REPORT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendation</u>
08-FS-01	<p>FUND CLASSIFICATION</p> <p>Recommendation</p> <p>We recommend that the City analyze all funds to evaluate whether they are properly classified according to GASB Statement No. 34.</p> <p>Status</p> <p>Not Implemented</p>
08-FS-02	<p>RENTAL INCOME</p> <p>Recommendation</p> <p>We recommend that the City monitor rental income on City owned property and adopt and follow approved collection procedures to ensure amounts collected are accurate and timely.</p> <p>Status</p> <p>Not Implemented</p>
08-FS-03	<p>PAYROLL</p> <p>Recommendation</p> <p>We recommend that the Payroll department retain copies of signed form W-4s.</p> <p>Status</p> <p>Implemented</p>
08-FS-04	<p>UTILITY BILLING</p> <p>Recommendation</p> <p>We recommend that all customer billing rates be reviewed for accuracy.</p> <p>Status</p> <p>Implemented</p>
08-FS-05	<p>OUTSTANDING CHECKS</p> <p>Recommendation</p> <p>We recommend that the City review the cash reconciliation for checks outstanding for six months or more and properly resolve each item in a timely manner.</p> <p>Status</p> <p>Implemented</p>

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STATUS OF PRIOR YEAR RECOMMENDATIONS
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<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendation</u>
08-FS-06	<p>CAPITAL ASSETS</p> <p>Recommendation</p> <p>We recommend that the capital asset schedules be reviewed by the various departments each year.</p> <p>Status</p> <p>Implemented</p>
08-FS-07	<p>INTEREST REVENUE</p> <p>Recommendation</p> <p>We recommend that the City apportion interest each quarter on a consistent basis and we further recommend that the City approve a formal policy regarding interest apportionment.</p> <p>Status</p> <p>Implemented</p>
08-FS-08	<p>BUDGET</p> <p>Recommendation</p> <p>We recommend that budget policies be adopted that address all major funds and key components of financial planning.</p> <p>Status</p> <p>Partially Implemented</p>
08-FS-09	<p>AGING OF "DUE FROM OTHER FUNDS"</p> <p>Recommendation</p> <p>We recommend that the City evaluate the balances and determine which ones can be retired and which ones should be reclassified to long term.</p> <p>Status</p> <p>Implemented</p>

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