

**INDEPENDENT AUDITOR'S MANAGEMENT LETTER**

To the City Council  
City of Nevada City  
Nevada City, California

In planning and performing our audit of the financial statements of City of Nevada City, (the City) as of and for the year ended June 30, 2014, 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, 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 an 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.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are described in the attached appendix.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. It is our intention to use our knowledge of the City gained during our work to make comments and suggestions that will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

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



Smith & Newell, CPAs  
Yuba City, California  
January 16, 2015

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**CITY OF NEVADA CITY**  
**Appendix A: Management Letter Comments**  
**For the Fiscal Year Ended June 30, 2014**

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

**Payroll Reporting**

**Condition**

At the time of our fieldwork we noted that the value of the employer provided vehicle for one employee was not included in their W-2 wages.

**Cause**

The City was not aware of the requirement.

**Criteria**

The Internal Revenue Service requires that the value of employer provided transportation be included in employee's W-2.

**Effect of Condition**

The City had not report the value of employer provided vehicles on an employee's W-2 and may be subject to nonreporting penalties.

**Recommendation**

We recommend that the City establish a policy on reporting fringe benefits in employee's W-2.

**Corrective Action Plan**

As of December 31, 2014, the City reviewed the Employer's Tax Guide to Fringe Benefits, Publication 15-B with the employees that are provided City-owned vehicles. The Finance and Administrative staff gathered the 2014 information from the employees with City-owned vehicles and used the Annual Lease Value Method to calculate the employees' taxable income. This information was included on the employees' W-2s. The City will establish and adopt a policy on reporting fringe benefits on employees' W-2s by the end of the 3<sup>rd</sup> quarter of the fiscal year 2014-2015 (March 31, 2015).

**Credit Card Documentation**

**Condition**

At the time of our fieldwork we noted that fuel charges paid with the City credit cards were not identified as to who made the charge and to which vehicle or equipment the charge was related.

**Cause**

Fuel charges were not tracked as to who made the charge and to which vehicle or equipment the charge was related.

**CITY OF NEVADA CITY**  
**Appendix A: Management Letter Comments**  
**For the Fiscal Year Ended June 30, 2014**

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)**

**Credit Card Documentation (Continued)**

**Criteria**

Good internal control requires that adequate documentation be maintained for all City credit card charges.

**Effect of Condition**

The risk of errors or irregularities occurring and not being detected is increased when documentation is not maintained.

**Recommendation**

We recommend that the City review its procedures for documenting charges on the City credit cards.

**Corrective Action Plan**

As of December 31, 2014, the Finance and Administrative staff have provided a vehicle identification number to all City owned vehicles and equipment. By January 31, 2015 the City will cancel all City gas cards that are currently assigned to vehicles and reissue new gas cards to all City employees that require them. These gas card account numbers will be assigned to each of these employees. To adhere to maintaining adequate documentation, the employee that uses his/her assigned gas card will be required to use their designated credit card, enter the vehicle identification number, and the current odometer reading. All of this information will be provided back to the City in the monthly billings from the gas company, which will enable the City to monitor and evaluate fuel charge activity and avoid any errors or irregularities.