

CITY OF VICTORVILLE, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS
YEAR ENDED JUNE 30, 2021



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**INDEPENDENT AUDITORS' 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**

Honorable Mayor and Members of City Council
City of Victorville
Victorville, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Victorville, California (the City), including the Southern California Logistics Airport Authority (SCLAA) and Victorville Water District (District) blended component units, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Victorville's basic financial statements, and have issued our report thereon dated February 25, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Victorville's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 of Victorville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Victorville's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. However, as described below, we did identify certain deficiencies in internal control that we consider to be material weaknesses and 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 a 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 consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-001 through 2021-003 to be material weaknesses.

Honorable Mayor and Members of City Council
City of Victorville

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 described in the accompanying schedule of findings and questioned costs as items 2021-004 and 2021-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Victorville's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Victorville's Response to Findings

The City of Victorville's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Victorville's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Irvine, California
February 25, 2022



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and Members of City Council
City of Victorville
Victorville, California

Report on Compliance for Each Major Federal Program

We have audited the City of Victorville's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2021. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-006 through 2021-008. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City 's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-006 through 2021-008, that we consider to be significant deficiencies.

Honorable Mayor and Members of City Council
City of Victorville

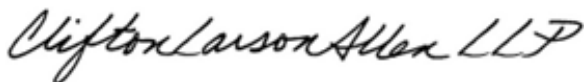
Report on Internal Control over Compliance (Continued)

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 25, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Irvine, California
August 25, 2022

**CITY OF VICTORVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021**

Federal Grantor / Pass - Through Grantor / Program / Cluster Title / Project	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
United States Department of Housing and Urban Development				
Direct Assistance:				
CDBG Entitlement Grants Cluster:				
Community Development Block Grants (CDBG)	14.218		\$ 943,916	\$ 320,157
COVID-19 CDBG			563,284	110,104
Total CDBG Entitlement Grants Cluster			<u>1,507,200</u>	<u>430,261</u>
HOME Investment Partnerships Program	14.239		<u>360,516</u>	<u>-</u>
Total United States Department of Housing and Urban Development			<u>1,867,716</u>	<u>430,261</u>
United States Department of Justice				
Direct Assistance:				
COVID-19 - Coronavirus Emergency Supplemental Funding Program	16.034		<u>1,288</u>	<u>-</u>
Total United States Department of Justice			<u>1,288</u>	<u>-</u>
United States Department of Transportation				
Direct Assistance:				
Airport Improvement Program	20.106		6,900,023	-
COVID-19 Airport Improvement Program	20.106		<u>178,835</u>	<u>-</u>
Total Airport Improvement Program			7,078,858	-
Passed through California Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	DEMO5UBL- 5380(028)	629,568	-
Highway Planning and Construction	20.205	BHLS-5380(026)	<u>131,810</u>	<u>-</u>
Total Highway Planning and Construction Cluster			761,378	-
Total United States Department of Transportation			<u>7,840,236</u>	<u>-</u>

**CITY OF VICTORVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021**

Federal Grantor / Pass - Through Grantor / Program / Cluster Title / Project	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
United States Department of Treasury				
Passed through the State of California:				
COVID-19 Coronavirus Relief Fund	21.019	n/a	1,561,073	-
Passed through the County of San Bernardino:				
COVID-19 Coronavirus Relief Fund	21.019	CARES21- ALLC-VIC	1,561,073	-
COVID-19 Coronavirus Relief Fund	21.019	CARES21- PRJC-VIC	1,466,683	-
Subtotal of Coronavirus Relief Fund			<u>3,027,756</u>	-
Total United States Department of Treasury			<u>4,588,829</u>	-
United States Department of Homeland Security				
Passed through the County of San Bernardino:				
Hazard Mitigation Grant	97.039	DR4344-PL0205	70,203	-
Direct Assistance:				
Assistance to Firefighters Grant	97.044		106,820	-
Passed through the County of San Bernardino:				
2018 Homeland Security Grant Program	97.067	03OE-01-APLR	29,860	
2019 Homeland Security Grant Program	97.067	06CP-01-PORT	22,984	
2019 Homeland Security Grant Program	97.067	03OE-01-ALPR	23,235	-
Total Homeland Security Grant Program			<u>76,079</u>	-
Total United States Department of Homeland Security			<u>253,102</u>	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 14,551,171</u>	<u>\$ 430,261</u>

CITY OF VICTORVILLE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2021

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Victorville (the City) under programs of the federal government as well as federal financial assistance passed through other government agencies for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards with the exception of Assistance Listing 21.019, which follows criteria determined by the Department of Treasury for allowability of costs. Under these principles, certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF VICTORVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weaknesses identified? x yes no
 - Significant deficiencies identified? x yes none reported
3. Noncompliance material to financial statements noted? yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes x no
 - Significant deficiency(ies) identified? x yes none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes no

Identification of Major Federal Programs

Assistance Listing Numbers

14.218
20.106
20.205
21.019

Name of Federal Program or Cluster

Community Development Block Grants Cluster
Airport Improvement Program
Highway Planning and Construction Cluster
Coronavirus Relief Funds

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 yes x no

**CITY OF VICTORVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section II – Financial Statement Findings

2021-001

- Material Weakness in Internal Control over Financial Reporting

Condition: Amounts recorded in the general ledger for the net pension liability and corresponding deferred outflows and inflows of resources and amounts allocated to governmental activities, business-type activities, and enterprise funds for these amounts did not agree individually or in total to the City's calculated pension amounts.

Criteria or specific requirement: The net pension liability and corresponding deferred outflows and inflows of resources should be recorded in the general ledger at amounts that agree to the CalPERS provided amounts for the miscellaneous defined benefit pension plan and to the calculated amounts utilizing the CalPERS tool for the safety cost-sharing defined benefit pension plan. The amounts allocated to City funds should follow the City's historical policy for allocating such amounts, which is based on the current year CalPERS contributions by fund.

Effect: The net pension liability and corresponding deferred outflows and inflows of resources were materially misstated, which resulted in an overall increase to pension expense of approximately \$3.6 million.

Cause: The City made errors when generating the journal entry to record the net pension liability and corresponding deferred outflows and inflows of resources.

Repeat Finding: This finding is a repeat of a finding in the immediately prior year.

Recommendation: We recommend the City implement policies and procedures to ensure the accurate recording of pension amounts in all funds.

Views of responsible officials and planned corrective actions: With staff shortages leading to additional duties being handled by remaining finance staff, second and third-tier reviews were not able to occur while keeping up with the workload. Without the additional reviews on this issue and staff trying to meet the strict deadline, a clerical error occurred where numbers were transposed when generating the journal entry to record the net pension liability. During the fiscal year 2020-21, there were several vacancies in the finance department during most of the year. In May, the vacant accountant position was filled. In June, the vacant finance manager position was filled leaving a vacant finance analyst position and a finance technician position, open at year's end. Additionally, a senior staff member was on medical leave for two months just after year end, leaving remaining staff struggling to handle all duties. Additional staff training involving a three-tier review process will ensure the amounts reflected in the General Ledger tie properly to the actuarial report.

This is not a direct repeat finding as the finding from the prior year was a reconciling of amounts within the funds and this finding was a result of an input error and cross-footing which would have been caught through the three-tier review process being implemented in FY22 with the additional staff training on this complex item.

**CITY OF VICTORVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section II – Financial Statement Findings

2021-002

- Material Weakness in Internal Control over Financial Reporting

Condition: The sanitary enterprise fund had a project in construction in progress that was expensed. Due to audit inquiry, this amount was re-capitalized and depreciation expense was recorded.

Criteria or specific requirement: When capital projects are complete and meet the City's capitalization policy, these projects should be moved to the appropriate asset category, such as infrastructure, and depreciated over the life of the asset. Projects that do not meet the City's capitalization policy should not be recorded as construction in progress and should be expensed as incurred.

Effect: Capital asset balances were increased, and expenses were decreased by approximately \$2 million.

Cause: The City made an error when moving the project out of construction in progress and the review process did not identify this issue.

Repeat Finding: This particular finding was not noted in the immediately prior year; however, findings related to audit adjustments for capital assets were noted in the immediately prior year.

Recommendation: We recommend the City implement policies and procedures to review capital assets at year-end for appropriate classification.

Views of responsible officials and planned corrective actions: This resulted from a staff error in deciding not to capitalize an asset without reviewing the information with supervisor and is being addressed through the training of two new staff members to process and review all assets for upcoming years. Additionally, a second review by management will occur semi-annually prior to audit and during the mid-year budget review for capital improvement projects. Staff handling capital asset review was newly trained the prior year and additional review and corrections were made by prior asset staff at audit time. Reviews during the FY21 mid-year and near year-end showed no issues, but year-end project reviews had not been completed. The staff member departed the City before the audit started in October without the supervisor having time to review asset decisions with him. Staff has been hired to replace the Finance Specialist position and recruitment for the technician vacancy is proceeding. The filling of the vacancies will allow the manager proper time to review work and ensure accuracy of reporting.

**CITY OF VICTORVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section II – Financial Statement Findings

2021-003

- Material Weakness in Internal Control over Financial Reporting

Condition: The City has various projects that are grant funded on a reimbursement basis, which means that the City incurs the cost and then requests for reimbursement from the funding source. During our audit, we reviewed these projects and had numerous inquiries when grant receivables did not equal the unreimbursed eligible expenditures. This led to numerous adjustments to correct the balances.

Criteria or specific requirement: Grant receivables should be equal to the eligible project expenditures less any amounts previously reimbursed by the grantor. For governmental funds, deferred inflows of resources, unavailable revenues, should be recorded instead of revenue when those amounts are received after the City's availability period, which is 60 days.

Effect: Approximate changes in the general ledger balances due to the adjustments are as follows: increase of \$1.0 million in grants receivable, increase of \$0.7 million in deferred inflows of resources, unavailable revenues, and increase of \$0.3 million in grant revenues. In addition, the City's review of two projects under inquiry resulted in a transfer of cash from the Southern California Logistics Airport Authority (SCLAA) enterprise fund to the City's governmental nonmajor other federal grants special revenue fund of \$0.8 million for historical activity that had been recorded in the governmental fund and required reimbursement from the enterprise fund.

Cause: The City did not perform an analysis on each project to verify the balances in these accounts prior to commencement of the audit procedures.

Repeat Finding: Partial repeat of prior year finding number 2020-001.

Recommendation: We recommend the City implement policies and procedures to review all project activity and verify the amounts recorded for grants receivable and deferred inflows of resources, unavailable revenues, are accurate prior to the commencement of the audit.

Views of responsible officials and planned corrective actions: Current year finding is not a repeat of prior year grant receivable recording. This issue stems from the setup of proprietary grants incorrectly when converting to a new ERP system several years ago. When this issue was discovered by auditors at that time, the prior balances were not reflected in the correction, thus leading to cash shortage in governmental fund for grants. Upon detailed review of the proprietary and governmental grants, this was discovered by staff and reviewed with auditor for correction. As this dealt with prior year, it required reporting as a finding and due to the large amount, was decided by the auditor to report as a material weakness. Staff does not feel this is a material weakness as this was a correction discovered by staff and to correct an issue stemming from many years back which results in fairly presenting our statements. Nonetheless, staff has implemented additional procedures and reviews, along with establishing a separate fund for proprietary grants to ensure this will not occur in future years.

**CITY OF VICTORVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section II – Financial Statement Findings

2021-003 (Continued)

COVID-19 and vacancies have taken their toll on the Victorville Finance Department. With the increase in grants and special funding over the past two years, as a result of the pandemic, as well as City staff efforts to secure additional resources for projects, additional staff is being hired and trained to spread the duties ensuring each grant is reviewed on a quarterly basis. Finance staff will also conduct departmental grant meetings with appropriate staff, on a quarterly basis to review activity and follow up on any concerns. Grant policy and procedures are being updated to reflect current regulations and expectations of all involved parties. Currently there are two vacancies within the finance core general ledger division and two new employees since May that are still being trained.

2021-004

- Significant Deficiency in Internal Control over Financial Reporting

Condition: The City has loans due from the SCLAA enterprise fund to the Successor Agency to the Victorville Redevelopment Agency (Successor Agency) totaling approximately \$11 million that were due to be repaid on June 30, 2014. Due to revenue shortfalls, the loans were not repaid as scheduled and there were no amendments to the underlying promissory notes to extend the period of repayment. There are no current repayment terms or plans.

Criteria or specific requirement: Outstanding obligations should have current repayment terms to ensure the legal obligations of the fund are satisfied.

Effect: The loan is not currently being repaid and there are no current plans for future repayment of amounts due to the Successor Agency.

Cause: Altering the repayment terms requires approval by the Oversight Board, which is a long process that has not yet been completed.

Repeat Finding: Repeat of prior year finding number 2020-002.

Recommendation: We recommend the City take the action necessary to amend the promissory notes and extend the period of repayment for a reasonable time period.

Views of responsible officials and planned corrective actions: Management disagrees this loan was not repaid due to revenue shortfalls, but instead, this loan was not repaid due to not having an approved enforceable obligation through the VVEDA Recognized Obligation Payment Schedule (ROPS) process. This loan has always been intended to be repaid with tax increment revenues from the VVEDA Redevelopment Authority that were passed through to SCLAA; however, the RDA Dissolution process complicated our ability to receive the intended funding resources to pay off this loan. Any mention of revenue shortfalls stem from VVEDA and not SCLAA.

**CITY OF VICTORVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section II – Financial Statement Findings

2021-004 (Continued)

Management has made significant progress securing funding to pay off this loan and said repayment will be realized in the annual ROPS approval process. This loan involves funding through the RDA Dissolution process; therefore, it requires approval from the County-Wide Oversight Board (CWOB). Approval was obtained at the January 10, 2022, CWOB meeting and was submitted to Department of Finance for its approval for the VVEDA FY22-23 ROPS funding cycle. Staff is awaiting DOF's approval so the loan can begin repayment in the FY 22-23.

2021-005

- Significant Deficiency in Internal Control over Financial Reporting

Condition: Due to our audit inquiry, the City identified homes or units that were connected to the City's water system during the fiscal year for which connection fees had been collected in advance. These amounts were not recognized as revenue and remained a liability on the water enterprise fund's statement of net position.

Criteria or specific requirement: The City collects connection fees in advance for large capital projects that will result in connections to the City's water lines. As the individual homes or units are connected to the City's system, the amounts collected should be recognized as revenue.

Effect: The liability was decreased, and revenues were increased by approximately \$0.5 million.

Cause: The City did not perform the analysis on the connections for the prepaid water connection fees account until after audit inquiry occurred.

Repeat Finding: Partial repeat of prior year finding number 2020-001.

Recommendation: We recommend the City perform the analysis required on this account prior to the commencement of the audit.

Views of responsible officials and planned corrective actions: Finance staff has been working with water administrative staff regarding this matter and the item has been calendared for review annually to ensure that this is updated. Water administrative staff is working with field staff to ensure they get a record of connections at year end to reconcile and recognize all connections.

**CITY OF VICTORVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section III – Findings and Questioned Costs – Major Federal Programs

2021-006

Federal Agency: United States Department of Housing and Urban Development

Federal Program Name: CDBG Entitlement Grants Cluster: Community Development Block Grant (CDBG)

Assistance Listing Number: 14.218

Federal Award Identification Number and Year: B-20-MC-06-0593; B-19-MC-06-0593; B-18-MC-06-0593; B-17-MC-06-0593; Award Years 2020, 2019, 2018, and 2017

Award Period: Fiscal Year 2020-2021

Type of Finding:

- Significant Deficiency in Internal Control over Compliance (Allowable Costs)
- Other Matter (Allowable Costs)

Criteria or specific requirement: Allowable Costs: Uniform Guidance Title 2, Subtitle A, Chapter II, Part 200, Subpart E, §200.430 allows for budget estimates for personal services to be used for interim accounting purposes provided, among other criteria, that “The non-Federal entity’s system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustments must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.”

Allowable Costs: Uniform Guidance Title 2, Subtitle A, Chapter II, Part 200, Subpart E, §200.430 requires payroll records to support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition: From July 2020 through March 2021, personal services charged were recorded based on budget to the program and an after-the-fact determination of personal services charged to the program was not conducted and adjustments, if necessary, were not recorded. In addition, The City corrected this matter beginning April 2021 and this finding did not apply from April through June 2021. In addition, in some cases, overtime charges occurred that were not supported by timesheets.

Questioned costs: The amount of known salaries and fringe benefits charged to the federal program that were based on budgeted percentages during the fiscal year 2020-2021 is \$236,386. The amount of overtime charged to the federal program that was not supported by timesheets was \$570. The likely amount of questioned costs for overtime charges cannot be determined since there are no records that accurately reflect the actual work performed.

**CITY OF VICTORVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section III – Findings and Questioned Costs – Major Federal Programs

2021-006 (Continued)

Context: Payroll and fringe benefits were charged based on budgeted percentages in 3 of 17 samples tested. There was a total of 20 pay periods where five employees' wages and fringe benefits were charged to the program based on budgeted percentages. Overtime was charged without a supporting timesheet in 2 out of 17 samples tested.

Cause: The City was not aware of the requirement to make an after-the-fact accounting of time spent on the program. The condition was corrected once brought to the attention of City management in the prior year single audit. Overtime charges that occurred without a timesheet was an error not identified or corrected through the internal control process.

Effect: The amount of personal services charged to the Federal award may be over or understated.

Repeat Finding: Repeat of prior year finding number 2020-008.

Recommendation: We recommend that personnel track their actual time spent working on the program (including all other hours worked) so that an after-the-fact adjustments can be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated. This recommendation was implemented by the City beginning April 2021. We recommend that the City implement policies and procedures to review all charges to federal awards, including overtime, to verify amounts are supported by timesheets that are approved by appropriate supervisors.

Views of responsible officials: Since early 2021, City Staff funded by CDBG/HOME entitlement grants have utilized electronic timesheets to track time spent working on the various programs by adjusting their weekly time entries to reflect actual time spent on a specific eligible activity. In some cases, these activities are also tracked by a Journal Entry (JE) with a description of the eligible activities and an hourly breakdown provided to supplement the JE. These tracking methods ensure amounts charged to the Federal awards are accurate, allowable, and properly allocated. Additionally, overtime hours inadvertently entered by Code Enforcement Staff has been addressed by Code Enforcement Supervisors who are communicating with their employees to ensure they are tracking time and completing electronic time sheets correctly. All coding changes performed by Finance department personnel will be sent via email for approval by supervisors until the Payroll division can implement new procedures through the electronic timesheet system that will route approvals to supervisors through the established workflow. Additionally, case management / GIS system adjustments at a parcel level will be developed to further improve data correlation between claimed staff hours and program specific locations.

2021-007

Federal Program Name: CDBG Entitlement Grants Cluster: Community Development Block Grant (CDBG)

Assistance Listing Number: 14.218

Federal Award Identification Number and Year: B-20-MC-06-0593; B-19-MC-06-0593; B-18-MC-06-0593; B-17-MC-06-0593; Award Years 2020, 2019, 2018, and 2017

**CITY OF VICTORVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section III – Findings and Questioned Costs – Major Federal Programs

2021-007 (Continued)

Award Period: Fiscal Year 2020-2021

Type of Finding:

- Significant Deficiency in Internal Control over Compliance (Allowable Costs)
- Other Matter (Allowable Costs)

Criteria or specific requirement: Allowable Costs: Uniform Guidance Title 2, Subtitle A, Chapter II, Part 200, Subpart E, §200.430 requires payroll charges to be supported by a system of internal control, which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

Condition: After the findings the City received in the prior year audit, the City revised the internal controls over payroll to require a supervisor's review and approval of hours charged to federal awards on the electronic timesheets, which is in line with the requirements of the Uniform Guidance. In 2 out of 17 payroll transactions tested, there was no supervisor approval of hours charged to the federal award, which was a lack of internal controls.

Questioned costs: None since hours worked were documented (except as noted in finding 2021-005), but the support for the supervisor approval was not able to be inspected and verified.

Context: The payroll charges without supervisor approval totals \$3,980 and occurred in 2 out of 17 transactions tested.

Cause: Upon receiving the prior year finding, the City was not able to implement the payroll internal control changes for all transactions in the next fiscal year since part of the year had passed before the audit procedures could be performed.

Effect: The payroll records are not in compliance with the requirements of the Uniform Guidance.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that the City ensure all timesheets require approval of hours charged to federal awards by a supervisor so that the City is in compliance with the Uniform Guidance payroll documentation requirements.

Views of responsible officials: Since early 2021, City Staff funded by CDBG/HOME entitlement grants have utilized electronic timesheets to track time spent working on the various programs by adjusting their weekly time entries to reflect actual time spent on a specific eligible activity. In some cases, these activities are also tracked by a Journal Entry (JE) with a description of the eligible activities and an hourly breakdown provided to supplement the JE. These tracking methods ensure amounts charged to the Federal awards are accurate, allowable, and properly allocated. Additionally, both of the methods above require supervisor approval and all City Staff approving electronic time sheets related to CDBG/HOME grants have been instructed to ensure time entries are correct and eligible, with technical assistance provided by the City's CDBG/HOME grant administration Staff as needed. All coding changes performed by Finance department personnel will be sent via email for approval by supervisors until the Payroll division can implement new procedures through the electronic time sheet system that will route approvals to supervisors through the established workflow.

**CITY OF VICTORVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section III – Findings and Questioned Costs – Major Federal Programs

2021-008

Federal Program Name: CDBG Entitlement Grants Cluster: Community Development Block Grant (CDBG)

Assistance Listing Number: 14.218

Federal Award Identification Number and Year: B-20-MC-06-0593; B-19-MC-06-0593; B-18-MC-06-0593; B-17-MC-06-0593; Award Years 2020, 2019, 2018, and 2017

Award Period: Fiscal Year 2020-2021

Type of Finding:

- Significant Deficiency in Internal Control over Compliance (Reporting)
- Other Matter (Reporting)

Award Period: Fiscal Year 2020-2021

Criteria or specific requirement: Reporting: Prime recipients awarded a federal grant greater than or equal to \$30,000 are subject to Federal Funding Accountability and Transparency Act (FFATA) subaward reporting requirements as outlined in the Office of Management and Budgets guidance issued August 13, 2020. The prime recipient is required to file a FFATA subaward report by the end of the month following the month in which the prime recipient awards any sub-grant greater than or equal to \$30,000.

Condition: The City is a prime recipient and provided subawards totaling \$192,538 to five recipients, each over the \$30,000 reporting threshold. No FFATA reports were filed for these five recipients.

Questioned costs: None.

Context: The City is a prime recipient and provided subawards totaling \$192,538 to five recipients, each over the \$30,000 reporting threshold. No FFATA reports were filed for these five recipients.

Cause: The City was not aware of the FFATA reporting requirements.

Effect: The City is not in compliance with the FFATA reporting requirements.

Repeat Finding: Not a repeat finding.

Recommendation: We recommend that the City implement policies and procedures to ensure FFATA reporting is completed, reviewed, approved, and filed for all federal awards when subawards are made over the reporting threshold.

**CITY OF VICTORVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Section III – Findings and Questioned Costs – Major Federal Programs

2021-008 (Continued)

Views of responsible officials: In May 2022, it was brought to the City's CDBG/HOME grant staff's attention that subawards over the amount of \$30,000 must be reported under the Federal Funding Accountability and Transparency Act. Staff contacted the City's Department of Housing and Urban Development (HUD) representative to confirm Community Development Block Grant subawards must be entered into the Subaward Reporting System. The HUD representative confirmed this requirement. The City's CDBG/HOME grant staff will begin regular reporting in the system quarterly starting with the first quarter of the 2022-2023 fiscal year and will retroactively report for fiscal year 2021-2022. In order for subawards to be entered into the system, the sub-awardee must possess a Unique Entity ID and other pertinent data that is collected with the initial grant application, which had not previously been collected in full but will be collected at the subrecipient application stage beginning with the 2022-2023 fiscal year.



**CITY OF VICTORVILLE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2021**

United States Department of Housing and Urban Development

The City of Victorville respectfully submits the following summary schedule of prior audit findings for the year ended June 30, 2021.

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The finding numbers are numbered consistently with the numbers assigned in the prior year.

FINANCIAL STATEMENT FINDINGS

2020-001

Condition: For the year ended June 30, 2020, the audit detected several items in the accounting records that required adjustment including the following:

- A reduction of the developer advances liability regarding water meter and connection fees for refunds made by the City during the fiscal year.
- Recording a note receivable and reducing expenditures for a loan made by the City.
- Adjustments to grants receivable and unavailable revenue as follows:
 - Move cash received and the offsetting decrease in grants receivable from a governmental fund to a proprietary fund where the grant activity is recorded.
 - Reduce deferred inflows of resources, unavailable revenue, and increase revenue in the proprietary fund for which unavailable revenue is not applicable.
 - Reduce grants receivable and deferred inflows of resources, unavailable revenue, for prior year balances that had been collected in the current year.
 - The previous comment resulted in a review of current year project activity that increased grants receivable and deferred inflows of resources, unavailable revenue.
- Increase net pension liability, pension expense, and deferred outflows and inflows of resources related to pension amounts to agree to the pension amounts provided by CalPERS and the City's calculation.
- Adjustments to capital assets as follows:
 - Increase construction in progress to reflect current year additions when amounts were originally reported at zero.
 - Reclassify completed projects from construction in progress to the appropriate asset category and recognize depreciation expense in both governmental and proprietary funds.
 - Increase depreciation expense for amounts classified as deletions that did not represent assets that had been disposed.

Status: See partial repeat of comment in current year findings 2021-002 and 2021-004.

2020-002

Condition: The City has a loan from the Southern California Logistics Airport Authority (SCLAA) to the Successor Agency to the Victorville Redevelopment Agency (Successor Agency) totaling \$10,278,395, which, per the terms of the note, was to be repaid on June 30, 2014. Due to revenue shortfalls, the loans were not repaid as scheduled and there were no amendments to the underlying promissory notes, extending the period of repayment.

Status: See current year finding 2021-003.

2020-003

Condition: During our review of deposits held by the City, we noted some deposits in which the City had commented that the project was complete or the amounts can be returned; however, these funds have not yet been remitted to the depositor.

Status: Corrected.

2020-004

Condition: We noted that the April 2020 bank reconciliation process was not completed and reviewed by June 2020, which is a lack of timeliness.

Status: Corrected.

2020-005

Condition: During our review of compensated absences, we noted 42 employees with vacation accrual hours as of June 30, 2020, that were in excess of the largest maximum accrual permitted of 400 hours.

Status: Corrected.

2020-006

Condition: During our review of the fund balances as of June 30, 2020, we noted that the Nonmajor Other Federal Grants Special Revenue Fund had a deficit of \$2,214,599 for which only \$543,364 was categorized as deferred inflows of resources, unavailable, that would address the deficit.

Status: Corrected.

2020-007

Condition: The City's purchasing policy is less restrictive than the Uniform Guidance in that the policy only requires quotes for expenditures in excess of \$5,000, which is higher than the \$3,500 limit required by the Uniform Guidance. No issues were noted as a result of testing only that the policies have not been updated for the Uniform Guidance. The City did not have the above written policies.

Status: The City updated their purchasing policy to address this comment.

2020-008

Condition: Personal services charged were recorded based on budget to the program and an after-the-fact determination of personal services charged to the program was not conducted and adjustments, if necessary, were not recorded.

Status: Partially Corrected. The City implemented new procedures beginning April 2021 to track employees time charged to the program directly. Some charges already occurred before changes could be made in the next fiscal year. See repeat finding number 2021-005.

2020-009

Condition: City employee wages and fringe benefits are charged to grants or other general ledger accounts based on a budgeted percentage. City employee hours are tracked and documented using exception-based reporting where only sick, vacation, other leave, and hours worked outside of the normal budgeted account are tracked and documented in a timesheet. In fiscal year 2019-2020 payroll and fringe charged to CDBG included some employees that tracked actual hours worked and recorded these hours in a timesheet; however, the timesheet did not also include the actual hours worked for the budgeted account.

Status: Corrected. The City's timesheets were revised to include all hours worked.

If the United States Department of Housing and Urban Development has questions regarding the schedule, please call Kim Scott, Finance Manager, at 760-955-5081.

Signature:  _____

Name and Title: John Mendiola, Finance Director/City Treasurer



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