

CITY OF VICTORVILLE
Victorville, California

Single Audit Report on Federal Awards

Year ended June 30, 2014

CITY OF VICTORVILLE

Single Audit Report on Federal Awards

Year ended June 30, 2014

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Honorable Mayor and City Council
City of Victorville
Victorville, California

**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***

Independent Auditor's Report

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Victorville, California (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A significant deficiency is defined to be 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. The matters identified as 2014-01 through 2014-05 in the accompanying schedule of findings and questioned costs conform to this definition.

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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 determination of financial statement amounts. 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.

City's Responses to Findings

The City's written responses to the matters communicated herein have not been subjected to the audit procedures applied to the audit of the financial statements; accordingly, we express no opinion on these responses.

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.

A handwritten signature in black ink, appearing to read "Mayor Hoffman" followed by some illegible initials or a date.

Irvine, California
February 12, 2015



Honorable Mayor and City Council
City of Victorville
Victorville, California

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 OMB Circular A-133

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited the City of Victorville's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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 the major federal program. However, our audit does not provide a legal determination City's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Victorville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the City of Victorville 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 OMB Circular A-133, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the City of Victorville as of and for the year ended June 30, 2014, and have issued our report thereon dated February 12, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 financial statements.

City Council
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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 financial statements or to the 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Mayor Holloman McCann P.C.

Irvine, California
February 12, 2015

CITY OF VICTORVILLE
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Program Identification Number	Federal Domestic Assistance Number	Federal Financial Assistance Expenditures
<u>U.S. Department of Commerce</u>			
Direct assistance:			
Economic Development - Support for Planning Organizations	07-49-06066	11.302	\$ 41,315
Total - U.S. Department of Commerce			<u>41,315</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct assistance:			
Community Development Block Grant	*	14.218	1,030,267
Neighborhood Stabilization Program (NSP1 Loan Expenditures)	B08-MN-06-0523	14.218	1,098,541
Home Investment Partnerships Program	*	14.239	260,761
Neighborhood Stabilization Program (NSP3)	B11-MN-06-0523	14.254	882,407
Total - U.S. Department of Housing and Urban Development			<u>3,271,976</u>
<u>U.S. Department of Justice</u>			
Passed through the County of San Bernardino:			
Edward Byrne Memorial Justice Assistance Grant Program	06-166	16.804	62,976
Total - U.S. Department of Justice			<u>62,976</u>
<u>U.S. Department of Transportation</u>			
Direct Assistance:			
Federal Aviation Association:			
Airport Improvement Program	3-06-0359-20	20.106	12,271
Airport Improvement Program	3-06-0359-21	20.106	65,970
Subtotal			<u>78,241</u>
Passed through the County of San Bernardino:			
Highway Planning and Construction:			
Bear Valley Road OH over BNSF Railroad	BHLS-5380(026)	20.205	201,941
Federal Transportation Improvement Program	CML-5830(027)	20.205	1,006,507
Federal Demonstration/ Highway Planning	DEMO4L-5380(10)/(028)	20.205	1,213,609
Federal Surface Transportation	DEMO4L-5380(10)	20.205	95,463
State Transportation Improvement Program (STIP)	DEMO4L-5380(10)	20.205	1,099,130
Emergency Relief Program**	ER-4809(001)	20.205	1,037,038
Subtotal			<u>4,653,688</u>
Total - U.S. Department of Transportation			<u>4,731,929</u>
Total Expenditures of Federal Awards			<u>\$ 8,108,196</u>

* - Not Available

** - Incurred in prior years. Not identified as federal funding until 2014.

CITY OF VICTORVILLE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Victorville, California ("City") that are reimbursable under federal programs of federal agencies providing financial assistance. For purposes of this schedule, financial assistance includes federal financial assistance received directly from a federal agency and federal funds received indirectly by the City from non-federal entities. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized and the portion of program expenditures that were funded with other state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal or selected state program, as required by these agencies.

(c) Subrecipients

For the fiscal year ended June 30, 2014, the City made no payments to subrecipients.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(A) Summary of Auditors' Results

1. An unmodified report was issued by the auditors on the financial statements of the auditee.
2. Five significant deficiencies and no material weaknesses in internal control over financial reporting based upon our audit of the financial statements of the auditee were reported.
3. No instances of non-compliance were reported.
4. No significant deficiencies or material weaknesses in internal control over major programs of the auditee were reported
5. An unmodified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major program of the auditee was the Department of Transportation passed through the California Department of Transportation via San Bernardino County – Highway Planning and Construction Program, CFDA No. 20.205.
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee did not meet the criteria to be classified as a low risk auditee for the year ended June 30, 2014 for purposes of major program determination.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

2014-01 System Access Rights Regarding Employee Master Files

The City employee responsible for processing payroll also has the system access rights that would allow her the ability to change employee master files (pay rates, etc.). Best practice provides that the payroll accountant not have the ability to change employee master files in the system in order reduce his or her ability to perpetuate fraud.

Recommendation

We recommend that the user access rights of the employee that processes payroll be reviewed to ensure that this person does not have the ability to create or delete employees, change the bank accounts to which direct deposit transactions are deposited, or make other changes to employee master files.

Management's Comments Regarding Corrective Actions Planned or Taken

This issue has been resolved and safeguards have been put into place by IT. The City employees responsible for processing payroll no longer have the ability to change

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

2014-01 System Access Rights Regarding Employee Master Files, (Continued)

employee master files, including the ability to create or delete employees. The payroll employees do have the ability to change the bank accounts to which direct deposit transactions are deposited since it is a payroll function to set up direct deposit for employees. A safeguard within the system that may not have been communicated is that the direct deposit file that is transmitted to the bank includes the name of the employee along with the account number. If the name and account number do not match the bank records, the bank will reject the direct deposit transaction and the money will not be transferred to that account. Employee names are only entered by the HR Division. Payroll does not have access to adding employee names.

2014-02 Deferred Revenue Review and Reconciliation

During the year adjustments were made to Deferred Revenue and associated accounts as a part of the audit process. Additionally, issues associated with Deferred Revenue have resulted in certain funds of the City that are primarily funded by grant revenues to have a deficit in fund balance. Ordinarily, in grant funds, revenues are recognized in amounts equal to reimbursable expenditures incurred, resulting in a minimal fund balance. When grant reimbursement is not received in a timely manner, deferred revenue (unavailable revenues) may need to be recorded for amounts collected after the availability period.

Recommendation

We recommend that the City perform a review and reconciliation of Deferred Revenue subsidiary ledgers to the General Ledger. The City should review to ensure that amounts received are recorded as unearned revenue for those grants where funding has been received in advance of allowable expenditures. Additionally, we recommend that the City analyze those funds with fund deficits to ascertain the cause of the fund deficit. In some cases, fund deficits may be due to departments not submitting reimbursement claims to the funding agency in a timely manner. If fund deficits are due to unreimbursable expenditures, appropriate transfers should be recorded to recognize the subsidy by other funds of the City for these unreimbursed costs.

Management's Comments Regarding Corrective Actions Planned or Taken

Finance Staff reviews all accounts on a quarterly basis for activity and coordinates with the grant managers in the departments for all claims filed. In addition, finance staff will quarterly reconcile all grants to the auditor's analytic form to ensure that all grants are balanced for ease of reconciliation at year end so that all entries are done before the audit is performed. The current fund deficits are primarily the result of the final claims for Nisquali Interchange project which took longer to be filed by the Engineering consultant than expected and an unexpected transition in the Claims approver for HUD grants which resulted in the claims being unable to be approved for many weeks while the new approver was being set up in the HUD system.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

2014-03 Analysis of Accumulated Depreciation

Auditing standards require that we communicate to you adjustments that were made as a part of the audit process. During the year, adjustments were identified as a result of our audit tests of accumulated depreciation.

Recommendation

We recommend that prior to the year end audit, the City ensure that the ending balance of accumulated depreciation reflected in its general ledger agree with the amounts reflected in the City's subsidiary ledger (detailed listing) maintained for its capital assets. The City should also satisfy itself that changes in accumulated depreciation from the prior year are the sole result of current year depreciation expense and deletions associated with bona fide dispositions of assets during the year.

Management's Comments Regarding Corrective Actions Planned or Taken

Staff currently reviews all assets on a quarterly basis and reviews assets with departments on a yearly basis to ensure that all disposals and transfers are done in a proper and timely manner. We have resolved the discrepancy that we identified with the depreciation and taken steps in our procedures of reconciliation that are performed after yearly depreciation is run before the auditors arrive to ensure that this issue does not occur in the future.

2014-04 Pledge Revenue Shortfalls, Underfunded Reserves, and Bond Defaults

Because of recurring declines in assessed valuation in recent years, the Southern California Logistics Airport Authority (SCLAA) has received less tax increment revenue than was necessary to properly meet its debt obligations. As in prior years, during the fiscal year ended June 30, 2014, SCLAA-pledged revenues for bonded debt fell below the amounts required by bond covenants. Additionally, bond reserve accounts fell below the amounts required by bond covenants for Subordinate Tax Allocation Revenue Bonds (Series 2006, Series 2007, and Series 2008A).

In addition, on December 1, 2013, the SCLAA defaulted on the principal and interest payment of \$2,548,746 for SCLAA Taxable Subordinate Revenue bonds, 2006, the principal and interest payment of \$1,660,961 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2007 and the principal payment of \$70,000 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2008A. Additionally, on June 1, 2014 the SCLAA defaulted on the interest payment of \$1,142,705 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2007.

Recommendation

We recommend that the City continue its efforts to closely monitor and properly report insufficiencies of pledged revenues with the related impacts on the ability of the SCLAA to meet reserve requirements and annual debt service requirements with respect to airport authority bonds.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

2014-04 Pledge Revenue Shortfalls, Underfunded Reserves, and Bond Defaults, (Continued)

Management's Comments Regarding Corrective Actions Planned or Taken

The December 1, 2013, SCLAA default on principal and interest payment of \$2,548,746 for SCLAA Taxable Subordinate Revenue Bonds, 2006 was cured before June 30, 2014. The Redevelopment Agency (RDA) dissolution process has created cash flow issues. Revenue distributed to the City's Successor Agency in September from Victor Valley Economic Development Authority (VVEDA) is designated for principal and interest payments due in December; however, this payment is the smaller of the two distributions. Revenue distribution to the City's Successor Agency in March is the larger distribution and is to provide interest payments due on June 1. This prevents SCLAA from making payments of principal and interest for SCLAA Taxable Subordinate Revenue Bonds, 2006 on a timely basis.

There has been a significant decrease in assessed value for the Victor Valley Redevelopment Project Area. This decrease is the result of the Great Recession. SCLAA will closely monitor the sufficiency of pledged revenues and reserve requirements; however, pledged tax increment revenue is not expected to exceed total debt service obligations for non-housing subordinate bonds until fiscal year 2016-2017.

2014-05 Vacation Leave Policy

There is currently an inconsistency between the City's formal Vacation Leave Policy and its actual practice with respect to such balances. As a matter of practice, the City typically pays vacation leave balances in excess of certain limits set forth in the City's Vacation Leave Policy.

Recommendation

We recommend that the City change its practice or amend its Vacation Leave Policy to more accurately reflect its intentions with regard to limits relating to this benefit.

Management's Comments Regarding Corrective Actions Planned or Taken

The City is in the process of revising its Personnel Rules and Regulations. Vacation Leave Policy is being reviewed at this time and a determination will be made as to whether to amend the policy or encourage employees over their maximum to either take vacation or cash out hours.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

No A-133 Findings or Questioned Costs

CITY OF VICTORVILLE

Summary Schedule of Prior Audit Findings

Year ended June 30, 2014

(A) Summary of Prior Audit Findings and Current Status

All of the audit findings from the Year ended June 30, 2013 are considered resolved with the exception of 2013-01, 2013-02, 2013-04 and 2013-06 which have been repeated in the Schedule of Findings and Questioned Costs.