

**CITY OF VICTORVILLE**  
**Victorville, California**

**Single Audit Report on Federal Awards**

Year ended June 30, 2015

**CITY OF VICTORVILLE**

Single Audit Report on Federal Awards

Year ended June 30, 2015

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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, 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, 2015, 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 2, 2016.

**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.

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. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 2015-01 that we consider to be a significant deficiency.

### **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 two instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are identified as 2015-02 and 2015-03 in the schedule of findings and questioned costs.

### **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 blue ink that reads "Davis Lane" followed by a stylized flourish.

Irvine, California  
February 2, 2016

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, 2015. 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 Programs***

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, 2015.

## **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, 2015, and have issued our report thereon dated February 2, 2016, 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.

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.



Irvine, California  
February 2, 2016

**CITY OF VICTORVILLE**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2015

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	07-49-05916	11.302	\$ 1,375,764
Total - U.S. Department of Commerce			<u>1,375,764</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct assistance:			
Community Development Block Grant	*	14.218	1,210,800
Neighborhood Stabilization Program (NSP1 Loan Expenditures)	B08-MN-06-0523	14.218	269,280
Home Investment Partnerships Program	*	14.239	107,360
Neighborhood Stabilization Program (NSP3)	B11-MN-06-0523	14.254	197,643
Total - U.S. Department of Housing and Urban Development			<u>1,785,083</u>
<u>U.S. Department of Justice</u>			
Passed through the County of San Bernardino:			
Edward Byrne Memorial Justice Assistance Grant Program	2012-DJBX-1013	16.738	18,925
Total - U.S. Department of Justice			<u>18,925</u>
<u>U.S. Department of Transportation</u>			
Direct Assistance:			
Federal Aviation Association:			
Airport Improvement Program	3-06-0359-21	20.106	1,792,758
Airport Improvement Program	3-06-0359-22	20.106	525
Subtotal			<u>1,793,283</u>
Passed through the County of San Bernardino:			
Highway Planning and Construction:			
Bear Valley Road OH over BNSF Railroad	BHLS-5380(026)	20.205	166,707
Federal Transportation Improvement Program	CML-5830(027)	20.205	125,735
Federal Demonstration/ Highway Planning	DEMO4L-5380(10)/(028)	20.205	890,298
Subtotal			<u>1,182,740</u>
Total - U.S. Department of Transportation			<u>2,976,023</u>
<u>Department of Homeland Security</u>			
Direct Assistance:			
Assistance for Firefighters Grant	EMW-2013-FO-06436 (FV-02233)	97.044	500,813
Flood Mitigation Assistance	PA-09-CA-1884-RPA-0009	97.029	2,068
Total - Department of Homeland Security			<u>502,881</u>
Total Expenditures of Federal Awards			<u>\$ 6,658,676</u>

\* - Multiple programs



## CITY OF VICTORVILLE

### Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

(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

During the fiscal year ended June 30, 2015, the City of Victorville disbursed \$99,768 of federal awards to subrecipients under the Department of Housing and Urban Development - Community Development Block Grants/Entitlement Grants Program - CFDA No. 14.218/14.254.

## CITY OF VICTORVILLE

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

#### (A) Summary of Auditors' Results

1. An unmodified report was issued by the auditors on the financial statements of the auditee.
2. One significant deficiency and no material weaknesses in internal control over financial reporting based upon our audit of the financial statements of the auditee were reported.
3. Two instances of non-compliance were required to be reported in accordance with Governmental Auditing Standards.
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 programs of the auditee were the Department of Housing and Urban Development - Community Development Block Grants/Entitlement Grants Program - CFDA No. 14.218/14.254, Department of Commerce – Economic Development - Support for Planning Organization - CFDA No. 11.302, and Department of Homeland Security – Assistance for Firefighters Grant – CDFA No. 97.044.
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, 2015 for purposes of major program determination.

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

##### 2015-01 Adjusting Journal Entries

Auditing standards require auditors to include as an internal control weakness material audit adjustments detected during the audit. For the year ended June 30, 2015, material adjustments detected by the audit process were as follows:

- An entry to remove expenses recorded in the Solid Waste Fund pertaining to a prior period, and record an adjustment to Net Position totaling \$604,806.
- An entry to correct depreciation expense in the Victorville Water District Fund, Southern California Logistics Airport Authority Fund, and Sanitary Fund as an adjustment to Net Position totaling \$2,355,326.

## CITY OF VICTORVILLE

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

#### Recommendation

An important element of controls over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This will help to reduce the risk of material misstatement.

#### Management's Comments Regarding Corrective Actions Planned or Taken

The adjustment to Solid Waste fund was for fiscal year 2014 COLA increased from the contractor. The City did not receive and pay the bill until fiscal year 2015. Additional control and training will be made to staff in recognizing an expenditure that is out of the ordinary.

The adjustment to the depreciation expense in fiscal year 2015 was to correct an error that has been carried forward since the software conversion. Communication has been made to the auditor regard the correction. Extra steps have been added to the capital assets reconciliation to reduce error in depreciation calculation.

#### 2015-02 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, 2015, 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, 2014, the SCLAA defaulted on the principal and interest payment of \$2,572,269 for SCLAA Taxable Subordinate Revenue bonds, 2006, the principal and interest payment of \$1,672,705 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2007 and the principal payment of \$80,000 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2008A. Additionally, On December 1, 2015, the SCLAA defaulted on the principal and interest payment, of \$1,715,961 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2007 and the principal and interest payment of \$250,063 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2008A.

#### 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, 2015

#### Management's Comments Regarding Corrective Actions Planned or Taken

The December 1, 2014, SCLAA default on principal and interest payment of \$2,548,746 for the SCLAA Taxable Subordinate Revenue Bonds, 2006 was cured before June 30, 2015. The Redevelopment Agency (RDA) dissolution process has created cash flow issues. Revenue distributed to the City's Successor Agency in August 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 April is the larger distribution and is to provide interest payments due on June 1. This has prevented SCLAA from making payments of principal and interest for SCLAA Taxable Subordinate Revenue Bonds, 2006 on a timely basis. However, for the last debt service payment due December 1, 2015, enough tax increment revenue was received, along with drawing a portion of the reserves, to pay the full amount of the principal and interest due for the SCLAA Taxable Subordinate Revenue Bonds, 2006.

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 continue to closely monitor and report insufficiencies 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.

#### 2015-03 Housing Successor Agency Disclosure Requirements

In 2012, in accordance with Assembly Bill 1X26, the redevelopment agency of the City of Victorville was dissolved. Upon dissolution, the City Council of the City of Victorville resolved to retain the housing functions of the former redevelopment agency (the Housing Successor Agency). By doing so the new Housing Successor Agency is responsible for compliance with the California Health and Safety Code section 34176.1(f). Section 34176.1(f) requires that the Successor Agency provide to its governing body, and post on its internet website, certain financial and program related information. Such information had not been completely disclosed as of June 30, 2015.

#### Recommendation

We recommend that the Housing Successor Agency make the necessary disclosure requirements in accordance with Health and Safety Code Section 34176.1 (f).

#### Management's Response Regarding Corrective Action

Due to a turnover in Housing Successor Agency staff, management was unaware of the reporting and disclosure requirements from Health and Safety Code Section 34176. Management will comply with these requirements no later than June 30, 2016.

**CITY OF VICTORVILLE**

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

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

There are no auditors' findings to be reported in accordance with paragraph .510(a) of OMB Circular A-133.

**CITY OF VICTORVILLE**

Summary Schedule of Prior Audit Findings

Year ended June 30, 2015

(A) Summary of Prior Audit Findings and Current Status

2014-01 System Access Rights Regarding Employee Master Files

This item has been resolved.

2014-02 Deferred Revenue Review and Reconciliation

This item has been resolved.

2014-03 Analysis of Accumulated Depreciation

This item has been repeated within 2015-01 in the current year.

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

This item has been repeated as 2015-02 in the current year.

2014-05 Vacation Leave Policy

This item has been resolved.