

CITY OF HESPERIA, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS
JUNE 30, 2016

CITY OF HESPERIA

TABLE OF CONTENTS

June 30, 2016

	<u>Page Number</u>
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 <i>Government Auditing Standards</i>	1 - 2
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance	3 - 5
Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs:	
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8 - 11
Summary Schedule of Prior Audit Findings	12

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*

To the Members of City Council
City of Hesperia, 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 Hesperia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Hesperia's basic financial statements and have issued our report thereon dated January 25, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hesperia'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 of Hesperia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hesperia'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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hesperia'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 is required to be reported under *Government Auditing Standards*.

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.

White Nelson Nick Evans LLP

Carlsbad, California
January 25, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY UNIFORM GUIDANCE

To the Members of the City Council
City of Hesperia, California

Report on Compliance for Each Major Federal Program

We have audited the City of Hesperia's 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 of Hesperia's major federal programs for the year ended June 30, 2016. The City of Hesperia'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 of Hesperia'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 of Hesperia'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 of Hesperia's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Hesperia 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, 2016.

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 Finding Numbers 2016-001, 2016-002, and 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of the City of Hesperia 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 of Hesperia'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 the 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 of Hesperia'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.

Report on Schedule of Expenditures of Federal Awards Required by 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 of Hesperia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Hesperia's basic financial statements. We issued our report thereon dated January 25, 2017, 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.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance (Continued)

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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

White Nelson Dick Evans LLP

Carlsbad, California

March 30, 2017, except for the Schedule of Expenditures of Federal Awards, to which the date is January 25, 2017.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF HESPERIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2016

Federal Grantor / Pass - Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Housing and Urban Development:</u>				
<i>Direct Assistance:</i>				
Community Development Block Grant - Entitlement	14.218	B-13-MC-06-0578	\$ 326,313	\$ -
Community Development Block Grant - Entitlement	14.218	B-15-MC-06-0578	647,597	118,523
Community Development Block Grant - Entitlement	14.218	B-08-MN-06-0509	147,148	-
Total U.S. Department of Housing and Urban Development			<u>1,121,058</u>	<u>118,523</u>
<u>U.S. Department of Justice:</u>				
<i>Passed through the County of San Bernardino:</i>				
Edward Byrne Memorial Justice Assistance Grant	16.738	2012-DJ-BX-1013	11,913	-
Total U.S. Department of Justice			<u>11,913</u>	<u>-</u>
<u>U.S. Department of Homeland Security:</u>				
<i>Passed through the County of San Bernardino:</i>				
Emergency Management Performance Grant	97.042	EMW-2013-EP-000	18,691	-
Total U.S. Department of Homeland Security			<u>18,691</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
<i>Passed through the California Department of Transportation:</i>				
Safe Routes to School	20.205	065452016LU2E11	49,205	-
Total US Department of Transportation			<u>49,205</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 1,200,867</u>	<u>\$ 118,523</u>

See Notes to Schedule of Expenditures of Federal Awards.

CITY OF HESPERIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2016

1. SCOPE OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal financial assistance programs of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements. All financial assistance received directly from federal agencies and federal financial assistance passed through other government agencies to the City is included in the accompanying Schedule. 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).

2. BASIS OF ACCOUNTING:

The accompanying Schedule is presented using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in the Note I of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE:

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

4. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the City's Comprehensive Annual Financial Report.

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with amounts reported in federal financial reports.

6. CONTINGENCIES:

Under the terms of federal grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

A. SUMMARY OF AUDITORS' RESULTS:

Financial Statements:

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance required to be reported in accordance with *Government Auditing Standards*:

yes no

Federal Awards:

Internal control over major programs:

- Material weakness identified? yes no
- Significant deficiencies identified? yes none reported

Types of auditors' report issued on compliance for major programs:

- Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance

yes no

See Finding Number 2016-001
See Finding Number 2016-002
See Finding Number 2016-003

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.218

U.S. Department of Housing and Urban Development,
Community Development Block Grant – Entitlement

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

\$ 750,000

Audit qualified as low-risk auditee?

yes no

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2016

B. FINDINGS – FINANCIAL STATEMENTS AUDIT:

None noted.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS:

Finding Number 2016-001 – Program Income

Major Program: U.S. Department of Housing and Urban Development – Community Development Block Grant – Entitlement (B-15-MC-06-0578), (B-13-MC-06-0578) – CFDA # 14.218

Criteria: Per Section 200.307 of the Uniform Guidance, the City must disburse funds available from program income before requesting additional cash payments.

Condition: The City did not exhaust available program income before requesting additional CDBG cash payments.

Cause: The City’s Economic Development staff is supposed to notify the City’s consultant when program revenue is received and that didn’t happen with program revenue received in May 2016.

Effect: The City is not in compliance with program income compliance requirements.

Questioned Cost: None noted.

Context: The City received two program revenues during the year. Only the program revenue received in May 2016 remains unspent as of the date of the audit.

Recommendation: We recommend the City establish procedures to ensure that program income be disbursed before requesting additional cash payments. The performance of these procedures should be documented to ensure compliance.

Management Response: Management concurs and the City’s Economic Development staff will take action to improve detection of program income and communication with the City’s CDBG consultant.

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the Year ended June 30, 2016

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
(CONTINUED):

Finding Number 2016-002 – Allowable Costs/Cost Principles

Major Program: U.S. Department of Housing and Urban Development – Community Development Block Grant – Entitlement (B-15-MC-06-0578), (B-13-MC-06-0578) – CFDA # 14.218

Criteria: Amount requested for reimbursement by the City should be for allowable expenses.

Condition: Results of our testing of compliance over allowable costs/cost principles identified instances in which the City requested duplicate reimbursements for payroll and related benefit expenses.

Cause: The City internally records salaries and wages based on budgeted percentages. A third party consultant calculates actual hours spent on the program and adjusts the drawdowns accordingly. The City requested amounts based on budgeted amounts in error for one program.

Effect: The City is not in compliance with the Uniform Guidance.

Questioned Costs: Total drawdowns related to salaries and wages exceeded actual amounts by \$19,063.

Context: See questioned costs.

Recommendation: We recommend that the City adopt procedures that will ensure salaries and wages charged and reimbursed by the grant are based on actual hours.

Management Response: Management concurs and will improve communication with the City's CDBG consultant to ensure that costs are accurately recorded and drawn down.

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the Year ended June 30, 2016

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
(CONTINUED):

Finding Number 2016-003 – Period of Availability of Federal Funds/Period of Performance

Major Program: U.S. Department of Housing and Urban Development – Community Development Block Grant – Entitlement (B-15-MC-06-0578), (B-13-MC-06-0578) – CFDA # 14.218

Criteria: Under 24 CFR 570-902(a)(1)(i), a recipient is considered to be failing to carry out its program activities if sixty days prior to the end of the grantee's current program year, the amount of entitlement grant funds available to the recipient under the grant agreement but undisbursed by the U.S. Treasury is more than 1.5 times the entitlement grant amount for its current program year.

Condition: The City did not meet program timeliness spending requirements. The City's unexpended balance at June 30, 2016 of \$1,675,528 is more than 1.5 times the \$958,178 entitlement grant for the current year.

Cause: The City experienced delays in projects funded by the grant due to unanticipated transfer of the City's key project manager from managing the CDBG projects to overseeing city property that was damaged by severe weather storms.

Effect: The City's future grant may be reduced if the City continues to be untimely.

Questioned Costs: None Noted.

Context: The City's unexpended balance at June 30, 2016 of \$1,675,528 is more than 1.5 times the \$958,178 entitlement grant for the current year.

Recommendation: We recommend the City develop and implement procedures that will ensure compliance with period of performance for the grant.

Management Response: Management concurs and the City's Economic Development staff have worked with the Department of Housing and Urban Development (HUD) to develop a plan to spend down prior years' unspent entitlements. Some planned Community Development Block Grant (CDBG) activities of prior years were changed which necessitated the reprogramming of those funds. The reprogrammed funds are now being used to further the CDBG program objectives within the City of Hesperia, and the City anticipates that the timeliness requirement will be met for the current 2016/2017 program year.

CITY OF HESPERIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year ended June 30, 2016

FINDINGS RELATING TO FINANCIAL STATEMENTS:

COMPLIANCE AND OTHER MATTERS

Finding Number 2015-001 – Compliance with Senate Bill 341 Reporting

Condition: During our audit it was noted that the City did not file the successor housing entity's Annual Progress Report and did not post the specified information on the City's website as required by Senate Bill 341.

Recommendation: We recommend the City implement policies and procedures to ensure timely reporting for SB 341.

This finding was corrected.