

CITY OF HESPERIA, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS

JUNE 30, 2011

CITY OF HESPERIA

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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*

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

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, 2011, which collectively comprise the City of Hesperia's basic financial statements and have issued our report thereon dated December 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hesperia's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hesperia's internal control over financial reporting.

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 City of Hesperia's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hesperia's financial statements are free of 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*.

We noted certain other matters that we reported to management of City of Hesperia in a separate letter dated February 28, 2012.

This report is intended solely for the information and use of the City Council and management of the City of Hesperia, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Carlsbad, CA
March 27, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Compliance

We have audited City of Hesperia's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Hesperia's major federal program for the year ended June 30, 2011. The City of Hesperia's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Hesperia's management. Our responsibility is to express an opinion on the City of Hesperia's compliance based on our audit.

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 identified in the accompanying schedule of findings and questioned costs 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. Our audit does not provide a legal determination on the City of Hesperia's compliance with those requirements.

In our opinion the City of Hesperia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-01, 2011-02, and 2011-03.

Internal Control Over Compliance

Management of the City of Hesperia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hesperia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above.

The City of Hesperia's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Hesperia's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

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, 2011, and have issued our report thereon dated December 30, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the City of Hesperia's management, the City Council Members, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

White Nelson Dick Evans LLP

March 27, 2012
Carlsbad, CA

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

CITY OF HESPERIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2011

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program Identification Number</u>	<u>Federal Program/ Award Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Community Development			
Block Grant – Entitlement *	14.218	B-10-MC-06-0578	\$ 612,297
ARRA- Community Development			
Block Grant– Entitlement *	14.218	B-09-MY-06-0578	197,549
Neighborhood Stabilization Program	14.218	B-08-MN-06-0509	<u>90,566</u>
Total Department of Housing and Urban Development			<u>4,642,255</u>
<u>U.S. Department of Justice</u>			
Passed through County of San Bernardino			
Edward Byrne Memorial Justice			
Assistance Grant Program	16.738	2010-DJ-BX-0331	<u>29,180</u>
<u>U.S. Department of Energy</u>			
Passed through County of San Bernardino			
ARRA – Energy Efficiency and Conservation			
Block Grant Program* (EECBG)	81.128	DE-EE0000901	2,350,985
ARRA – Energy Efficiency and Conservation			
Block Grant Program* (EECBG)	81.128	DE-SC0002229	<u>775,100</u>
Total Department of Energy			<u>3,126,085</u>
Total Federal Financial Assistance			<u>\$ 4,055,677</u>

* = Major program

See 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* and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4) and Notes to Schedule of Expenditures of Federal Awards (page 6).

CITY OF HESPERIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards only presents the activity of federal award programs of the City of Hesperia (the "City"), and, therefore, does not present the financial position or results of operations of the City. The City's reporting entity is defined in Note 1 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.

2. BASIS OF ACCOUNTING:

The activity of the City's federal award programs are recorded in special revenue funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue fund types as described in Note 1 to the City's financial statements. Accordingly, the accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting.

See 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* and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4).

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2011

A. Summary of Audit Results:

1. The independent auditors' report expresses an unqualified opinion on the financial statements of the City of Hesperia.
2. There were eight significant deficiencies (Finding Numbers 2011-04 through 2011-11) disclosed during the audit of the financial statements for the City of Hesperia.
3. There were no instances of noncompliance material to the financial statements of the City of Hesperia disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of the major federal award program.
5. The independent auditors' report on compliance for the major federal award program for the City of Hesperia expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule. See Finding Numbers 2011-01, 2011-02, 2011-03.
7. The program tested as a major program includes:
 - Department of Housing and Urban Development – Community Development Block Grant – Entitlement (B-10-MC-06-0578) and ARRA – Community Development Block Grant – Entitlement (B-09-MY-06-0578) – CFDA #14.218
 - Department of Energy – ARRA – Energy Efficiency and Conservation Block Grant Program – (DE-EE0000901) and Department of Energy – ARRA – Energy Efficiency and Conservation Block Grant Program – (DE-SC0002229) – CFDA #81.218
8. The threshold for distinguishing types A and B programs was \$300,000.
9. The City of Hesperia was determined to be a high-risk auditee.

See 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* and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4).

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2011

FINDINGS AND QUESTIONED COSTS - MAJOR PROGRAM

Finding Number 2011-01 – Reporting

Program

Department of Housing and Urban Development – Community Development Block Grant – Entitlement (B-10-MC-06-0578) – CFDA #14.218

Department of Housing and Urban Development – ARRA Community Development Block Grant – Entitlement (B-09-MY-06-0578) – CFDA #14.218

Statement of Condition

The results of our test work indicated that the City did not file the Consolidated Annual Performance and Evaluation Report (CAPER) by the required deadline.

Criteria

Grantees must submit a Consolidated Annual Performance and Evaluation Report within 90 days after the end of a grantee's program year as required by HUD as part of their end-of-the year reporting.

Effect

The City may be penalized or fined for its noncompliance with program compliance requirements.

Questioned Cost

None noted.

Recommendation

We recommend that the City establish procedures to ensure that the required reports are filed on a timely basis. The performance of these procedures should be documented to ensure compliance.

Management Response

The FY 2010-11 CAPER was mailed one day late. Management agrees with the recommendation and will file the required reports within the allotted timeline.

See 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* and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4).

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2011

FINDINGS AND QUESTIONED COSTS - MAJOR PROGRAM (CONTINUED):

Finding Number 2011-02: Reporting

Program

Department of Housing and Urban Development – Community Development Block Grant – Entitlement (B-10-MC-06-0578) – CFDA #14.218

Department of Housing and Urban Development – ARRA Community Development Block Grant – Entitlement (B-09-MY-06-0578) – CFDA #14.218

Statement of Condition

The results of our test work indicated that the City did not file the Federal Cash Transactions Reports (SF-425) for all quarters during the fiscal year.

Criteria

The applicable federal code (24 CFR 84.52) states, “HUD requires recipients to submit the FFR no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days after the project of the grant period end date”.

Effect

The City may be penalized or fined for its noncompliance with program compliance requirements.

Questioned Cost

None noted.

Recommendation

We recommend that the City establish procedures to ensure that the required reports are filed on a timely basis. The performance of these procedures should be documented to ensure compliance.

Management Response

Management agrees with the recommendation and will file the required reports within the allotted timeline.

See 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* and Independent Auditors’ Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4).

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2011

FINDINGS AND QUESTIONED COSTS - MAJOR PROGRAM (Continued):

Finding Number 2011-03: Procurement and Suspension and Debarment

Program

Department of Energy – ARRA – Energy Efficiency and Conservation Block Grant Program – (DE-EE0000901)

Department of Energy – ARRA – Energy Efficiency and Conservation Block Grant Program – (DE-SC0002229)
– CFDA #81.218

Statement of Condition

Results of our testing of compliance over procurement and suspension and debarment identified instances where the City was not verifying that entities were not suspended or debarred or otherwise excluded.

Criteria

OMB guidelines to agencies on government debarment and suspension (2 CFR Part 180.300) states “When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by: (a) Checking the EPLS; or (b) Collecting a certification from that person; or (c) Adding a clause or condition to the covered transaction with that person.”

Effect

The City could be penalized for its noncompliance with program compliance requirements.

Questioned Costs

None

Recommendation

We recommend that for all applicable future transactions the City follow these guidelines for checking that vendors they intend to do business with are not suspended or debarred or otherwise excluded.

Management Response

Management agrees with the recommendation and for future projects using funds requiring such examinations the City will comply.

See 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* and Independent Auditors’ Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4).

CITY OF HESPERIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2011

FINDINGS - FINANCIAL STATEMENT AUDIT

Finding Number 2011-04: Satellite Cash Receipts

Condition

During our audit it was noted that the cash receipts from the police department that are given to the City are not reconciled to the police department receipt log. There is also no reconciliation between receipts issued for customer payments and services provided at the Animal Control division. In regards to the Fire District, there is no evidence of approval of write-offs of accounts receivables. In addition, the accounting software (QuickBooks) at the Animal Control and Code Compliance Divisions allows the user to delete or skip receipt numbers.

Recommendation

We recommend that cash receipts in all departments are reconciled to their respective receipt log sub ledger for services, money received and the services provided. To help mitigate receipts from being skipped or deleted a receipt log should be kept that can be reconciled to the QuickBooks software.

Management Response

The City is working to implement the use of a module of its financial system for receivables, and will train staff in these satellite offices to invoice and track amounts owed, thereby eliminating the use of QuickBooks and providing for better reconciliations.

Finding Number 2011-05: Monitoring Owner Participation Agreements

During our audit it was noted that monitoring of the Owner Participation Agreements compliance conditions are not always followed up on in a timely manner.

Recommendation

We recommend that all Owner Participation Agreements be monitored for all compliance items and followed up on in a timely manner.

Management Response

The City will improve its monitoring procedures.

See 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* and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4).

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2011

FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

Finding Number 2011-06: Water Overdraft

Condition

During our audit it was noted that accounts payable did not include an amount payable for the water overdraft in the basin.

Recommendation

We recommend that accounts payable be reviewed by management for all possible liabilities at year end.

Management Response

Annually, the City (Water District) buys/leases make-up water from other agencies/owners of unused free production allowance to meet the water needs of the District customers. The Water Year is from October 1 to September 30 whereas the City's fiscal year begins July 1 and ends June 30. The \$1,443,750 represents $\frac{3}{4}$ of the Water Year (October 1, 2010 to June 30, 2011) of the leased make-up free production allowance from Rancho Las Flores, Summit Valley Ranch, and Lake Arrowhead Community Services District. The City will examine future water leases/purchases for accrual.

Finding Number 2011-07: Deferred Revenue

Condition

During our audit it was noted that State of California Proposition 1B funds were recorded as revenue and should have been recorded as deferred revenue, as the funds were not yet earned.

Recommendation

We recommend that deferred revenue be reviewed at year end to determine if any amounts need to be recorded.

Management Response

During FY 2010-11, Proposition 1B funds were received from the State of California to pay for the costs of a planned paving project. Since the expenditure did not occur during FY 2010-11, the receipt should be deferred as the money was not earned (spent).

The City will more thoroughly review receipts in the future to determine any deferral adjustments.

See 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* and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4).

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2011

FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

Finding Number 2011-08: Interest Allocation

Condition

During our audit it was noted that interest income was posted to the RDA debt service fund and should have been posted to the RDA Low and Moderate Income Fund.

Recommendation

We recommend that interest income be reviewed to correctly allocate interest.

Management Response

The City will work to ensure that mistakes are rectified prior to posting in the future.

Finding Number 2011-09: Advances to/from Other Funds

Condition

During our audit it was noted that advances to/from other funds for the Public Improvement Promissory Note was recorded in the RDA Project Area #1 Capital Project Fund and should have been recorded in the RDA Project Area #1 Debt Service.

Recommendation

We recommend that advances to/from other funds be reviewed to correctly record all notes.

Management Response

As the Project Area #1 Capital Project fund does not have a means to repay the loan from the Low/Mod fund, the auditors recommended to record the liability in the Project Area #1 Debt Service as that fund receives tax increment.

As the debt service fund receives tax increment to repay obligations, the City agrees with recording the liability for the loan payable in the debt service fund.

See 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* and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4).

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2011

FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

Finding Number 2011-10: Developer Deposits

Condition

During our audit it was noted that developer deposits made in a prior year were incorrectly held in trust and should have been recorded as revenue in the year received.

Recommendation

We recommend that all amounts received from developers be reviewed to determine the correct fund is used and revenue is recorded in the year it is earned.

Management Response

As of April 2006 the City received \$1,100,000 from the developer of the Mission Crest development for the purpose of offsetting the public safety costs of the development. The City had scheduled to use those funds to offset the costs of public safety charged to the General Fund (for Police) and to the Fire Operations fund over a four year period beginning FY 2010-11. Because the documentation for the donation did not specifically refer to a phased-in recognition of the revenue, an entry was recommended by the auditor's to record a prior period adjustment to reflect the revenue in the General Fund and Fire District Fund in the year it was received. The \$1,100,000 plus interest from FY 2005-06 through FY 2009-10 was recorded in a prior period adjustment and the FY 2010-11 interest income as revenue during FY 2010-11.

Also, during FY 2005-06 the City received a \$215,136 donation from the developer of the Bella Rosa development for the purpose of constructing public facilities for the benefit of the development. The auditors also recommended that this developer donation be recognized as revenue in the year it was received and recommended a prior period adjustment to the Rancho Road I-15 interchange fund.

The City agrees with the prior period recognitions.

Finding Number 2011-11: Deposits with Other Agencies

Condition

During our audit it was noted that deposits with other agencies was not reconciled on a timely basis.

Recommendation

We recommend that all accounts be reconciled on a timely basis.

See 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* and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4).

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2011

FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

Finding Number 2011-11: Deposits with Other Agencies (Continued)

Management Response

To acquire the needed land for the Ranchero Road Undercrossing project, monies were deposited with two escrow companies to procure the land. At June 30, 2010 the balance reflected was \$573,817, which was difficult to identify due to the lack of information provided by the subcontractor used to purchase the right of way. For the June 30, 2011 audit an entry was needed to accurately reflect the remaining five Edison parcels that were in process of being purchased at June 30. The City concurs with the adjusting entry and will work toward more timely fixed asset reconciliations as resources become available.

See 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* and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4).

CITY OF HESPERIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

AND QUESTIONED COSTS

For the Year ended June 30, 2011

Finding Number 2010-01 – Funds deposited into escrow accounts were not disbursed within the required 10 working days.

This finding has been corrected.

Finding Number 2010-02 – City did not file the Federal Cash Transactions Reports (SF-272) for all quarters during the fiscal year.

This finding has not been corrected and is a finding in the current year (2011-02).

See 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* and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133 (pages 1 through 4).