

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

JUNE 30, 2015

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, 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, 2015, 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 December 16, 2015.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding Number 2015-001.

City of Hesperia's Response to Finding

City of Hesperia's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Hesperia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
December 16, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133 AND ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

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 Circular A-133 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, 2015. 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, contracts, 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 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 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, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding Number 2015-002. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

Management of the City 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 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. *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 OMB Circular A-133

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, 2015, 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 December 16, 2015, 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 OMB Circular A-133 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 OMB Circular A-133 (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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

White Nelson Nick Evans LLP

Carlsbad, California

February 8, 2016, except for the Schedule of Expenditures of Federal Awards, to which the date is December 16, 2015.

**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, 2015

Federal Grantor / Pass - Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
<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	\$ 150,377
Community Development Block Grant - Entitlement*	14.218	B-12-MC-06-0578	249,678
Community Development Block Grant - Entitlement*	14.218	B-11-MC-06-0578	116,912
Community Development Block Grant - Entitlement	14.218	B-08-MN-06-0509	<u>243,258</u>
Total U.S. Department of Housing and Urban Development			<u>760,225</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	<u>12,979</u>
Total U.S. Department of Justice			<u>12,979</u>
<u>U.S. Department of Homeland Security:</u>			
<i>Direct Assistance:</i>			
Staffing for Adequate Fire and Emergency Response*	97.083	EMW-2012-FH-00940	697,576
<i>Passed through the County of San Bernardino:</i>			
State Homeland Security Grant Program	97.067	2011-SS-0077	<u>16,604</u>
Total U.S. Department of Homeland Security			<u>714,180</u>
Total Expenditures of Federal Awards			<u>\$ 1,487,384</u>

* - Major Program

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, 2015

1. SCOPE OF PRESENTATION:

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.

3. 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.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

5. 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, 2015

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*:
See Finding Number 2015-001

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 section 510(a) of OMB Circular A-133?
See Finding Number 2015-002

yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	U.S. Department of Housing and Urban Development, Community Development Block Grant – Entitlement
97.083	U.S. Department of Homeland Security, Staffing for Adequate Fire and Emergency Response

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

\$ 300,000

Audit qualified as low-risk auditee?

yes no

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

B. FINDINGS - FINANCIAL STATEMENTS:

COMPLIANCE AND OTHER MATTERS

Finding Number 2015-001 – 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.

Criteria: Senate Bill 341 (SB 341) requires all successor housing entities, starting with the fiscal year ended 2014 to comply with annual reporting requirements within six months after the end of each fiscal year. The annual report must be submitted to the Department of Housing and Community Development by April 1, 2015 and posted on the jurisdiction's website.

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

Management Response: The City concurs with the findings and has now prepared and posted the June 30, 2014 SB 341 (post Redevelopment Housing Successor) report, as well as the June 30, 2015 report, through the California Department of Community Development. The City will continue to comply with this reporting requirement into the future.

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2015

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

Finding Number 2015-002 – Reporting

Program: U.S. Department of Homeland Security, Federal Emergency Management Agency – Staffing for Adequate Fire and Emergency Response – (EMW-2012-FH-00940) – CFDA # 97.083

Statement of Condition: Results of our testing of compliance over reporting identified instances in which the City did not submit the Quarterly Performance Reports by the required deadline.

Criteria: FEMA states SAFER grant “recipients are required to submit completed Quarterly Performance Reports 30 days after the end of each fiscal quarter.”

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

Questioned Cost: None noted.

Recommendation: We recommend 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 City concurs with the finding which was the result of staff turn-over. Although this grant has concluded, management will train employees responsible for administering and fulfilling the reporting requirements of all future federal grants.

CITY OF HESPERIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year ended June 30, 2015

Finding Number 2014-001 – Allowable Costs/Cost Principles

Program: U.S. Department of Homeland Security, Federal Emergency Management Agency – Staffing for Adequate Fire and Emergency Response – (EMW-2012-FH-00940) – CFDA # 97.083

Statement of Condition: Results of our testing of compliance over allowable costs/cost principles identified instances in which the City applied and received reimbursement for the incorrect pay rate and benefit amount for four employees.

This finding has been corrected.