

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

JUNE 30, 2013

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 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, and aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hesperia as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Hesperia's basic financial statements and have issued our report thereon dated December 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 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 are 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 Dick Evans LLP

Carlsbad, California
February 15, 2014

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 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, 2013. 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 the requirements of laws, regulations, contracts, and grants 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, 2013.

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 item 2013-01. Our opinion on each major federal program is not modified with respect to these matters.

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hesperia as of and for the year ended June 30, 2013, 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 19, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion 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. 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 Dick Evans LLP

Carlsbad, California
February 15, 2014

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

CITY OF HESPERIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2013

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>			
Community Development Block Grant - Entitlement	14.218	B-12-MC-06-0578	\$ 58,283
Community Development Block Grant - Entitlement	14.218	B-11-MC-06-0578	665,702
Community Development Block Grant - Entitlement	14.218	B-10-MC-06-0578	688,336
Neighborhood Stabilization Program	14.218	B-08-MN-06-0509	<u>202,887</u>
Total U.S. Department of Housing and Urban Development			<u>1,615,208</u>
<u>U.S. Department of Transportation: *</u>			
Passed through California Department of Transportation:			
Highway Planning and Construction	20.205	06L2305452009	2,218,134
Highway Planning and Construction	20.205	06LY605452009	1,804,892
Highway Planning and Construction	20.205	065452010LY1030	1,333,253
Highway Planning and Construction	20.205	065452010Q64031	440,169
Highway Planning and Construction	20.205	065452010HY1030	<u>312,987</u>
Total U.S. Department of Transportation			<u>6,109,435</u>
<u>U.S. Department of Homeland Security:</u>			
Assistance to Firefighters Grant	97.044	EMW-2011-FO-0947	<u>26,927</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 7,751,570</u></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 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 (pages 1 through 5) and Notes to Schedule of Expenditures of Federal Awards (page 7).

CITY OF HESPERIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2013

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 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 (pages 1 through 5).

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2013

A. Summary of Audit Results:

1. The independent auditors' report expresses an unmodified opinion on the financial statements of the City of Hesperia.
2. There were no material weaknesses or significant deficiencies 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 which would be required to be reported in accordance with *Government Auditing Standards*.
4. There were no material weaknesses or significant deficiencies in internal control over major federal award programs disclosed during the audit of the financial statements for the City of Hesperia.
5. The independent auditors' report on compliance for each major federal award program for the City of Hesperia expresses an unmodified 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 Number 2013-01.
7. The programs tested as major programs include:
 - U.S. Department of Housing and Urban Development – Community Development Block Grant – Entitlement (B-10-MC-06-0578), (B-11-MC-06-0578), (B-12-MC-06-0578) and Neighborhood Stabilization Program (B-08-MN-06-0509) – CFDA # 14.218
 - U.S. Department of Transportation – Highway Planning and Construction – (06L2305452009), (06LY605452009), (065452010LY1030), (065452010Q64031), (065452010HY1030) – CFDA # 20.205
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 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 (pages 1 through 5).

CITY OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2013

FINDINGS AND QUESTIONED COSTS - MAJOR PROGRAM

Finding Number 2013-01 – Procurement, Suspension, and Debarment

Program: U.S. Department of Housing and Urban Development – Community Development Block Grant – Entitlement (B-10-MC-06-0578), (B-11-MC-06-0578), (B-12-MC-06-0578) – CFDA #14.218

Statement of Condition: Results of our testing of compliance over procurement, suspension, and debarment identified an instance in which the City did not verify that an entity was not suspended, 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 may be penalized or fined for its noncompliance with program compliance requirements.

Questioned Cost: None noted.

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, debarred or otherwise excluded.

Management Response: Management agrees with the finding and the Economic Development Department has created a procedural check list to include obtaining documentation of the debarment check for each CDBG (Community Development Block Grant) recipient prior to submitting a purchase requisition.

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 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 (pages 1 through 5).

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

For the year ended June 30, 2013

FINDINGS - FINANCIAL STATEMENT AUDIT

None

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 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 (pages 1 through 5).

CITY OF HESPERIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AND QUESTIONED COSTS

For the Year ended June 30, 2013

Finding Number 2012-01 – Material Weakness in Internal Control

During our reconciliation of expenditures funded by federal grants reported in the Schedule of Expenditures of Federal Awards (SEFA) to grant agreements and the general ledger, we noted expenditures included in the SEFA that were reported incorrectly as federal expenditures in the current year. The expenditures reported were for prior year expenditures that were not included in the prior year OMB Circular A-133 audit.

This finding has been corrected.

Finding Number 2012-02 – Reporting

The City did not file the Federal Cash Transactions Reports (SF-425) by the required deadline.

This finding has been corrected.

Finding Number 2012-03 – Reporting

The City did not file the Section 3 Annual Summary Report (Form HUD-60002) within the required deadline.

This finding has been corrected.

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 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 (pages 1 through 5).