

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

**JUNE 30, 2014**

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, 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, 2014, 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 17, 2014.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying "Schedule of Findings and Questioned Costs", we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying "Schedule of Findings and Questioned Costs" to be a material weakness (Finding Number 2014-002).

## **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.

## **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

March 25, 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, 2014. 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, 2014.

## **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 2014-001. 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, 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, 2014, 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 17, 2014, 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.

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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

March 25, 2015

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

CITY OF HESPERIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2014

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	\$ 511,973
Community Development Block Grant - Entitlement*	14.218	B-11-MC-06-0578	97,512
Neighborhood Stabilization Program*	14.218	B-08-MN-06-0509	414,959
Total U.S. Department of Housing and Urban Development			1,024,444
<u>U.S. Department of Homeland Security:</u>			
Staffing for Adequate Fire and Emergency Response*	97.083	EMW-2012-FH-00940	732,210
<i>Passed through the County of San Bernardino:</i>			
FY 2011 State Homeland Security Grant Program	97.073	2011-SS-0077	29,858
Emergency Management Performance Grant	97.042	EMW-2013-EP-000	17,066
Total U.S. Department of Homeland Security			779,134
<u>U.S. Department of Transportation:</u>			
<i>Passed through California Department of Transportation:</i>			
Highway Planning and Construction	20.205	06L2305452009	4,633
Highway Planning and Construction	20.205	06LY605452009	3,770
Highway Planning and Construction	20.205	065452010LY1030	3,700
Highway Planning and Construction	20.205	065452010Q64031	13,536
Highway Planning and Construction	20.205	065452010HY1030	869
Total U.S. Department of Transportation			26,508
<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	1,826
Total U.S. Department of Justice			1,826
Total Expenditures of Federal Awards			\$ 1,831,912

\* - 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

For the year ended June 30, 2014

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, 2014

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 was one material weakness (Finding Number 2014-002) 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 2014-001.
7. The programs tested as major programs include:
  - U.S. Department of Housing and Urban Development – Community Development Block Grant – Entitlement (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 Homeland Security – Staffing for Adequate Fire and Emergency Response – (EMW-2012-FH-00940) – CFDA # 97.083
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, 2014

FINDINGS AND QUESTIONED COSTS - MAJOR PROGRAM

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.

*Criteria:* The applicable federal code (2 CFR 200.430) states, “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities”.

*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 notify the grantor of the overdrawn amounts and inquire with them as to the treatment moving forward.

*Management Response:* The City contracts with San Bernardino County Fire (County Fire) for all fire related services. County Fire maintains all the records and has all control over the deployment of the fire personnel; thus, the City has no control over staffing or records and must rely completely on County Fire to obtain all applicable records.

The referenced employees received pay rate increases during the draw reimbursement period and the higher pay rates were inadvertently used for the entire draw period resulting in an overcharge of \$4,922 (or 1% of the total amount drawn) for the referenced period. This amount was deducted from a subsequent draw. Further, the City has implemented changes to prevent this from occurring in the future.

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, 2014

FINDINGS - FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

Finding Number 2014-002 – Water Rights

*Condition:* During our audit it was noted that the City did not record the portion of water rights purchased from Summit Valley Ranch that had not been paid prior to the end of the fiscal year.

*Recommendation:* We recommend the City record fixed assets at the full cost upon the transfer of ownership, rather than when paid.

*Management Response:* The City concurs with the recommendation. However, capital purchases of this nature, where payment is rendered in more than one fiscal year, create a public perception problem where the budgeting of the purchase in one fiscal year and the budgeting of subsequent payments in a following fiscal year make it appear that the capital item is being paid for more than once.

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, 2014

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

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

*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.

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).