

CITY OF VICTORVILLE
Victorville, California

Single Audit Report on Federal Awards

Year ended June 30, 2018

CITY OF VICTORVILLE

Single Audit Report on Federal Awards

Year ended June 30, 2018

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Honorable Mayor and City Council
City of Victorville
Victorville, California

**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***

Independent Auditors' Report

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 Victorville, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 25, 2019.

Internal Control Over Financial Reporting

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

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.

A significant deficiency is defined to be 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. We identified one deficiency in internal control that we considered to be a significant deficiency which is identified as 2018-001 in the schedule of findings and questioned costs.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 which is identified as 2018-002 in the schedule of findings and questioned costs.

City's Responses to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City'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.



Irvine, California
January 25, 2019

Honorable Mayor and City Council
City of Victorville
Victorville, California

Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Report on Compliance for Each Major Federal Program

We have audited the City of Victorville's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirement of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City'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 the major federal program. However, our audit does not provide a legal determination City's compliance.

Opinion on the Major Federal Programs

In our opinion, the City of Victorville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the City of Victorville 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'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 Uniform Guidance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City'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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the City of Victorville as of and for the year ended June 30, 2018, and have issued our report thereon dated January 25, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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.

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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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in blue ink that reads "Davis Sun WP". The signature is written in a cursive, flowing style.

Irvine, California
January 25, 2019

CITY OF VICTORVILLE
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	Program Identification Number	Federal Domestic Assistance Number	Federal Financial Assistance Expenditures	Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
Direct assistance:				
CDBG Cluster:				
Community Development Block Grant	*	14.218	\$ 932,084	472,389
Neighborhood Stabilization Program (NSP1 Loan Expenditures)	B08-MN-06-0523	14.218	308,311	-
Neighborhood Stabilization Program (NSP3)	B11-MN-06-0523	14.218	<u>418,619</u>	-
Subtotal - CDBG Cluster			1,659,014	472,389
Home Investment Partnerships Program	*	14.239	<u>277,412</u>	-
Total - U.S. Department of Housing and Urban Development			<u>1,936,426</u>	<u>472,389</u>
<u>U.S. Department of Justice</u>				
Direct assistance:				
Equitable Sharing Program	CA0361200	16.922	15,084	-
Passed through the County of San Bernardino:				
Edward Byrne Memorial Justice Assistance Grant Program	2016-DJBX-0768	16.738	18,992	-
Edward Byrne Memorial Justice Assistance Grant Program	2015-DJBX-0978	16.738	<u>43,459</u>	-
Total - U.S. Department of Justice			<u>77,535</u>	-
<u>U.S. Department of Transportation</u>				
Direct Assistance:				
Federal Aviation Association:				
Airport Improvement Program	3-06-0359-22	20.106	11,317	-
Airport Improvement Program	3-06-0359-23	20.106	1,381,049	-
Airport Improvement Program	3-06-0359-24	20.106	<u>1,381,072</u>	-
Subtotal			<u>2,773,438</u>	-
Passed through the County of San Bernardino:				
Highway Planning and Construction Cluster:				
Federal Demonstration/ Highway Planning	DEMO5UBL-5380(082)	20.205	596,246	-
State Transportation Improvement Program (STIP)	BHLS-5380(026)	20.205	56,014	-
Highway Safety Improvement Program (HSIP)	HSIPL-5380(030)	20.205	227,700	-
Highway Safety Improvement Program (HSIP)	HSIPL-5380(031)	20.205	63,756	-
Highway Safety Improvement Program (HSIP)	HSIPL-5380(033)	20.205	<u>110,474</u>	-
Subtotal - Highway Planning and Construction Cluster			<u>1,054,190</u>	-
Total - U.S. Department of Transportation			<u>3,827,628</u>	-
Total Expenditures of Federal Awards			<u>\$ 5,841,589</u>	<u>472,389</u>

* - Multiple projects

CITY OF VICTORVILLE

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Victorville (City) that are reimbursable under federal programs of federal agencies providing financial assistance. For the purposes of this schedule, financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portions of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other nonfederal funds are excluded from the accompanying schedule. The City did not use the 10% de minimis indirect cost rate as covered in section 200.414 of the Uniform Guidance.

(b) Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

Section I Summary of Auditors' Results

Financial Statements

- | | |
|---|------------|
| 1. Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | Yes |
| 3. Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | |
|--|---------------|
| 1. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | None Reported |
| 2. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? | No |
| 4. Identification of major programs: | |

CFDA Number

Name of Federal Program or Cluster

14.218
20.106

CDBG Cluster
Airport Improvement Program

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

CITY OF VICTORVILLE

Financial Statement Findings

Year ended June 30, 2018

Section II - Financial Statement Findings

2018-001 Auditor Detected Adjustments

Auditing standards require auditors to include as an audit adjustments detected during the audit as an internal control weakness. For the year ended June 30, 2018, the audit detected several errors in the accounting records including two unrecorded liabilities and one over accrued liability, an unrecorded allowance for doubtful accounts, a correction to advances between funds, unrecorded revenue, a correction to capital assets, and other smaller corrections.

Recommendation

An important element of controls over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This will help to reduce the risk of material misstatement.

Management's Comments Regarding Corrective Actions Planned

Every year during the audit process, there are several journal entries the auditors make that are not booked in the City's financial system. This includes the correction to advances between funds and the other smaller corrections as mentioned above. We consider this part of the year-end process for reporting purposes and do not consider these entries as an internal control weakness.

Other items that were discovered by both the auditors and finance staff were corrections and adjustments that should have been made before running the final trial balance for the start of the audit process. Management does try to identify all adjustments before the audit fieldwork begins; however, as in prior fiscal years there are entries that need to be made that are discovered during the audit process. Management will continue to improve the year-end process to make sure all accounts are reviewed and adjustments are made as soon as possible at the end of the fiscal year and prior to the start of the audit.

2018-002 Pledge Revenues Shortfalls, Underfunded Reserves, and Bond Defaults

Because of recurring declines in assessed valuation in recent years, the Southern California Logistics Airport Authority (SCLAA) has received less tax increment revenue than was necessary to properly meet its debt obligations. As in prior years, bond reserve accounts fell below the amounts required by bond covenants for Subordinate Tax Allocation Revenue Bonds (Series 2008A).

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Financial Statement Findings

Year ended June 30, 2018

In addition, on December 1, 2017, the SCLAA defaulted on the principal and interest payment of \$1,775,961 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2007 and the principal payment of \$85,000 for SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2008A.

The City also had a loan from the Southern California Logistics Airport Authority (SCLAA) to the Successor Agency to the Victorville Redevelopment Agency (Successor Agency) totaling \$10,278,395 which per the terms of the note were to be repaid on June 30, 2014. Due to revenue shortfalls the loans were not repaid as scheduled, and there were no amendments to the underlying promissory notes, extending the period of repayment.

Recommendation

We recommend that the City continue its efforts to closely monitor and properly report its ability to meet reserve requirements and annual debt service requirements with respect to airport authority bonds. We recommend that the City make scheduled interfund advance repayments in accordance with the terms of their related promissory notes or modify the agreements to reflect new terms. Additionally, we recommend the City adjust interest payable each year for past due accrued interest related to the debt.

Management's Comments Regarding Corrective Actions Planned

Over the last couple of years, the assessed value has steadily increased and SCLAA has been able to pay the past due debt service. In fiscal year 2017, SCLAA paid \$7.4 million on previously defaulted interest debt service payments but continued to default on current amounts due. In fiscal year 2018, SCLAA paid \$3.5 million on previously defaulted interest debt service payments and replenished reserve accounts, but defaulted on the December 1, 2017 debt service for two subordinate bonds. However, no defaults occurred on the SCLAA debt service payments due June 1, 2018 or December 1, 2018.

On June 1, 2018, past due interest in the amount of \$3,467,884, which resulted from defaults on 12/1/16, 6/1/17 and 12/1/17, was paid for the SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2007. On December 1, 2018, after paying all debt service payments, \$3,440,106 was sent to the Trustee to fully replenish the reserves for the Subordinate Tax Allocation Revenue Bonds, 2008A and pay all past due principal debt service for the SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2007 and the SCLAA Subordinate Tax Allocation Revenue Bonds, Series 2008A. All SCLAA debt service is now current, all reserve requirements are met, and SCLAA is no longer in default.

The loan mentioned was actually a loan from the Victorville Successor Agency to the Southern California Logistics Airport Authority (SCLAA). The loan hasn't been taken to SCLAA Board for an extension because the Victorville Successor Agency and then Oversight Board would have to approve such extension and there is currently

CITY OF VICTORVILLE

Financial Statement Findings

Year ended June 30, 2018

no repayment source to support the extension request given the SCLA financial condition.

CITY OF VICTORVILLE

Findings and Questioned Costs for Federal Awards

Year ended June 30, 2018

Section III - Findings and Questioned Costs for Federal Awards

There are no auditors' findings to be reported in accordance with section 200.516 of the Uniform Guidance.

CITY OF VICTORVILLE

Summary of Prior Audit Findings and Current Status

Year ended June 30, 2018

Section IV – Summary of Prior Audit Findings and Current Status

2017-001 Pledge Revenues Shortfalls, Underfunded Reserves, and Bond Defaults

This item has been repeated in 2018-002 in the current year.