

**CITY OF VICTORVILLE, CALIFORNIA**

**SINGLE AUDIT OF FEDERAL AWARDS**

**JUNE 30, 2019**

**CITY OF VICTORVILLE**

**June 30, 2019**

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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 Honorable City Council  
of the City of Victorville  
Victorville, 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 Victorville, California (the City), as of and for the year ended June 30, 2019, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 5, 2020.

### **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 City'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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as finding numbers 2019-001 and 2019-002, that we consider to be significant deficiencies.

## **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 matter 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 2019-003.

## **City's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White Nelson Nick Evans LLP*

Irvine, California  
February 5, 2020

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND ON  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

City Council  
City of Victorville  
Victorville, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Victorville's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2019. The City's major federal program is 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, 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 the City's major federal program 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 requirements 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 of the City's compliance.

## **Opinion on the Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding Number 2019-004. Our opinion on the major federal program is not modified with respect to these matters.

The City's response to the noncompliance finding 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 compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control over Compliance**

Management of the City 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 compliance 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 the 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.

## **Report on Internal Control over Compliance (Continued)**

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 the Uniform Guidance**

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 Victorville, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 5, 2020, 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 the Uniform Guidance 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.

*White Nelson Diehl Evans LLP*

Irvine, California  
February 5, 2020

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



CITY OF VICTORVILLE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2019

| Federal Grantor / Pass-Through<br>Grantor / Program       | Catalog of<br>Federal<br>Domestic<br>Assistance<br>Number | Program<br>Identification<br>Number | Federal<br>Expenditures | Disbursement<br>to<br>Subrecipient |
|-----------------------------------------------------------|-----------------------------------------------------------|-------------------------------------|-------------------------|------------------------------------|
| <u>U.S. Department of Housing and Urban Development</u>   |                                                           |                                     |                         |                                    |
| Direct Programs:                                          |                                                           |                                     |                         |                                    |
| Community Development Block Grants -                      |                                                           |                                     |                         |                                    |
| Entitlement Grant                                         |                                                           |                                     |                         |                                    |
|                                                           | 14.218                                                    | B08-MN-06-0523                      |                         |                                    |
|                                                           | 14.218                                                    | B11-MN-06-0523                      |                         |                                    |
|                                                           | 14.218                                                    | B-15-MC-06-0593                     |                         |                                    |
|                                                           | 14.218                                                    | B-16-MC-06-0593                     |                         |                                    |
|                                                           | 14.218                                                    | B-17-MC-06-0593                     |                         |                                    |
|                                                           | 14.218                                                    | B-18-MC-06-0593                     | \$ 1,251,083            | \$ 373,821                         |
| HOME Investment Partnerships Program                      |                                                           |                                     |                         |                                    |
|                                                           | 14.239                                                    | B-18-MC-06-0588                     |                         |                                    |
|                                                           | 14.239                                                    | M-18-DC-06-0563                     |                         |                                    |
|                                                           | 14.239                                                    | B-17-MC-06-0588                     |                         |                                    |
|                                                           | 14.239                                                    | M-17-DC-06-0563                     | 291,629                 | -                                  |
| Total U.S. Department of Housing<br>and Urban Development |                                                           |                                     | <u>1,542,712</u>        | <u>373,821</u>                     |
| <u>U.S. Department of Justice</u>                         |                                                           |                                     |                         |                                    |
| Passed through the County of San Bernardino:              |                                                           |                                     |                         |                                    |
| Edward Byrne Memorial Justice Assistance<br>Grant Program |                                                           |                                     |                         |                                    |
|                                                           | 16.738                                                    | 2016-DJBX-0768                      | 21,565                  | -                                  |
| Total U.S. Department of Justice                          |                                                           |                                     | <u>21,565</u>           | <u>-</u>                           |
| <u>U.S. Department of Transportation</u>                  |                                                           |                                     |                         |                                    |
| Direct Programs:                                          |                                                           |                                     |                         |                                    |
| Federal Aviation Association:                             |                                                           |                                     |                         |                                    |
| Airport Improvement Program                               |                                                           |                                     |                         |                                    |
|                                                           | 20.106                                                    | 3-06-0359-23                        | 3,679,217               | -                                  |
|                                                           | 20.106                                                    | 3-06-0359-24                        | 4,812,810               | -                                  |
|                                                           |                                                           |                                     | <u>8,492,027</u>        | <u>-</u>                           |
| Passed through the County of San Bernardino:              |                                                           |                                     |                         |                                    |
| Highway Planning and Construction                         |                                                           |                                     |                         |                                    |
|                                                           | 20.205                                                    | DEMO5UBL-5380(028)                  | 923,290                 | -                                  |
|                                                           | 20.205                                                    | BHLS-5380(026)                      | 7,526                   | -                                  |
|                                                           | 20.205                                                    | ATPL-5380(032)                      | 3,232,689               | -                                  |
|                                                           | 20.205                                                    | HSIPL-5380(033)                     | 36,021                  | -                                  |
|                                                           | 20.205                                                    | ATPL-5380(034)                      | 3,760,000               | -                                  |
|                                                           |                                                           |                                     | <u>7,959,526</u>        | <u>-</u>                           |
| Total U.S. Department of Transportation                   |                                                           |                                     | <u>16,451,553</u>       | <u>-</u>                           |
| TOTAL EXPENDITURES OF FEDERAL AWARDS                      |                                                           |                                     | <u>\$ 18,015,830</u>    | <u>\$ 373,821</u>                  |

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**CITY OF VICTORVILLE**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2019**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Victorville (the City) under programs of the federal government, as well as federal financial assistance passed through other government agencies for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which are described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**3. INDIRECT COST RATE**

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**4. CONTINGENCIES**

Under the terms of federal and state 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 VICTORVILLE**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2019**

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**1. 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  
 Finding numbers 2019-001 and 2019-002

Noncompliance material to financial statements noted:  yes  no  
 Finding number 2019-003

*Federal Awards*

Internal control over major programs:

- Material weakness identified?  yes  no
- Significant deficiency identified?  yes  none reported

Type of auditors' report issued on compliance for major programs:

- Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)  yes  no  
 Finding Number 2019-004

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u>                                                                                    |
|--------------------|------------------------------------------------------------------------------------------------------------------------------|
| 20.106             | U.S. Department of Transportation: Federal Aviation Association; Airport Improvement Program 03-06-0359-23 and 03-06-0359-24 |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?  yes  no

**CITY OF VICTORVILLE**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2019**

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**2. Findings Relating to Financial Statements**

**SIGNIFICANT DEFICIENCY**

Finding Number 2019-001: Year-End Close

*A partial repeat of prior year finding number 2018-001.*

Criteria

Auditing standards require auditors to include audit adjustments detected during the audit as internal control weaknesses.

Condition

For the year ended June 30, 2019, the audit detected several items in the accounting records that required adjustment including a reduction of capital assets for items that did not meet the capitalization requirements, moving federal grant activity related to the airport proprietary fund from a governmental special revenue fund, recognizing revenue or adjustment beginning fund balance for grant proceeds that did not have eligibility requirements, and recording revenue and a corresponding receivable for services provided but not yet billed in certain proprietary funds.

Cause

The City had capitalized items that did not meet the criteria for capitalization, the City had recorded the federal activity for the airport proprietary fund in a governmental special revenue fund, grants had been classified as unearned instead of tracked through restricted fund balance, and the City had not previously recorded unbilled receivables for certain utilities.

Effect

An audit adjustment was required to correct these items.

Recommendation

We recommend the City implement year-end policies and procedures to address the audit adjustments noted above and prevent their re-occurrence.

**CITY OF VICTORVILLE**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2019**

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**2. Findings Relating to Financial Statements (Continued)**

**SIGNIFICANT DEFICIENCY (CONTINUED)**

Finding Number 2019-001: Year-End Close (Continued)

Management's Response

Management works to identify all adjustments prior to start of the audit fieldwork process.

- One adjustment entry that was made involved the cost of master plans as a component of capital costs. Several master plans have been capitalized in prior years; however, per current auditors, these assets were not allowable capital assets so the plans were removed from capital assets and the remaining balances expensed.
- The second adjustment involved a Police Department grant. After review by the auditors it was determined that this particular grant had no program restrictions on spending then the revenue was reclassified from unearned to earned.
- The third adjustment relates to an opinion difference between the current auditors and the previous auditors. The current auditors determined that the City should accrue and recognize revenue for sewer and solid waste June activity that are billed in July in the amount of \$865,680. Previous auditors had determined in prior years that this amount was an immaterial annual difference and unnecessary to record.
- Finally, FAA grants needed to be moved out of the special revenue fund into a separate fund within the Airport funds to track it separately, as it had been correctly reported as proprietary but per the advice of the auditors a new fund should be established within the general ledger (G/L).

Per conversation with the auditors on all above items, the City recorded all requested adjustments to the G/L. 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.

**CITY OF VICTORVILLE**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2019**

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**2. Findings Relating to Financial Statements (Continued)**

**SIGNIFICANT DEFICIENCY**

Finding Number 2019-002: Airport Loan

*A partial repeat of prior year finding number 2018-002.*

Criteria

Loans should have current repayment schedules.

Condition

The City has 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, was 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.

Cause

The SCLAA is part of a Successor Agency that requires administrative tasks to be performed before the repayment schedule can be revised.

Effect

There is no current repayment schedule for the loan.

Recommendation

We recommend the City take the action necessary to amend the promissory notes and extend the period of repayment for a reasonable time period.

Management's Response

Management has reviewed this loan and is putting together a plan of action to take to the Oversight Board.

**CITY OF VICTORVILLE**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2019**

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**2. Findings Relating to Financial Statements (Continued)**

**NONCOMPLIANCE**

Finding Number 2019-003: Compliance with Senate Bill 341

Criteria

Senate Bill 341 (SB 341) requires all successor housing entities to comply with annual report requirements. One requirement is for the City to report housing financial and activity information by including specified information with the Annual Progress Report (APR) required to be annually submitted to the Department of Housing and Community Development (HCD) by April 1 of the subsequent year pursuant to the State of California housing law in reporting progress in implementing the housing element.

Condition

The City submitted the APR for the fiscal year ended June 30, 2018, on August 30, 2019, which was after the due date of April 1, 2019.

Cause

The report was not filed timely.

Effect

The report was late and not in compliance with SB 341 deadlines.

Recommendation

We recommend that the City implement policies and procedures to ensure timely reporting of the APR to HCD.

Management's Response

Senate Bill 341 (2013) was amended by Assembly Bill 1793 (2014), SB 107 (2015) and AB 346 (2017). The legislation requires a City's Housing Successor Agency to submit an annual report regarding housing financial and activity information. The Victorville Housing Successor Agency's SB 341 report for FY 17-18 was completed and posted to the City's website on January 2, 2019 (as required by SB 341). The SB 341 report was also required to be transmitted to HCD along with a copy of the City's independent financial audit prior to April 1, 2019. Although the report was completed and posted to the City's website in a timely manner, a staff oversight resulted in non-transmittal to HCD. Staff will be sure to transmit the SB 341 report along with the City's audited financial statements to HCD prior to the deadline each year.

**CITY OF VICTORVILLE**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2019**

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**3. Findings and Questioned Costs Relating to Major Federal Awards**

**NONCOMPLIANCE**

Finding Number 2019-004: Uniform Guidance Written Procedures

Major Program

U.S. Department of Transportation: Federal Aviation Association Direct Program; Airport Improvement Program; 20.106; 3-06-0359-23 and 3-06-0359-24

Criteria

Uniform Guidance section 200.320 requires the following for procurement: (a) micro-purchases (\$3,500 or less) may be awarded without soliciting competitive quotations, (b) small purchases (\$3,500 to \$150,000) require price or rate quotations from an adequate number of qualified sources, and (c) sealed bids required for purchases in excess of \$150,000.

The Uniform Guidance has various requirements for written policies and procedures. Section 200.318 of the Uniform Guidance requires written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts. Section 200.430 of the Uniform Guidance requires established written policies regarding compensation.

Condition

The City's purchasing policy is less restrictive than the Uniform Guidance in that the policy only requires quotes for expenditures in excess of \$5,000, which is higher than the \$3,500 limit required by the Uniform Guidance. No issues were noted as a result of testing only that the policies have not been updated for the Uniform Guidance.

The City did not have the above written policies.

Questioned Costs

None noted.

Perspective Information

Not applicable.

Cause

The City did not realize written procedures were required for the Uniform Guidance.



**CITY OF VICTORVILLE**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2019**

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**3. *Findings and Questioned Costs Relating to Major Federal Awards (Continued)***

Finding Number 2019-004 - Noncompliance: Uniform Guidance Written Procedures (Continued)

Effect

The City was not in compliance with requirements of the Uniform Guidance for written procedures.

Recommendation

We recommend that the City establish written policies and procedures in line with the requirements of the Uniform Guidance.

Management's Response

Management is reviewing the City's current Purchasing Policy and will be amending it as needed to comply with the Uniform Guidance in any instance that it does not clearly spell out the guidelines. The City does comply with the Uniform Guidance for all grant requirements.

**CITY OF VICTORVILLE**  
**Summary Schedule of Prior Audit Findings**  
**For the year ended June 30, 2019**

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***1. Findings Relating to Financial Statements***

**SIGNIFICANT DEFICIENCY**

Finding Number 2018-001 - Auditor Detected Adjustments

Condition

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.

Current Status

The current year finding number 2019-001 contains a similar finding for year-end close, but the audit adjustments differ from those mentioned above.

**CITY OF VICTORVILLE**  
**Summary Schedule of Prior Audit Findings**  
**For the year ended June 30, 2019**

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**1. Findings Relating to Financial Statements (Continued)**

**NONCOMPLIANCE**

Finding Number 2018-002 - Pledged Revenues Shortfalls, Underfunded Reserves, and Bond Defaults

Condition

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).

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.

Current Status

The defaulted principal and interest payments portion of this finding has been addressed and is not repeated in the 2019 audit. The lack of a current repayment schedule for the loan is repeated in finding number 2019-002.

**2. Findings and Questioned Costs Relating to Major Federal Awards**

None noted.