

Support Material Agenda Item No. 4

Board of Directors Meeting

**September 6, 2017
10:30 a.m.**

Location:

San Bernardino County Transportation Authority
First Floor Lobby Board Room
Santa Fe Depot, 1170 W. 3rd Street
San Bernardino, CA 92410

CONSENT CALENDAR

Consent - Administrative Matters

4. **Measure I Local Pass-Through Compliance Audit for Fiscal Year 2015/2016 for the City of Adelanto**

Review and receive the Measure I Local Pass-Through Compliance Audit report for Fiscal Year 2015/2016 for the City of Adelanto.

The full financial report is attached.

CITY OF ADELANTO, CALIFORNIA

MEASURE I FUNDS

**Financial Statements and
Independent Auditors' Reports**

For the year ended June 30, 2016

CITY OF ADELANTO, CALIFORNIA

**San Bernardino Associated Governments
Measure I Funds
For the Year Ended June 30, 2016**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Bernardino Associated Governments
San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure I 1990-2010 and the Measure I 2010-2040 Funds (Measure I Funds) of the City of Adelanto, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure I Funds of the City as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure I Funds and do not purport to, and do not, present fairly the financial position of the City of Adelanto, California, as of June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 9 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Measure I Funds of the City. The other information on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017, on our consideration of the City's internal control over financial reporting of the Measure I Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Rancho Cucamonga, California
June 26, 2017

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**BALANCE SHEET
JUNE 30, 2016**

	<u>Measure I Fund 1990-2010</u>	<u>Measure I Fund 2010-2040</u>
ASSETS		
Cash and Investments	\$ 2,320,076	\$ 2,350,950
Receivables:		
Taxes	-	123,219
Due from City of Adelanto	-	32,499
Total Assets	<u>\$ 2,320,076</u>	<u>\$ 2,506,668</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Accounts Payable	<u>\$ -</u>	<u>\$ 85,072</u>
Deferred inflows of resources		
Unavailable revenues	<u>-</u>	<u>66,095</u>
Fund Balance:		
Restricted	<u>2,320,076</u>	<u>2,355,501</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 2,320,076</u>	<u>\$ 2,506,668</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016**

	Measure I Fund <u>1990-2010</u>	Measure I Fund <u>2010-2040</u>
REVENUES		
Measure I Sales Tax	\$ -	\$ 628,730
Interest Income	605	373
Other Income	-	9,504
Total Revenues	<u>605</u>	<u>638,607</u>
EXPENDITURES		
Current:		
Street Maintenance Projects	-	314,385
Capital:		
Construction	<u>96,533</u>	<u>134,023</u>
Total Expenditures	<u>96,533</u>	<u>448,408</u>
REVENUES OVER/(UNDER) EXPENDITURES	(95,928)	190,199
Fund Balance Beginning of Year	<u>2,416,004</u>	<u>2,165,302</u>
Fund Balance End of Year	<u>\$ 2,320,076</u>	<u>\$ 2,355,501</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – GENERAL INFORMATION

Reporting Entity

The financial statements are intended to reflect the financial position and changes in financial position of the Measure I Fund 1990-2010 and Measure I Fund 2010-2040 (Measure I Funds) of the City of Adelanto, California (City) only. Accordingly, the financial statements do not purport to, and do not, present fairly the financial position of the City and changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Measure I

Measure I is the half-cent sales tax collected throughout San Bernardino County for transportation improvements. In 2004, San Bernardino County voters approved the extension of the Measure I sales tax through 2040. See Note 4 for a detailed description of the Measure.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Measure I Funds of the City conform to accounting policies generally accepted in the United States of America. The following is a summary of significant accounting policies.

A. Basis of Accounting

Governmental Fund Financial Statements

Fund Accounting

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related benefits, and equity, segregated for the purpose of carrying out specific activities. The City accounts for the Measure I activities within its Measure I 1990-2010 and Measure I 2010-2040 Special Revenue Funds.

Special Revenue Funds are used to account for the proceeds of revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Measurement Focus and Basis of Accounting

The Special Revenue Funds of the City are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred. Operating statements of governmental funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current resources.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

C. Deferred Inflows of Resources

Deferred inflows of resources, unavailable revenues, represents revenues earned during the period but unavailable to liquidate current liabilities. These amounts are deferred and recognized in the period the amounts become available. The balance is comprised of \$33,596 in taxes receivable and \$32,544 due from the City of Adelanto.

D. Fund Balances

Fund balance is reported according to the following classifications: nonspendable, restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

Restricted fund balance represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

E. Cash and Investments

Cash and investments are pooled to facilitate cash management and maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds including the Measure I Funds based upon the average cash balance. The investment policies and the risks related to GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, applicable to the Measure I Funds, are those of the City and are disclosed in the City's basic financial statements. The City's basic financial statements can be obtained at City Hall.

The Measure I Funds' cash and investments are reported at fair value. The fair value measurements are based on the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Measure I Funds' deposits and withdrawals in the City Investment Pool are made on the basis of \$1 and not fair value. Accordingly, the measurement of the Measure I Funds' investment in the City Investment Pool is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

F. Maintenance of Effort

In accordance with California Public Utilities Code 190300 and Ordinance No. 04-01 of the San Bernardino County Transportation Authority, Local Street Program funds shall not be used to supplant existing local discretionary funds being used for street and highway purposes. The maintenance of effort (MOE) base year level was determined based upon the discretionary General Fund expenditures for transportation-related construction and maintenance activities in Fiscal Year 2008/2009. The MOE base year level as approved by the SANBAG Board of Directors shall remain in effect until the expiration of Measure I 2010-2040. General Fund expenditures in excess of the MOE base year level will carry over to subsequent fiscal years and can be applied in a future year to offset the amount the local agency may need to meet the MOE requirement. The City's determined MOE base level is \$168,321.

NOTE 3 – TAXES RECEIVABLE

The taxes receivable represent the Measure I sales tax revenues for the fiscal year received from the San Bernardino County Transportation Authority after June 30, 2016.

NOTE 4 – MEASURE I FUNDS

The California State Legislature authorized county transportation authorities to enact local option sales tax measures for transportation improvements in the late 1980s, under provisions of Division 19 (commencing with Section 180000) of the Public Utilities Code. In November 1989, San Bernardino County voters approved passage of Measure I, authorizing the San Bernardino County Transportation Authority to impose a half cent retail transactions and use tax applicable in the incorporated and unincorporated areas of the County of San Bernardino for the 20-year period between April 1, 1990 and March 31, 2010. San Bernardino Associated Governments (SANBAG), acting as the Authority, was authorized to administer the programs described in the Measure.

Early in the second decade of Measure I, it became apparent that continuation of the half cent sales tax would be critical to maintaining funding for transportation in San Bernardino County. SANBAG member jurisdictions and transportation stakeholders worked to identify transportation needs, and an expenditure plan was developed to serve as a basis for the renewal of Measure I. Ordinance No. 04-01 was placed before voters in November 2004, and Measure I was renewed. The new Measure I extends the half cent sales tax for 30 years, from April 1, 2010 through March 31, 2040. The new Measure is referred to as Measure I 2010-2040 to distinguish it from the first Measure I. The City of Adelanto accounted for these funding sources in separate Funds which are referred to as Measure I Funds 1990-2010 and Measure I Funds 2010-2040 in these financial statements.

SANBAG, acting as the Authority, is authorized to administer the programs described in the Measure. The SANBAG Board serves as the Authority Board of Directors. Revenue from the tax can only be used for transportation improvement and traffic management programs authorized in the Expenditure Plan.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 – MEASURE I FUNDS, (CONTINUED)

Measure I 2010-2040 has a return-to-source provision that states that funds shall be allocated to subareas in accordance with the actual revenue collected in each subarea. After deduction of required Board of Equalization fees and authorized administrative costs, revenues generated in each subarea are to be expended on projects of direct benefit to that subarea. Revenues are accounted for separately for each subarea and then allocated to specified project categories in each subarea. These project categories are termed “programs” in this Strategic Plan. Decisions on how revenues are expended within the subareas are made by the SANBAG Board of Directors, based upon recommendations of local subarea representatives. Other than the projects identified in the Cajon Pass Expenditure Plan, revenues generated within a subarea can be expended outside of that subarea only upon approval of two-thirds (2/3) of the jurisdictions within the affected subarea. A proportional share of projected State and federal transportation funds is to be reserved for use solely within the Valley Subarea and individual Mountain/Desert (Colorado River, Morongo Basin, Mountains, North Desert and Victor Valley) Subareas. In the San Bernardino Valley Subarea, Measure I 2010-2040 contains the following programs:

- Freeway Program
- Freeway Interchange Program
- Major Street Program
- Local Street Program
- Metrolink/Rail Program
- Express Bus/Bus Rapid Transit Program
- Senior and Disabled Transit Program
- Traffic Management Systems Program

In each of the Mountain/Desert Subareas, Measure I 2010-2040 contains the following programs:

- Local Street Program
- Major Local Highway Program
- Senior and Disabled Transit Program

NOTE 5 – DUE FROM THE CITY OF ADELANTO

The amount due from the City of Adelanto of \$32,499 represents expenditures recorded in previous fiscal years by the fund that were not allowable by the Measure I Strategic Plan. The City has asserted that it will return the funds during fiscal year ended June 30, 2017. As the cash was not reimbursed during the availability period, the amount is reflected in deferred inflows of resources – unavailable revenue.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
MEASURE I FUND 1990-2010
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest Income	\$ 500	\$ 500	\$ 605	\$ 105
EXPENDITURES				
Capital:				
Construction	2,415,237	2,415,237	96,533	2,318,704
Net Change in Fund Balance	(2,414,737)	(2,414,737)	(95,928)	2,318,809
Fund Balance Beginning of Year	2,416,004	2,416,004	2,416,004	-
Fund Balance End of Year	\$ 1,267	\$ 1,267	\$ 2,320,076	\$ 2,318,809

See accompanying note to required supplementary information.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
MEASURE I FUND 2010-2040
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance From
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Measure I Sales Tax	\$ 625,000	\$ 625,000	\$ 628,730	\$ 3,730
Interest Income	150	150	373	223
Other Cost Reimbursement	-	-	9,504	9,504
Total Revenues	<u>625,150</u>	<u>625,150</u>	<u>638,607</u>	<u>13,457</u>
EXPENDITURES				
Current:				
Street Maintenance Projects	300,000	300,000	314,385	(14,385)
Capital:				
Construction	<u>755,000</u>	<u>755,000</u>	<u>134,023</u>	<u>620,977</u>
Total Expenditures	<u>1,055,000</u>	<u>1,055,000</u>	<u>448,408</u>	<u>606,592</u>
Net Change in Fund Balance	(429,850)	(429,850)	190,199	620,049
Fund Balance Beginning of Year	<u>2,165,302</u>	<u>2,165,302</u>	<u>2,165,302</u>	<u>-</u>
Fund Balance End of Year	<u>\$ 1,735,452</u>	<u>\$ 1,735,452</u>	<u>\$ 2,355,501</u>	<u>\$ 620,049</u>

See accompanying note to required supplementary information.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUND**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 – BUDGETARY DATA

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America. Actual costs exceeded appropriations for Street Maintenance Projects in the Measure I 2010-2040 Fund by \$14,385 however expenditures did not exceed appropriations for the fund in total.

OTHER INFORMATION

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**PROGRAM STATUS: COMPARISON OF FIVE YEAR PLAN PROJECT
BUDGET TO CURRENT YEAR EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2016**

The Measure I Five Year Capital Improvement Plan for local streets was adopted by Council Resolution No. 15-46. Of the funds allocated under the Measure I Five Year Capital Improvement Plan, the following programs were affected during the current fiscal year:

Local Projects	5-Year Plan Project Budget	Current Fiscal Year Expenditures	Unexpended Budget
HWY 395 (Mojave to Star) Widening Project	\$ 4,100,000	\$ 191,478	\$ 3,908,522
Victor Pedestrian Improvements	650,000	3,945	646,055
Aster Road Pedestrian Improvement (East Side from North of Seneca to Victor)	100,000	2,290	97,710
Bellflower Widening Project (Palmdale to Existing Improvements)	684,932	30,364	654,568
City Wide Pavement Management System	835,000	316,864	518,136
		\$ 544,941	
		\$ 96,533	
		448,408	
		\$ 544,941	
	Total expenditures for Measure I Fund 1990-2010	\$ 96,533	
	Total expenditures for Measure I Fund 2010-2040	448,408	
	Total expenditures for the year ended June 30, 2016	\$ 544,941	

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**MAINTENANCE OF EFFORT: COMPARATIVE OF BASE LEVEL AMOUNT
TO ANNUAL EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2016**

The maintenance of effort base level amount was determined based upon fiscal year 2008/09 spending levels. Excess/(deficient) amounts are carried forward in accordance with the Measure I Strategic Plan. Actual amounts expended in relation to the base level amount in each year subsequent to the base year are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>General Fund Street and Highway Funds Utilized</u>	<u>Base Level Amount</u>	<u>Excess/(Deficiency)</u>	<u>Cumulative Excess/(Deficiency)</u>
2010	\$ 889,864	\$ (168,321)	\$ 721,543	\$ 721,543
2011	962,438	(168,321)	794,117	1,515,660
2012	1,023,984	(168,321)	855,663	2,371,323
2013	1,069,894	(168,321)	901,573	3,272,896
2014	1,123,626	(168,321)	955,305	4,228,201
2015	1,077,907	(168,321)	909,586	5,137,787



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 MEASURE I COMPLIANCE REQUIREMENTS

To the Board of Directors
San Bernardino Associated Governments
San Bernardino, California

We have audited, in accordance with 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 Measure I 1990-2010 and the Measure I 2010-2040 Funds (Measure I Funds) of the City of Adelanto, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Measure I Funds' basic financial statements, and have issued our report thereon dated June 26, 2017. Our report included an emphasis of matter stating that the financial statements of the Measure I Funds do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016. In addition our report included an explanatory paragraph stating that the financial statements do not include Management's Discussion and Analysis.

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 of the Measure I Funds (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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 responses we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying schedule of findings and responses as items 2016-001 and 2016-003 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2016-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Measure I Fund of the City are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including requirements of Measure I as specified in the agreement between the City and SANBAG, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the Measure I requirements as specified in the agreement between the City and SANBAG, which are described in the accompanying schedule of findings and responses as items 2016-001 and 2016-002.

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 responses. The City's responses were not subjected to the auditing procedures applied in the audit 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 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.



Rancho Cucamonga, California
June 26, 2017

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

Finding 2016-001

PROJECT TRACKING

Criteria:

Pursuant to Policy VVLS-14 of the Strategic Guide, any single project expenditure in excess of \$100,000 shall be listed as an individual project and shall not be included in the general program category.

Condition:

While testing the current year categorical projects, it was noted that the City did not track categorical project costs by individual project and therefore, the City was unable to determine whether individual projects exceeded \$100,000.

Context:

The condition noted above was identified while testing the actual expenditures for compliance with the Measure I Strategic Plan.

Effect:

Individual projects included in the general program category may exceed \$100,000.

Cause:

The City did not track individual projects in the general program category.

Recommendation:

The City should enhance its tracking of Measure I costs of general program projects to ensure compliance with the Strategic Plan requirement that individual projects that exceed \$100,000 are identified separately in the Five Year Plan.

View of Responsible Officials and Planned Corrective Action:

Planned corrective action:

The City purchased a project accounting module for our accounting system during the FY17, and we have started implementing the use of project numbers for expenditures. We expect that beginning FY18, the use of project numbers for all public works projects, including measure I and street Project, and sub-projects, will be fully-implemented.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

Finding 2016-002

AUDITED INFORMATION RELATED TO MAINTENANCE OF EFFORT REQUIREMENT

Criteria:

Pursuant to Policy VVLS-30 of the Strategic Guide, the maintenance of effort (MOE) requirements shall be tracked and verified as part of the annual Measure I Local Street Program audit. This will be accomplished by comparing the discretionary General Fund expenditures for transportation-related construction and maintenance activities consisted with Policy VVLS-16 to the MOE base year level. Because this information will be cumulative, audited information from previous fiscal years will be used to support the current level of activity.

Condition:

The City has not issued audited financial statements for June 30, 2015 and therefore was unable to provide audited information to reconcile the General Fund discretionary expenditures used in the MOE calculation.

Context:

The condition noted above was identified while testing the Maintenance of Effort requirement.

Effect:

Due to the condition noted above, compliance with the MOE requirement could not be demonstrated.

Cause:

The City has not issued audited June 30, 2015 financial statements reflecting General Fund discretionary spending to be used in the Measure I MOE calculation.

Recommendation:

We recommend providing audited information to be used in reconciling the MOE activity levels. This can be accomplished through a timely issuance of audited financial statements that include General Fund activity.

View of Responsible Officials and Planned Corrective Action:

Planned corrective action:

City has hired additional accounting, and outside consulting staff in order to expedite the audit process so that the City can get to the point of current financial reporting status. We expect that during the FY18 operational year, financial reporting will be complete through FY16 and be working on FY17, which we hope will be completed prior to 6-30-18.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

Finding 2016-003

TIMELINESS OF BANK ACCOUNT RECONCILIATION

Criteria:

The City should ensure that bank reconciliations are performed and reviewed timely.

Condition:

During our testing, we noted that the final June 30, 2016 citywide bank reconciliation for Desert Community Bank was not available for review until May 2017.

Context:

The Measure I Funds participate in the pooling of the City's checking account. While the amount held in the account was more than the amount allocated to the Measure I Funds, it is necessary to reconcile the account with all participating funds in a timely manner.

Effect:

Due to the condition noted above, audit procedures for the Measure I Funds were delayed.

Cause:

The City did not reconcile the Desert Community Bank Account with all participating funds timely.

Recommendation:

We recommend the City enhance its bank reconciliation process to perform and review the reconciliation within 30 days of the previous month end.

View of Responsible Officials and Planned Corrective Action:

Planned corrective action:

In FY17, the City has completed the integration of our Utility Billing and Accounts Receivable operations into our General Ledger Accounting software. Daily Cash reconciliation processes have been streamlined so that monthly reconciliations may be done on a timely basis. The Finance Department has also requested additional software (including a bank reconciliation module), that if approved by City Council in June of 2017, can be implemented in FY18 to aid in the bank reconciliation process.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2016**

<u>Finding No.</u>	<u>Description</u>	<u>Status</u>
2015-001	Revenue Recognition	Implemented
2015-002	Expenditures not included in Five-Year Plan	Implemented
2015-003	Money Market Account Reconciliation/Interest Allocation	Implemented