

Support Material Agenda Item No. 5

Board of Directors Meeting

September 7, 2016

10:15 a.m.

Location

San Bernardino Associated Governments
Santa Fe Depot - First Floor Lobby
1170 W. 3rd Street, San Bernardino, California 92410

Consent Calendar

Administrative Matters

5. Measure I Local Pass-Through Compliance Audit for City of Adelanto Fiscal Year 2014/2015

That the Board review and receive the Measure I Audit Reports of Local Pass-Through Funds for the City of Adelanto for the year ended June 30, 2015.

Attached is the full financial report for the City of Adelanto.

CITY OF ADELANTO, CALIFORNIA

MEASURE I FUNDS

**Financial Statements and
Independent Auditors' Reports**

For the year ended June 30, 2015

CITY OF ADELANTO, CALIFORNIA

**San Bernardino Associated Governments
Measure I Funds
For the Year Ended June 30, 2015**

TABLE OF CONTENTS

Independent Auditors' Report	1
Financial Statements	
Balance Sheet	3
Statement of Revenues, Expenditures and Changes in Fund Balance	4
Notes to the Financial Statements	5
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual Measure I Fund 1990-2010	9
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual Measure I Fund 2010-2040	10
Note to Required Supplementary Information	11
Other Information	
Program Status: Comparison of 5 year Plan Project Budget to Current Year Expenditures	12
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 <i>Government Auditing Standards and Measure I Compliance Requirements</i>	13
Schedule of Findings and Responses	15
Schedule of Prior Year Findings	18



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 Fund 1990-2010 and the Measure I Fund 2010-2040 (Measure I Funds), of the City of Adelanto, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Measure I Funds' basic 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, 2015, 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, 2015, 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 page 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* for the Measure I Funds that accounting principles generally accepted in the United States of America requires 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 financial reporting and 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 page 12 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 May 20, 2016, 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 Measure I Funds' internal control over financial reporting and compliance.


Rancho Cucamonga, California
May 20, 2016

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

**BALANCE SHEET
JUNE 30, 2015**

	Measure I Fund 1990-2010	Measure I Fund 2010-2040
ASSETS		
Cash and Investments	\$ 2,416,004	\$ 2,043,177
Receivables:		
Taxes	-	128,769
Due from City of Adelanto	-	32,499
Total Assets	<u>\$ 2,416,004</u>	<u>\$ 2,204,445</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Accounts Payable	<u>\$ -</u>	<u>\$ 6,644</u>
Deferred inflows of resources		
Unavailable revenues - repayments of unallowable costs	<u>-</u>	<u>32,499</u>
Fund Balance:		
Restricted	<u>2,416,004</u>	<u>2,165,302</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 2,416,004</u>	<u>\$ 2,204,445</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, 2015**

	<u>Measure I Fund 1990-2010</u>	<u>Measure I Fund 2010-2040</u>
REVENUES		
Measure I Sales Tax	\$ -	\$ 735,495
Interest Income	767	207
Total Revenues	<u>767</u>	<u>735,702</u>
EXPENDITURES		
Current:		
General Government	-	1,263
Street Maintenance Projects	-	128,492
Capital:		
Construction	904,567	34,950
Total Expenditures	<u>904,567</u>	<u>164,705</u>
REVENUES OVER/(UNDER) EXPENDITURES	<u>(903,800)</u>	<u>570,997</u>
Fund Balance Beginning of Year	<u>3,319,804</u>	<u>1,594,305</u>
Fund Balance End of Year	<u>\$ 2,416,004</u>	<u>\$ 2,165,302</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, 2015**

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 Funds (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 assets.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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 that the amounts become available.

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 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.

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, 2015.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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.

San Bernardino Associated Governments (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.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 – MEASURE I FUNDS, (CONTINUED)

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 incurred by the fund that were not allowable by the Measure I Strategic Plan. \$31,236 was incurred in fiscal year 2013-14 and \$1,263 was incurred in fiscal year 2014-15. The City has asserted that it will return the funds during fiscal year ended June 30, 2016. The amount is also reported as a deferred inflow of resources as the reimbursements were not received within the availability period.

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, 2015**

	Budget		Actual	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest Income	\$ 500	\$ 500	\$ 767	\$ 267
EXPENDITURES				
Capital:				
Construction	3,270,000	3,320,000	904,567	2,415,433
Net Change in Fund Balance	(3,269,500)	(3,319,500)	(903,800)	2,415,700
Fund Balance Beginning of Year	3,319,804	3,319,804	3,319,804	-
Fund Balance End of Year	\$ 50,304	\$ 304	\$ 2,416,004	\$ 2,415,700

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, 2015**

	Budget		Actual	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Measure I Sales Tax	\$ 572,634	\$ 572,634	\$ 735,495	\$ 162,861
Interest Income	150	150	207	57
Total Revenues	<u>572,784</u>	<u>572,784</u>	<u>735,702</u>	<u>162,918</u>
EXPENDITURES				
Current:				
General Government	-	1,300	1,263	37
Street Maintenance Projects	265,000	263,700	128,492	135,208
Capital:				
Construction	-	1,005,000	34,950	970,050
Total Expenditures	<u>265,000</u>	<u>1,270,000</u>	<u>164,705</u>	<u>1,105,295</u>
Net Change in Fund Balance	307,784	(697,216)	570,997	1,268,213
Fund Balance Beginning of Year	<u>1,594,305</u>	<u>1,594,305</u>	<u>1,594,305</u>	<u>-</u>
Fund Balance End of Year	<u>\$ 1,902,089</u>	<u>\$ 897,089</u>	<u>\$ 2,165,302</u>	<u>\$ 1,268,213</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, 2015**

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.

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, 2015**

The Measure I Five Year Capital Improvement Plan for local streets was adopted by Council Resolution No. 15-51. 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
Palmdale & Pearmain Pedestrian Improvements (Pearmain East to existing sidewalk and access ramps at begorian & pearmain)	\$ 50,000	\$ -	\$ 50,000
Bellflower Widening Project (Palmdale to existing improvents)	684,932	34,950	649,982
Adelanto Road (Holly to Air Expressway) Rehab & South Bound Closure @395	1,000,000	-	1,000,000
Non-Motorized Transportation Bicycle lane Cactus Rd (Jonathan to 395)	125,000	-	125,000
Aster Rd. Pedestrian Improvements (East Side from North of Seneca to Victor)	100,000	-	100,000
Jonathan Pedestrian trail (East Side from Seneca north to Tara)	100,000	-	100,000
Non-Motorized Transportation Bicycle lane Adelanto Rd (Air Express to Holly)	200,000	-	200,000
Non-Motorized Transportation Bicycle lane Mojave Drive (Aster to 395)	175,000	-	175,000
Victor Pedestrian Improvements (Aster to Pearmain, south side, including connectors from Victor)	616,000	-	616,000
Victor and Pearmain Street Maintenance	1,185	22,778	(21,593)
Cactus and Pearmain Street Maintenance	2,895	-	2,895
HWY 395 Road Widening project Maintenance	4,525,000	880,526	3,644,474
Traffic Survey & Warrant Studies	30,000	-	30,000
City Wide Pavement Management System	797,000	129,755	667,245
City Wide Streetscapeing and Complete Streets Modifications	797,000	-	797,000
	<u>\$9,204,012</u>	<u>\$ 1,068,009</u>	<u>\$ 8,136,003</u>
		\$ 904,567	
		164,705	
		(1,263)	
		<u>\$ 1,068,009</u>	



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, 2015, 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 May 20, 2016. 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, 2015. 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 (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 over financial reporting 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 were not identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control described that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2015-003 to be a material weakness.

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 findings 2015-001 and 2015-002 to be significant deficiencies.

Compliance and Other Matters

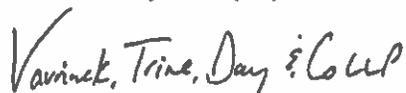
As part of obtaining reasonable assurance about whether the financial statements of the Measure I Funds of the City are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including requirements of Measure 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the requirements of the Measure I requirements as specified in the agreement between the City and SANBAG, which is described in the accompanying schedule of findings and responses as finding 2015-002.

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
May 20, 2016

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

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

Finding 2015-001

FINANCIAL REPORTING - REVENUE RECOGNITION

Criteria:

Governmental Accounting Standards Board (GASB) Statement No. 33 states that a receivable is recognized for derived tax revenue when the underlying exchange occurs or resources are received, whichever is first.

Condition:

The City did not recognize a receivable for derived nonexchange transactions that occurred during the months of May and June and which the related receipts occurred in July and August.

Context:

The condition was discovered during our procedures over revenues.

Effect:

Adjustments were proposed to fairly state revenues recognized as of June 30, 2015.

Cause:

The City did not accrue sales tax revenue appropriately.

Recommendation:

We recommend that the City enhance its closing process to ensure that sales tax revenues are properly accrued to the appropriate fiscal year.

View of Responsible Officials and Planned Corrective Action:

The City will prepare and record journal entries to properly accrue July and August receipts of tax revenue for the period of May and June as proposed as audit adjustments, and will insure that current year accruals are properly recorded for FY15-16.

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

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

Finding 2015-002

EXPENDITURES NOT INCLUDED IN MEASURE I FIVE YEAR CAPITAL IMPROVEMENT PLAN

Criteria:

Policy VVLS-15 of the SANBAG Victor Valley Local Street (VVLS) Program Measure I Strategic Plan states that expenditures of the Measure I Local Street Funds must be included in the Five Year Capital Improvement Plan and adopted by resolution of the governing body.

Condition:

Expenditures totaling \$1.263 were made for membership costs. These costs were not included on the Measure I Five Year Capital Improvement Plan and are not eligible costs to be funded with Measure I sales tax revenue.

Context:

The condition above was noted during our testing of Measure I compliance.

Effect:

The City had instances of noncompliance with Policy VVLS-15 of the SANBAG Victor Valley Local Streets (VVLS) Strategic Guide.

Cause:

The City incurred expenditures for projects not listed on the Measure I Five Year Capital Improvement Plan and that were not eligible to be funded with Measure I sales tax revenue.

Recommendation:

We recommend the City enhance controls over Measure I compliance to ensure that only eligible costs are funded by Measure I sales tax. Additionally, we recommend that all costs being funded with Measure I funds be included on the adopted Measure I Five Year Capital Improvement Plan.

View of Responsible Officials and Planned Corrective Action:

City finance staff will be reviewing all expenditures made during the FY15-16 year to assure compliance with VVLS-15, and any necessary adjustments made prior to the next audit.

The City Finance department will be coordinating efforts with the City Public Works/Engineering department and the Street Maintenance department in order that the adopted amendments to the Five Year Capital Improvement Plan and the Annual City Budget For FY17, so that they will be in alignment. The City has issued a purchase order to acquire a "project management" software module that will work with our general ledger to better account for Measure I projects (as well as other City projects) to be implemented for FY17.

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

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

Finding 2015-003

MONEY MARKET ACCOUNT RECONCILIATION/INTEREST ALLOCATION

Criteria:

Policy MDLS-18 of the SANBAG Mountain/Desert Subareas (MDLS) Program Measure I Strategic Plan states that any interest earned on the investment of Measure I Transportation Sales Tax Funds must be deposited in the Special Measure I Transportation Sales Tax Fund. Any jurisdiction not electing to invest its Measure I funds but at the same time investing most of its other available funds should deposit the Measure I funds in a separate account to clearly indicate that no such monies were invested. If Measure I Transportation Sales Tax funds are invested, they must receive their equitable proration of interest earned on the total funds invested.

Condition:

The City maintains a money market account that earns interest. The money market account balance is held by the Measure I 1990-2010 Fund and the Measure I 2010-2040 Fund. The account was not reconciled timely and the interest earned had not been recorded in the general ledger.

Context:

The condition above was noted during our testing of cash and investment balances reported in the Measure I Funds.

Effect:

Adjustments were proposed to reconcile the trial balance with the balances held in the financial institution and to credit the Measure I Funds with the earned interest.

Cause:

The City did not reconcile the money market account timely.

Recommendation:

We recommend the City enhance its bank reconciliation process to include the money market account.

View of Responsible Officials and Planned Corrective Action:

The City Finance department will make sure that the City's money market account is reconciled and the interest earned recorded in the general ledger. It will also transfer 80% of Measure I Tax funds received into the City's pooled cash account to the money market account as funds are received in FY17 for Capital Projects reserve, retaining 20% for general street maintenance in the pooled account.

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

**SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2015**

<u>Finding No.</u>	<u>Description</u>	<u>Status</u>
2014-001	Year end closing	Partially Implemented – see Finding 2015-001
2014-002	Expenditures not included in Five-Year Plan	Not implemented – see Finding 2015-002