

CITY OF FULLERTON

Revised Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2004, through June 30, 2011

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2004, through June 30, 2011



JOHN CHIANG
California State Controller

February 2013



JOHN CHIANG
California State Controller

February 21, 2013

The Honorable Sharon Quirk-Silva
Mayor of the City of Fullerton
303 West Commonwealth Avenue
Fullerton, CA 92832

Dear Mayor Quirk-Silva:

The State Controller's Office audited the City of Fullerton's Special Gas Tax Street Improvement Fund for the period of July 1, 2004, through June 30, 2011. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Capital Projects Fund for the period of July 1, 2004, through June 30, 2011.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund and TCRF allocations recorded in the Capital Projects Fund in compliance with requirements, and that no adjustment to the funds is required.

We issued an audit report dated August 21, 2012. Subsequently, the city provided additional information related to our audit finding. Consequently, we are revising our finding to reflect the additional information provided and issuing a revised audit report.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/vb

cc: Julia James, Director of Administrative Services
City of Fullerton
Dianna Honeywell, Fiscal Services Manager
City of Fullerton

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Revised Audit Report

Summary

The State Controller's Office audited the City of Fullerton's Special Gas Tax Street Improvement Fund for the period of July 1, 2004, through June 30, 2011. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Capital Projects Fund for the period of July 1, 2004, through June 30, 2011.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund allocations recorded in the Capital Projects Fund in compliance with requirements, and that no adjustment to the fund is required.

We issued a final audit report dated August 21, 2012. Subsequently, the city provided additional information related to our audit finding. Consequently, we are revising our finding to reflect additional information provided and issuing a revised audit report.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Capital Projects Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund allocations recorded in the Capital Projects Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;

- Properly deposited TCRF allocations into an account designated for the receipt of state funds allocated for transportation purposes;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund allocations recorded in the Capital Projects Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that the City of Fullerton accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2004, through June 30, 2011.

Our audit also disclosed that the city accounted for and expended its Traffic Congestion Relief Fund allocations recorded in the Capital Projects Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2004, through June 30, 2011.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on April 22, 2005, disclosed no findings.

Views of Responsible Official

We issued an audit report dated August 21, 2012. Subsequently, the city provided additional information that the TCRF allocations received for fiscal year (FY) 2006-07 and FY 2008-09 were spent within the required timeframe. As a consequence, the city does not need to reimburse the \$654,758 to the State Controller's Office.

Restricted Use

This report is intended for the information and use of the City of Fullerton's management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

February 21, 2013

**Revised Schedule 1—
Reconciliation of Fund Balance
July 1, 2010, through June 30, 2011³**

	Special Gas Tax Street Improvement Fund	
	Highway Users Tax Allocation ¹	Traffic Congestion Relief Fund Allocation ²
Beginning fund balance per city	\$ 1,431,356	\$ 1,886,199
Revenues	<u>3,496,275</u>	<u>320,770</u>
Total funds available	4,927,631	2,206,969
Expenditures	<u>(1,662,200)</u>	<u>(2,206,969)</u>
Ending fund balance per city	3,265,431	—
Total SCO adjustment	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 3,265,431</u>	<u>\$ —</u>

¹ The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments for sections 2103, 2105, 2106, and 2107 varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems. The audit period was July 1, 2004, through June 30, 2011.

² Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Capital Projects Fund. The audit period was July 1, 2004, through June 30, 2011.

³ The audit period was July 1, 2004, through June 30, 2011; however, this schedule includes only the period of July 1, 2010, through June 30, 2011.

Revised Finding and Recommendation

**FINDING—
Did not meet TCRF
expenditure
requirement**

The city did not meet the Streets and Highways Code section 2182.1(g) expenditure requirement for Traffic Congestion Relief Fund (TCRF) allocations received in fiscal year (FY) 2006-07 and FY 2008-09. This code section requires a city to expend its TCRF allocations within the fiscal year following the fiscal year in which allocations were made. The code requires that funds not expended within that period be returned to the Controller. Our audit found that the city did not expend the TCRF allocations within the required time periods.

The allocations not expended within the required time periods total \$654,758 (\$15,576 in FY 2006-07, and \$639,182 in FY 2008-09).

Recommendation

The city must return the TCRF allocations, in the amount of \$654,758, to the State Controller's Office, ATTN: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

City's Response

This letter is in response to your finding issued during the recent audit of the City's Gas Tax and TCRF funds. The finding states that the City did not meet the expenditure requirement for TCRF allocations received in fiscal year 2006-06 and 2008-09 and recommends that the City return a total of \$654,758 to the State.

The City of Fullerton wishes to appeal this finding. During the audited period the City had combined both TCRF and Prop 1B funds in the same account and neglected to track the two time constraints separately. This resulted in using some of the Prop 1B funds prematurely and delaying the expenditure of TCRF funds. The issue was further complicated by the City's receipt of federal ARRA funds which also had a tight spending window.

While we do not dispute that the funds were not spent within the required timeframe, they ultimately funded eligible projects of benefit to the community as was the intent of the program. Refunding the amount requested would place a significant financial burden on the City during these difficult economic times and would delay the funding future vital projects.

SCO's Comment

We issued an audit report dated August 21, 2012. Subsequently, the city provided additional information that the TCRF allocations received for fiscal year (FY) 2006-07 and FY 2008-09 were spent within the required timeframe. As a consequence, the city does not need to reimburse the \$654,758 to the State Controller's Office.

**Attachment—
City’s Response to
Final Audit Report**



CITY OF FULLERTON

Administrative Services Department

Administration (714) 738-6521
Fiscal Services (714) 738-6523
Information Technology (714) 738-6538
Purchasing (714) 738-6533

July 18, 2012

Steven Mar, Chief
Local Government Audits Bureau
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

RE: City of Fullerton Gas Tax Audit for period of July 1, 2004 through June 30, 2011

Dear Mr. Mar,

This letter is in response to your finding issued during the recent audit of the City's Gas Tax and TCRF funds. The finding states that the City did not meet the expenditure requirement for TCRF allocations received in fiscal year 2006-06 and 2008-09 and recommends that the City return a total of \$654,758 to the State.

The City of Fullerton wishes to appeal this finding. During the audited period the City had combined both TCRF and Prop 1B funds in the same account and neglected to track the two time constraints separately. This resulted in using some of the Prop 1B funds prematurely and delaying the expenditure of TCRF funds. The issue was further complicated by the City's receipt of federal ARRA funds which also had a tight spending window.

While we do not dispute that the funds were not spent within the required timeframe, they ultimately funded eligible projects of benefit to the community as was the intent of the program. Refunding the amount requested would place a significant financial burden on the City during these difficult economic times and would delay the funding future vital projects.

The City would greatly appreciate reconsideration of your auditor's recommendation. Please feel free to contact me should you have further questions or concerns.

Sincerely,

A handwritten signature in cursive script that reads "Julia James".

Julia James
Director of Administrative Services

cc: Bill Harkness, Auditor

THE EDUCATION COMMUNITY

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Division of Audits
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<http://www.sco.ca.gov>