

# **CITY OF FONTANA**

Audit Report

## **SPECIAL GAS TAX STREET IMPROVEMENT FUND**

*July 1, 2004, through June 30, 2014*

## **TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS**

*July 1, 2004, through June 30, 2011*

## **PROPOSITION 1B FUND ALLOCATIONS**

*July 1, 2007, through June 30, 2014*



**BETTY T. YEE**  
California State Controller

June 2016



**BETTY T. YEE**  
California State Controller

June 24, 2016

The Honorable Acquanetta Warren  
Mayor of the City of Fontana  
8353 Sierra Avenue  
Fontana, CA 92335

Dear Mayor Warren:

The State Controller's Office audited the City of Fontana's Special Gas Tax Street Improvement Fund for the period of July 1, 2004, through June 30, 2014. We also audited the Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund for the period of July 1, 2004, through June 30, 2011; and the Proposition 1B Fund allocations recorded in its Proposition 1B Fund for the period of July 1, 2007, through June 30, 2014.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with requirements, except that the city loaned \$318,658 of its Special Gas Tax Street Improvement Fund to the Circulation Mitigation Fund, which is an unallowable use of gas tax revenues.

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits Bureau, by telephone at (916) 284-0120.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/as

Attachment

cc: Ken Hunt, City Manager  
City of Fontana

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Fontana's:

- Special Gas Tax Street Improvement Fund for the period of July 1, 2004, through June 30, 2014;
- Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund for the period of July 1, 2004, through June 30, 2011; and
- Proposition 1B Fund allocations recorded in its Proposition 1B Fund for the period of July 1, 2007, through June 30, 2014.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with requirements, except that the city loaned \$318,658 of its Special Gas Tax Street Improvement Fund to the Circulation Mitigation Fund, which is an unallowable use of gas tax revenues.

## 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.

Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 636, Statutes of 2000, (Senate Bill 1662) and 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 Traffic Congestion Relief Fund allocations in its Traffic Congestion Relief Fund. We conducted our audit of the city's Traffic Congestion Relief Fund allocations under the authority of Revenue and Taxation Code section 7104.

Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties must be deposited into an account that is designated for the

receipt of State funds allocated for streets and roads. The city recorded its Proposition 1B Fund allocations in its Proposition 1B Fund. A city also must expend its allocations within four years following the end of the fiscal year in which the allocation was made and to expend the funds in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B Fund allocations under the authority of Government Code section 12410.

## **Objectives, Scope, and Methodology**

Our audit objective was to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with Article XIX of the California Constitution, the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23.

To meet the audit objective, we performed the following procedures:

### ***Special Gas Tax Street Improvement Fund***

- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule to determine whether Highway Users Tax Account (HUTA) funds received by the city were completely accounted for.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine whether HUTA funds were expended in accordance with the criteria above.
- Analyzed and tested sample transactions to determine whether recoveries of prior HUTA fund expenditures were identified and credited to the Special Gas Tax Street Improvement Fund.
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures.
- Interviewed city employees and reviewed policies and procedures to gain an understanding of the city's internal controls and accounting systems related to this audit.

### ***Traffic Congestion Relief Fund Allocations***

- Reconciled the Traffic Congestion Relief Fund allocations recorded in the city ledger to confirm that the allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.
- Reconciled the city's "Schedule of Expenditures as Reported in the Streets and Roads Annual Report" with the SCO's "Average Annual Expenditures Computation of Discretionary Funds" to determine compliance with the maintenance-of-effort requirement.

**Proposition 1B Fund Allocations**

- Reconciled the Proposition 1B Fund allocations recorded in the city ledger to confirm that the allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.

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 its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in accordance with the requirements of the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street-related purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

**Conclusion**

Our audit found that the City of Fontana 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, 2014, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report.
- Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief 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.
- Proposition 1B Fund allocations recorded in its Proposition 1B Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2014.

**Follow-Up on Prior Audit Findings**

Our prior audit report, issued on March 30, 2006, disclosed no findings.

**Views of  
Responsible  
Officials**

We issued a draft report on April 12, 2016. Dawn Brooks, Accounting Manager, responded by letter dated April 19, 2016, agreeing with the audit results. The city's response is included in this final audit report as an attachment.

**Restricted Use**

This report is intended for the information and use of the City of Fontana 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

June 24, 2016

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2013, through June 30, 2014**

	Special Gas Tax Street Improvement Fund <sup>1, 2, 3</sup>
Beginning fund balance per city	\$ 1,138,290
Revenues	<u>6,246,810</u>
Total funds available	7,385,100
Expenditures	<u>(5,478,724)</u>
Ending fund balance per city	<u>1,906,376</u>
Ending fund balance per audit	<u>\$ 1,906,376</u>

<sup>1</sup> The city receives apportionments from the State Highway Users Tax Account (HUTA), pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments varies, but the money may be used for any street-related 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 city must deposit its HUTA apportionments in its Special Gas Tax Street Improvement Fund. The audit period was July 1, 2004, through June 30, 2014; however, this schedule includes only the period of July 1, 2013, through June 30, 2014.

<sup>2</sup> 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 and road maintenance, reconstruction, and storm damage repair. The city recorded its Traffic Congestion Relief Fund allocations in its Traffic Congestion Relief Fund. The audit period was July 1, 2004, through June 30, 2011; however, this schedule includes only the period of July 1, 2013, through June 30, 2014. The city did not receive any Traffic Congestion Relief Fund revenues and did not incur any Traffic Congestion Relief Fund expenditures during FY 2013-14; therefore, it is not included in this schedule.

<sup>3</sup> Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds for a variety of transportation priorities. The city recorded its Proposition 1B allocations in its Proposition 1B Fund. The audit period was July 1, 2007, through June 30, 2014; however, this schedule includes only the period of July 1, 2013, through June 30, 2014. The city did not receive any Proposition 1B revenues and did not incur any Proposition 1B expenditures during FY 2013-14; therefore, it is not included in this schedule.

# Finding and Recommendation

**FINDING—  
Unallowable use of  
funds**

At June 30, 2014, the Special Gas Tax Street Improvement Fund had an outstanding loan to the Circulation Mitigation Fund (Fund #630) in the amount of \$318,658. Gas tax revenues are restricted to street-related activities. Loans to other funds are not allowable.

Article XIX section 2 of the California Constitution states:

Revenues from taxes imposed by the state on motor vehicle fuels for use in motor vehicles upon public streets and highways, over and above the cost of collection and any refunds authorized by law, shall be used for the following purpose:

- (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic)....
- (b) The research, planning, construction, and improvement of exclusive public mass transit guideways (and their related fixed facilities)....

Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund \$318,658. In addition, the city should ensure that gas tax revenues are used strictly for street-related activities.

City's Response

The city agrees with the finding and recommendation. The city states in its response:

The city's Circulation Mitigation Fund has repaid the unallowable loan of \$318,658 to the Gas Tax Fund on June 3, 2015.

**Attachment—  
City of Fontana’s Response to  
Draft Audit Report**

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City of Fontana  
CALIFORNIA

April 19, 2016

State Controllers Office  
Division of Audits  
P.O. Box 942850  
Sacramento, California 94250-5874  
Attn: Christopher Lek, Interim Chief

Dear Mr. Lek,

The City of Fontana has completed a review of the audit report of the Special Gas Tax Improvement Fund, the Traffic Congestion Relief Fund, and the Proposition 1B Fund. The City agrees with the opinion that the City accounted for and expended the funds in compliance with requirements except for the loan from the Special Gas Tax Street Improvement Fund.

Please include the following response to the finding in the audit report:

The City's Circulation Mitigation Fund has repaid the unallowable loan of \$318,658 to the Gas Tax Fund on June 3, 2015.

If you have additional questions or need additional information please contact me at 909-350-7611 or [dbrooks@fontana.org](mailto:dbrooks@fontana.org).

Sincerely,

Dawn Brooks  
Accounting Manager

[www.fontana.org](http://www.fontana.org)

8353 SIERRA AVENUE FONTANA, CALIFORNIA 92335-3528 (909) 350-7600



**CITY OF FONTANA**

Advertising exp: SANBAG reimbursements  
 JUN024  
 Month Ending June 30, 2015

Prepared by/date: Ganlyvo S. 06/02/15  
 Approved by/date: [Signature] 6/2/15  
 Updated by/date: [Signature] 6/2/15

Doc	Fund	Account Title/Description	Budget Unit	Acct	DR	CR
A	VALLEY/POPLAR TS	ADVERTISING	9330900246 -	8011	976.80	
	VALLEY/POPLAR TS	CONSTRUCTION CONTRACTS	9330900246 -	8330		976.80
Reclass expense to the correct account					<u>976.80</u>	<u>976.80</u>
B	GAS TAX (STATE)	ADVANCE TO SANBAG PROJECT	281 -	1777		318,657.67
	GAS TAX (STATE)	RSRV - ADV TO OTHER FUNDS	281 -	4205	318,657.67	
	GAS TAX (STATE)	UNAPPROPRIATED FUND BALAN	281 -	4000		318,657.67
	CIRCULATION MITIGATION	ADVANCES FOR SANBAG PROJ	630 -	2706	318,657.67	
	GAS TAX (STATE)	CASH IN BANK	281 -	1100	318,657.67	
	CIRCULATION MITIGATION	CASH IN BANK	630 -	1100		318,657.67
To reverse FYE12/13 FEB02466 and MAR030D					<u>955,973.01</u>	<u>955,973.01</u>
C	CIRCULATION MITIGATION	ADVANCES FROM OTHER FUNDS	630 -	2701		1,034,357.86
	FUTURE CAPITAL PROJECTS	ADVANCES TO OTHER FUNDS	603 -	1770	1,034,357.86	
	FUTURE CAPITAL PROJECTS	UNAPPROPRIATED FUND BALAN	603 -	4000	1,034,357.86	
	FUTURE CAPITAL PROJECTS	RSRV - ADV TO OTHER FUNDS	603 -	4205		1,034,357.86
	CIRCULATION MITIGATION	CASH IN BANK	630 -	1100	1,034,357.86	
	FUTURE CAPITAL PROJECTS	CASH IN BANK	603 -	1100		1,034,357.86
To advance from Q4 2014/15 SANBAG PAA Reimbursement					<u>3,103,073.58</u>	<u>3,103,073.58</u>
D	MEASURE I 2010-2040 REIMB	DEFERRED REVENUE	245 -	2410	1,034,357.86	
	MEASURE I 2010-2040 REIMB	L/R - SANBAG MEASURE I	245 -	1595		1,034,357.86
	MEASURE I 2010-2040 REIMB	ADVANCES FOR SANBAG PROJ	245 -	2706	1,034,357.86	
	MEASURE I 2010-2040 REIMB	RSRV - LOANS RECEIVABLE	245 -	4203	1,034,357.86	
	MEASURE I 2010-2040 REIMB	UNAPPROPRIATED FUND BALAN	245 -	4000		1,034,357.86
	FUTURE CAPITAL PROJECTS	ADVANCE TO SANBAG PROJECT	603 -	1777		1,034,357.86
	FUTURE CAPITAL PROJECTS	RSRV - ADV TO OTHER FUNDS	603 -	4205	1,034,357.86	
	FUTURE CAPITAL PROJECTS	UNAPPROPRIATED FUND BALAN	603 -	4000		1,034,357.86
	MEASURE I 2010-2040 REIMB	CASH IN BANK	245 -	1100		1,034,357.86
	FUTURE CAPITAL PROJECTS	CASH IN BANK	603 -	1100	1,034,357.86	
To transfer SANBAG reimbursement for Q4 2014/15 to repay loans.					<u>5,171,789.30</u>	<u>5,171,789.30</u>
<b>JOURNAL TOTALS</b>					<u><b>9,231,812.69</b></u>	<u><b>9,231,812.69</b></u>

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**