

CITY OF ADELANTO

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2013

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2006, through June 30, 2011

PROPOSITION 1B FUND

July 1, 2007, through June 30, 2013



JOHN CHIANG
California State Controller

November 2014



JOHN CHIANG
California State Controller

November 18, 2014

The Honorable Cari Thomas
Mayor of the City of Adelanto
11600 Air Expressway
Adelanto, CA 92301

Dear Mayor Thomas:

The State Controller's Office audited the City of Adelanto's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2013. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2011. In addition, we audited the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2013.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund—Highway Users Taxes and TCRF Allocations—in compliance with requirements, and that no adjustment to the fund is required; however, we identified procedural findings.

Our audit found that the city accounted for but did not but did not expend \$83,951 of its total Proposition 1B funds as of June 30, 2013. The noncompliance resulted from the city not meeting the four-year spending requirement for the Proposition 1B allocations received in fiscal year (FY) 2007-08. Funds received in FY 2007-08 must be expended on Proposition 1B eligible projects by June 30, 2012.

If you have any questions, please contact Mike Spalj, Acting Chief, Local Government Audits Bureau, at (916) 324-6984.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Onyx Jones, Interim Finance Director
City of Adelanto

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Audit Report

Summary

The State Controller's Office audited the City of Adelanto's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2013. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2011. In addition, we audited the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2013.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund—Highway Users Taxes and TCRF Allocations—in compliance with requirements, and that no adjustment to the fund is required; however, we identified procedural findings.

Our audit found that the city accounted for but did not expend \$83,951 in Proposition 1B funds as of June 30, 2013. The noncompliance resulted from the city not meeting the four-year spending requirement for the Proposition 1B allocations received in fiscal year (FY) 2007-08. Funds received in FY 2007-08 must be expended on Proposition 1B eligible projects by June 30, 2012.

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 Special Gas Tax Street Improvement Fund. We conducted our audit of the city's TCRF 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 shall 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 allocations in the Proposition 1B Fund. Also, a city is required to expend its allocations within four years following the end of the fiscal year in which the allocation was made and to be expended in compliance with Government Code section 8879.23. We conducted our audit of the City's Proposition 1B Fund under the authority of Government Code section 12410.

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 Proposition 1B Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, Government Code section 8879.23, and Revenue and Taxation Code section 7104. To meet the audit objectives, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Expended funds exclusively for authorized street-related purposes;
- Made available unexpended funds for future expenditures; and
- Properly deposited Proposition 1B allocations into an account designated for the receipt of state funds associated for transportation purposes.

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 Proposition 1B Fund 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 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 Adelanto 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, 2006, through June 30, 2013, except as described in the Findings and Recommendations section of this report.

Our audit also found that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement 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, 2006, through June 30, 2011.

In addition, our audit found that the city accounted for but did not expend \$83,951 in Proposition 1B funds as of June 30, 2013. There noncompliance resulted from the city not meeting the four-year spending requirement for the Proposition 1B allocations received in FY 2007-08. Funds received in FY 2007-08 must be expended on Proposition 1B eligible projects by June 30, 2012.

**Follow-Up on Prior
Audit Findings**

Our prior audit report, issued on April 6, 2007, disclosed no findings.

**Views of
Responsible
Officials**

We issued a draft audit report on September 9, 2014. Onyx Jones, Interim Finance Director, responded by letter dated October 20, 2014, 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 Adelanto'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

November 18, 2014

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2012, through June 30, 2013**

	Special Gas Tax Street Improvement Fund Highway Users Tax Allocations ^{1,2}	Proposition 1B Fund ³
Beginning fund balance per city	\$1,448,904	\$ 83,951
Revenues	836,795	403,457
Total funds available	2,285,699	487,408
Expenditures	(726,000)	—
Ending fund balance per city	1,559,699	487,408
SCO adjustment: ⁴		
Finding 1—Proposition 1B Spending requirement not met	—	83,951
SCO adjustment	—	83,951
Ending fund balance per audit	\$1,559,699	\$ 403,457

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 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, 2006, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

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 Special Gas Tax Street Improvement Fund. The audit period was July 1, 2006, through June 30, 2011. The TCRF allocations were all spent by fiscal year 2010-11.

³ Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds of a variety of transportation priorities. The Proposition 1B allocations were recorded in the Proposition 1B Fund. The audit period was July 1, 2007, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Proposition 1B spending requirement not met

The city did not expend \$83,951 of a Proposition 1B allocation received in fiscal year (FY) 2007-08 by the end of June 30, 2012. Originally, cities and counties had three fiscal years from the date of allocation to expend the funds. However, Chapter 6, Statutes of 2011 (AB 105) extended the expenditure deadline to use the Local Streets and Roads funds by an additional year for years in which the Highway Users Tax Account funds were either suspended or deferred. Unexpended funds must be returned to the SCO.

Recommendation

The city must return the allocations that were unspent within the expenditure requirement timeframe in the amount of \$83,951 to the State Controller's Office, Division of Accounting and Reporting, Attention: John Bodolay, P.O. Box 942850, Sacramento, CA 94250.

City's Response

Finding #1 Proposition 1B spending requirement not met – The City of Adelanto was able to complete some street improvement projects with the proposition 1B money in FY 2009. The remaining funds of \$83,951 has been recorded separately in the general ledger and management has been informed that the remaining balance will need to be returned once the City receives a final audit report.

SCO's Comments

The city agrees with the finding and will remit the amount owed.

FINDING 2— Potential gas tax cash impairment

Review of the available Comprehensive Annual Financial Reports (CAFR) disclosed that the city received "adverse opinions" in the audit reports for fiscal years 2006-07 and 2007-08; and received "no opinions" due to inadequate internal controls in the audit reports for FY 2008-09, FY 2009-10, and FY 2010-11.

Furthermore, the city does not have CAFRs for FY 2011-12 (as of June 16, 2014, the city audit report was not completed) and FY 2012-13 (audit not started). The fact that for five fiscal years the city has received "adverse opinions" or "no opinion" indicates that the information reported on those financial statements may be unreliable. We rely on the auditor's opinion because it provides support for the condition of the General Fund. Additionally, the fact that the city pools the General Fund cash with other funds, including the Gas Tax Fund, is of major concern because of potential impairment. To date, the Gas Tax Fund has not been directly impacted; however, there is a strong possibility that it might be in the near future.

Streets and Highways Code section 2101 specifies that highway users tax apportionments are to be expended only for the construction, maintenance, and operation of public streets and roads, construction of exclusive public mass transit guideways, and related administrative costs.

Streets and Highways Code section 2118 states that:

When the State Controller determines it to be necessary, he may require a county or city to deposit money received from the highway users tax allocations in a separate bank account to ensure that the city deposits money received from the highway users tax fund into a separate bank account when deemed necessary.

Recommendation

The city must establish a separate bank account for the state gas tax fund money. This account should be used to record all deposits and expenditures against the money. The city has 30 days to provide the State Controller's Office with proof that a separate bank account has been established. The bank account shall remain open until the city provides evidence that, over a reasonable period of time, it has restored the financial health of the general fund.

City's Response

Finding #2 Potential gas tax impairment – In previous years FY 2007- FY 2011 the City operated with a limited number of staff in Finance. This caused a delay in audits being completed and it also made it challenging to have a true segregation of duties. Since FY 2012 finance staff has been increased and the City audits have been completed through FY 2012. Audit work for FY 2013 & FY 2014 have already begun and both will be finalized by December 2014. The auditors have also confirmed that they will be clean audits. The City set up a separate Gas Tax bank account in September 2014. (see attached).

SCO's Comments

The city agrees with the findings and has set up a separate bank account for the gas tax monies.

**PROCEDURAL
FINDING 1—
The city finance
director did not
comply with
Government Code
section 41004**

During our audit, we found that the finance director (responsible for the city's treasury function) had not been in compliance with Government Code section 41004, which states that at least once each month, the city treasurer shall submit to the city clerk a written report and accounting of all receipts, disbursements and fund balances, and shall file a copy with the legislative body.

Unavailable treasurer's reports may cause decisions to be made without accurate and up-to-date financial data.

Recommendation

We recommend that at least once a month, the finance director (responsible for the city's treasury function) submit to the city clerk a written report and accounting of all receipts, disbursements and fund balances, and file a copy with the city council.

City's Response

Procedural Finding #1 – Comply with Government Code 41004 to submit a monthly City Treasurer Report. The City currently submits to Council a bi-monthly report of all expenditures and a semi-annual financial report that shows revenues, expenses, fund balances/cash balances. By December 2014 the City's new accounting software will assist staff in generating this information on a monthly basis.

SCO's Comments

The city has taken steps to comply with Government Code section 41004.

**PROCEDURAL
FINDING 2—
Comprehensive Annual
Financial Reports**

During our audit, we requested the CAFR for FY 2011-12 and FY 2012-13, however, we were advised that the FY 2011-12 CAFR was not completed because the independent auditors were working on a fixed asset valuation schedule. In addition, the city audit for FY 2012-13 had not started. Financial reports should be published as soon as possible after the end of the reporting period. Untimely submission of the financial statements may cause negative actions from trustees, grantors, and other agencies that have financial or regulatory relationships with the city.

Recommendation

The city should establish more formal year-end closing procedures for timely issuance of the CAFRs.

City's Response

Procedural Finding #2 – Comprehensive Annual Financial Reports – The City has worked with its auditors to establish a formal year end closing process. It is anticipated that FY 2014 financials will be completed by December 2014 and all audits in future years should be done on a timely basis with the procedures that have been put in place.

SCO's Comments

The has taken steps to issue future audited financial statements on a timely basis.

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



Mike Spalj
Interim Bureau Chief, Local Government Audits Bureau
State Controller's Office, Division of Audits
PO BOX 942850
Sacramento, CA 94250-5874

Cari Thomas
Mayor

Steven R. Baisden
Mayor Pro Tem

Ed Camargo
Council Member

Charles S. Valvo
Council Member

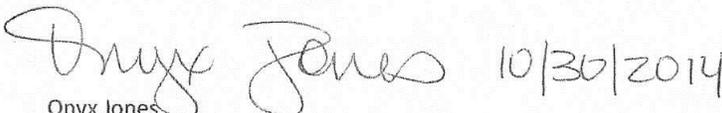
Jermaine Wright Sr.
Council Member

D. James Hart, Ph.D.
City Manager

Dear Mr. Spalj,

The City of Adelanto has received your draft copy of the Audit Report for Special Gas Tax Street Improvement Fund FY 2006-FY 2013, Traffic Congestion Relief Fund Allocations July 2006-June 2011, and the Proposition 1B Fund FY 2007-2013. Below is the management response to each of the findings:

1. Finding #1 Proposition 1B spending requirement not met – The City of Adelanto was able to complete some street improvement projects with the proposition 1B money in FY 2009. The remaining funds of \$83,951 has been recorded separately in the general ledger and management has been informed that the remaining balance will need to be returned once the City receives a final audit report.
2. Finding #2 Potential gas tax impairment – In previous years FY 2007-FY 2011 the City operated with a limited number of staff in Finance. This caused a delay in audits being completed and it also made it challenging to have a true segregation of duties. Since FY 2012 finance staff has been increased and the City audits have been completed through FY 2012. Audit work for FY 2013 & FY 2014 have already begun and both will be finalized by December 2014. The auditors have also confirmed that they will be clean audits. The City set up a separate Gas Tax bank account in September 2014. (see attached)
3. Procedural Finding #1 – Comply with Government Code 41004 to submit a monthly City Treasurer Report. The City currently submits to Council a bi-monthly report of all expenditures and a semi-annual financial report that shows revenues, expenses, fund balances/cash balances. By December 2014 the City's new accounting software will assist staff in generating this information on a monthly basis.
4. Procedural Finding #2 – Comprehensive Annual Financial Reports – The City has worked with its auditors to establish a formal year end closing process. It is anticipated that FY 2014 financials will be completed by December 2014 and all audits in future years should be done on a timely basis with the procedures that have been put in place.


Onyx Jones
Interim Finance Director



**Desert
Community
Bank**

**Member
FDIC**

12530 Hesperia Rd., Suite 101, Victorville, CA 92395
Direct Inquiries To: (760) 243-2140

ACCOUNT STATEMENT

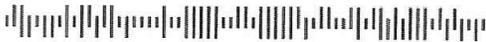
Page 1 of 1
STARTING DATE: September 01, 2014
ENDING DATE: September 30, 2014
Total days in statement period: 30
80-93000746
(0)



reg4a
07240

OZ 01
CITY OF ADELANTO
GAS TAX ACCOUNT
11600 AIR EXPY
ADELANTO CA 92301

Protect Your Personal & Private Information for helpful tips on "Preventing Identity Theft", please visit your local Desert Community Bank branch or visit our corporate website at www.dcbk.org.



Public NOW Account

Account number	80-93000746	Beginning balance		\$0.00
Low balance	\$-157.25	Total additions	(1)	157.25
Average balance	\$-10.48	Total subtractions	(1)	157.25
		Ending balance		\$ 0.00

CREDITS

Number	Date	Transaction Description	Additions
	09-19	Credit Memo TLR 9302 BR 8093	157.25

DEBITS

Date	Transaction Description	Subtractions
09-17	Preauth Debit HARLAND CLARKE CHK ORDER 140917	157.25

DAILY BALANCES

Date	Amount	Date	Amount	Date	Amount
08-31	0.00	09-17	-157.25	09-19	0.00

INTEREST INFORMATION

Annual percentage yield earned	0.00%	Interest-bearing days	30
Average balance for APY	\$0.00	Interest earned	\$0.00

OVERDRAFT/RETURN ITEM FEES

	Total for this period	Total year-to-date
Total Overdraft Fees	\$0.00	\$0.00
Total Returned Item Fees	\$0.00	\$0.00

OCT 8 2014

Please see reverse side for important information.



View All Activity

No transaction records for account

Enter your inquiry criteria in the form fields below, then choose 'View Results'.

Criteria

Account Number *

Inquiry Type *

Posting Date All available dates

Range: From To

Account Details

Account Number: 8093000746-Gas Tax Account

Balances and Activity as of 03:42:00 PM PT on 10/29/2014

Ledger Balance: \$1,678,924.09 Current Balance: \$1,678,924.09

Accessible Balance*: \$1,678,924.09 Net Activity Today: \$0.00

Related Available Balance: \$0.00

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

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