

# **CITY OF NORCO**

Audit Report

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

*July 1, 2006, through June 30, 2007*

## **TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS**

*July 1, 2000, through June 30, 2007*



**JOHN CHIANG**  
California State Controller

December 2008



**JOHN CHIANG**  
**California State Controller**

December 19, 2008

The Honorable Frank Hall  
Mayor of the City of Norco  
2870 Clark Avenue  
Norco, CA 92860

Dear Mayor Hall:

The State Controller's Office audited the City of Norco's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. 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, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that it understated the fund balance by \$150,526 as of June 30, 2007. The city understated the fund balance because it did not record the \$88,881 prior audit adjustment, and the \$61,645 recording error of TCRF allocations.

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**  
Chief, Division of Audits

JVB/sk

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# Audit Report

## Summary

The State Controller's Office audited the City of Norco's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. 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, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city understated the fund balance by \$150,526 as of June 30, 2007. The city understated the fund balance because it did not record the \$88,881 audit adjustment of fiscal year (FY) 1998-99 and because it made a \$61,645 recording error in the FY 2001-02 TCRF allocations.

## 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.

## Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended 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. 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;
- 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 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 Norco 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, 2007, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding required an adjustment of \$88,881 to the city's Special Gas Tax Street Improvement Fund's highway users tax allocation.

Our audit also disclosed 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, 2000, through June 30, 2007, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding required an adjustment of \$61,645 to the city's Special Gas Tax Street Improvement Fund's TCRF allocations.

## **Follow-Up on Prior Audit Findings**

The city did not satisfactorily resolve the finding noted in our prior audit report, issued on June 30, 2000. This finding is described in Finding 1 of the Findings and Recommendations section of this report.

## **Views of Responsible Officials**

We issued a draft audit report on October 17, 2008. Andy Okoro, CPA, Director, Fiscal and Support Services, responded by letter dated November 4, 2008. 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 city 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  
Chief, Division of Audits

December 19, 2008

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2006, through June 30, 2007**

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation <sup>1</sup>	TCRF Allocation <sup>2</sup>	Totals
Beginning fund balance per city	\$ (70,358)	\$ 94,297	\$ 23,939
Revenues	<u>521,265</u>	<u>187,827</u>	<u>709,092</u>
Total funds available	450,907	282,124	733,031
Expenditures	<u>(486,838)</u>	<u>(204,085)</u>	<u>(690,923)</u>
Ending fund balance per city	<u>(35,931)</u>	<u>78,039</u>	<u>42,108</u>
SCO adjustments: <sup>3</sup>			
Finding 1—Prior audit adjustment	88,881	—	88,881
Finding 2—TCRF allocation recording error	—	<u>61,645</u>	<u>61,645</u>
Total SCO adjustment	<u>88,881</u>	<u>61,645</u>	<u>150,526</u>
Ending fund balance per audit	<u>\$ 52,950</u>	<u>\$ 139,684</u>	<u>\$ 192,634</u>

<sup>1</sup> The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2105, 2106, 2107, and 2107.5. The basis of the apportionments for Sections 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.

<sup>2</sup> 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, 2000, through June 30, 2007.

<sup>3</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## **FINDING 1— Prior audit adjustment**

The city did not record the prior audit adjustment made during the fiscal year (FY) 1998-99 audit. The audit adjustment was for unsupported payroll costs charged to the Special Gas Tax Street Improvement Fund.

### Recommendation

The city should record the FY 1998-99 audit finding of \$88,881 in the Special Gas Tax Street Improvement Fund.

### City's Response

As an observation, please note that the referenced adjustment is outside of the time period covered by the current audit. Furthermore, the City contends that the audit finding is not justified because the \$88,881 of expenditures recorded in Special Gas Tax Improvement Fund was adequately supported by time sheets. The supporting documents were provided to the Auditor during the FY 1998-99 audit. These supporting documents are still available for your inspection.

### SCO's Comment

A prior-year audit finding adjustment impacts the beginning balance of the current period audited. The required adjustment determined by the State Controller's Office audit of the state gas tax funds are not at the city's discretion to record or not record.

The city Public Works Department's employees work on street-related functions as well as non-street-related functions. During FY 1998-99, the labor costs for these employees were allocated to each applicable function based on budgeted percentages rather than on actual costs incurred. The employees did not prepare time cards each pay period that showed how many hours they actually worked on each function.

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 guide ways, and related administrative costs. Costs are allowable under section 2101 only when they are supported by documentation.

The labor costs allocated to the city's Special Gas Tax Street Improvement Fund appeared to be reasonable except that \$88,881 of the labor costs allocated were in excess of the city's approved budgeted amount for street maintenance labor costs. Our finding remains as stated.

**FINDING 2—  
TCRF allocation  
recording error**

The city recorded the FY 2001-02 TCRF allocations in the General Fund in error. These funds should have been recorded in the Special Gas Tax Street Improvement Fund to be used to fund TCRF expenditures. The city failed to transfer the TCRF allocations to the Special Gas Tax Street Improvement Fund.

Recommendation

The city should transfer TCRF allocations of \$61,645 from the General Fund to the Special Gas Tax Street Improvement Fund.

City's Response

The City concurs with this finding and will make the recommended transfers from the General Fund to the Special Gas Tax Street Improvement Fund.

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

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# CITY of NORCO

CITY HALL • 2870 CLARK AVENUE • NORCO CA 92860 • (951) 735-3900 • FAX (951) 270-5822

November 4, 2008

Steven Mar  
Chief, Local Governments Audit Bureau  
State Controller's Office, Division of Audits  
Post Office Box 942850  
Sacramento, California 94250-5874

Dear Mr. Mar:

I am writing to respond to a letter from your office dated October 17, 2008 regarding the State Controller's audit of the City's Special Gas Tax Street Improvement Fund for the period July 1, 2006, through June 30, 2007 and Traffic Congestion Relief Fund for the period of July 1, 2000, through June 30, 2007. According to your letter, the audit noted two findings listed below for which you have asked the City of Norco to respond.

1. Finding 1 – FY 1998-99 audit adjustments. The City did not record the audit adjustments made during fiscal year (FY) 1998-99 audit. The audit adjustments were for unsupported payroll costs charged to the Special Gas Tax Improvement Fund.

Recommendation

The City should record the FY 1998-99 audit findings of \$88,881 in the Special Gas Tax Street Improvement Fund.

Response

As an observation, please note that the referenced adjustment is outside of the time period covered by the current audit. Furthermore, the City contends that the audit finding is not justified because the \$88,881 of expenditures recorded in Special Gas Tax Improvement Fund was adequately supported by time sheets. The supporting documents were provided to the Auditor during the FY 1998-99 audit. These supporting documents are still available for your inspection.

2. Finding 2 – FY 2001-02 TCRF allocation recording error- The City recorded the FY 2001-02 TCRF allocations in the General Fund in error. These funds should have been recorded in the Special Gas Tax Street Improvement Fund to be used to fund TCRF expenditures. The City failed to transfer the TCRF allocations to the Special Gas Tax Street Improvement Fund.

Recommendation

The City should transfer TCRF allocations of \$61,645 from the General Fund to the Special Gas Tax Street Improvement Fund.

CITY COUNCIL

FRANK HALL  
Mayor

KATHY AZEVEDO  
Mayor Pro Tem

BERWIN HANNA  
Council Member

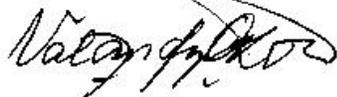
RICHARD L. MacGREGOR  
Council Member

MALCOLM MILLER  
Council Member

Response

The City concurs with this finding and will make the recommended transfer from  
If you have any questions, please contact me at (951) 270-5650

Sincerely,

A handwritten signature in black ink, appearing to read "V. Andy Okoro". The signature is written in a cursive style with a large, sweeping flourish over the top of the name.

V. Andy Okoro, CPA  
Director, Fiscal and Support Services

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

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