

# **CITY OF MORENO VALLEY**

Audit Report

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

*July 1, 2007, through June 30, 2013*

## **TRAFFIC CONGESTION RELIEF FUND**

*July 1, 2007, through June 30, 2011*

## **PROPOSITION 1B FUND**

*July 1, 2007, through June 30, 2013*



**BETTY T. YEE**  
California State Controller

March 2016



**BETTY T. YEE**  
**California State Controller**

March 21, 2016

The Honorable Yxstian Gutierrez  
Mayor of the City of Moreno Valley  
14177 Frederick Street  
Moreno Valley, CA 92552

Dear Mayor Gutierrez:

The State Controller's Office audited the City of Moreno Valley's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2007, through June 30, 2011, and 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, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with requirements, except that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$24,681 as of June 30, 2011, because it did not meet the two-year spending requirement. The city also understated the fund balance in the Proposition 1B Fund by \$219,998 as of June 30, 2013, because it did not allocate interest income to the fund during the audit period. As a result, the city did not meet the four-year spending requirement for the amount of interest not allocated to the fund.

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/lis

Attachment

cc: Michelle Dawson, City Manager  
City of Moreno Valley  
Richard Teichert, Chief Financial Officer/City Treasurer  
City of Moreno Valley  
Dena Heald, Interim Financial Resources Division Manager  
City of Moreno Valley

# Contents

## **Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>2</b>
<b>Conclusion .....</b>	<b>3</b>
<b>Follow-Up on Prior Audit Findings .....</b>	<b>4</b>
<b>Views of Responsible Officials.....</b>	<b>4</b>
<b>Restricted Use .....</b>	<b>4</b>
<b>Schedule 1—Reconciliation of Fund Balance .....</b>	<b>5</b>
<b>Findings and Recommendations.....</b>	<b>6</b>

# Audit Report

## Summary

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

- Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013;
- Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2007, through June 30, 2011; and
- 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, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with requirements, except that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$24,681 as of June 30, 2011, because it did not meet the two-year spending requirement. In addition, our audit found that the city understated the fund balance in the Proposition 1B Fund by \$219,998 as of June 30, 2013, because it did not allocate interest income to the fund during the audit period. As a result, the city did not meet the four-year spending requirement for the amount of interest not allocated to the fund.

## 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 TCRF allocations in the Traffic Congestion Relief 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 Fund allocations in the Proposition 1B Fund. A city also is required to 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 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 its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B Fund 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 (TCRF)***

- Reconciled the TCRF revenue recorded in the city ledger to confirm that the TCRF 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 (MOE) requirement.

#### ***Proposition 1B Fund***

- Reconciled the Proposition 1B revenue recorded in the city ledger to confirm that the Proposition 1B 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, 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-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 Moreno Valley 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, 2007, through June 30, 2013.
- 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, 2007, through June 30, 2011, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$24,681 to the city's accounting records.

- Proposition 1B Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2013, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$219,998 to the city's accounting record.

**Follow-Up on Prior Audit Findings**

Our prior audit report, issued on February 27, 2009, disclosed no findings.

**Views of Responsible Officials**

We issued a draft report on January 19, 2016. Dena Heald, Interim Financial Resources Division Manager, responded by telephone on February 17, 2016, agreeing with the audit results.

**Restricted Use**

This report is intended for the information and use of the City of Moreno Valley 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

March 21, 2016

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

	Special Gas Tax Street Improvement Fund	Traffic Congestion Relief Fund <sup>2</sup>	Proposition 1B Fund Allocations <sup>3</sup>
	Highway Users Tax Allocations <sup>1</sup>		
Beginning fund balance per city	\$2,425,511	\$ 24,681 <sup>2</sup>	\$ 76,631
Revenues	<u>4,581,354</u>	—	—
Total funds available	7,006,865	24,681	76,631
Expenditures	<u>(6,556,151)</u>	—	<u>(76,631)</u>
Ending fund balance per city	450,714	24,681	—
SCO adjustments: <sup>4</sup>			
Finding 1—Proposition 1B interest income not allocated and expenditure requirement not met	—	—	219,998
Finding 2—TCRF spending requirement not met	—	<u>(24,681)</u>	<u>(219,998)</u>
Total SCO adjustments	<u>—</u>	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 450,714</u>	<u>\$ —</u>	<u>\$ —</u>

<sup>1</sup> 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, 2007, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

<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 audit period was July 1, 2007, through June 30, 2011. The beginning balance of \$24,681 represents the unexpended TCRF amount as of June 30, 2011, which needs to be returned to the SCO.

<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 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.

<sup>4</sup> See the Findings and Recommendations section.



# Findings and Recommendations

**FINDING 1—  
Proposition 1B interest  
income not allocated  
and expenditure  
requirement not met**

During the audit period, the city did not allocate interest income to the Proposition 1B Fund.

Government Code section 8879.23(i) (4) states, “Funds apportioned..., including interest or other return earned on the investment of those funds, shall be used for improvements to transportation facilities....”

The following table summarizes the interest income not allocated to the Proposition 1B Fund:

<u>Fiscal Year</u>	<u>Interest</u>
2007-08	\$ 9,835
2008-09	92,456
2009-10	42,856
2010-11	66,096
2011-12	7,488
2012-13	1,267
<b>Total</b>	<b>\$ 219,998</b>

The city did not expend the \$219,998 of interest income that should have been allocated to the Proposition 1B Fund by the end of June 30, 2014, therefore the city did not meet the four-year spending requirement. Originally cities and counties had three fiscal years from the date of allocation to expend the funds, including interest. However, Chapter 6, Statutes of 2011 (AB 105) extended the expenditure deadline to use the funds by an additional year for years in which the Highway Users Tax Account (HUTA) funds were either suspended or deferred. In addition, Government Code section 8879.23(i)(5) states that “any city or county that has not complied with paragraph (4) shall reimburse the state for the funds it received during that fiscal year, including any interest or other return earned on the investment of these funds.”

Recommendation

The city must return \$219,998 in Proposition 1B interest income to the State Controller’s Office, Division of Accounting and Reporting, Attention: John Bodolay, P.O. Box 942850, Sacramento, CA 94250.

City’s Response

The city agreed with the finding.

SCO’s Comment

The city agreed with the finding and related recommendation.

**FINDING 2—  
TCRF spending  
deadline requirement  
not met**

The city did not meet the Traffic Congestion Relief Fund expenditure requirement for fiscal year (FY) 2010-11 as required by Streets and Highways Code section 2182.1(g), which states that allocations made under paragraph section 2182 “shall be expended not later than the end of the fiscal year following the fiscal year in which the allocation was made, and any funds not expended within that period shall be returned to the Controller and shall be reallocated to the other cities and counties pursuant to the allocation formula set forth in section 2182.”

The \$24,681 in unexpended allocations is subject to the spending deadline requirement for the Traffic Congestion Relief Fund.

Recommendation

The city must return \$24,681 to the State Controller’s Office, Division of Accounting and Reporting, Attention: John Bodolay, P.O. Box 942850, Sacramento, CA 94250.

City’s Response

The city agreed with the finding.

SCO’s Comment

The city agreed with the finding and related recommendation.

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

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