

CITY OF CHINO HILLS

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2012

TRAFFIC CONGESTION RELIEF FUND

July 1, 2006, through June 30, 2011

PROPOSITION 1B FUND

July 1, 2007, through June 30, 2011



JOHN CHIANG
California State Controller

April 2014



JOHN CHIANG
California State Controller

April 22, 2014

The Honorable Ed Graham
Mayor of the City of Chino Hills
14000 City Center Drive
Chino Hills, CA 91709

Dear Mayor Graham:

The State Controller's Office audited the City of Chino Hills's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2012. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2006, through June 30, 2011, and the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2011.

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 understated the cash balance in the Special Gas Tax Street Improvement Fund by \$955,195 as of June 30, 2012, primarily because it loaned money from the Special Gas Tax Street Improvement Fund to the Miscellaneous Grant Fund, which is an ineligible use of gas tax monies.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Judy Lancaster, Finance Director
City of Chino Hills

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Audit Report

Summary

The State Controller's Office audited the City of Chino Hills's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2012. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2006, through June 30, 2011, and the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2011.

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 understated the cash balance in the Special Gas Tax Street Improvement Fund by \$955,195 as of June 30, 2012, because it loaned money from the Special Gas Tax Street Improvement Fund to the Miscellaneous Grants Fund, which is an ineligible use of gas tax monies.

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 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 street and roads. The city recorded its Proposition 1B allocations in the Proposition 1B Fund. A city is also required to expend its allocations within three years following the end of the fiscal year 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 allocations 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, Traffic Congestion Relief Fund, and Proposition 1B 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, Traffic Congestion Relief Fund, and Proposition 1B 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 found that the City of Chino Hills 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, 2012, except as noted in the Finding and Recommendation section of this report. The finding requires an adjustment of \$955,195 to the city's accounting records.

Our audit also found that the city accounted for and expended 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, 2006, through June 30, 2011.

Furthermore, the audit found that the city accounted for and expended its Proposition 1B Fund allocations in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2011.

**Follow-Up on Prior
Audit Findings**

Our prior audit report, issued on March 12, 2008, disclosed no findings.

**Views of
Responsible
Official**

We issued a draft audit report on February 25, 2014. Judy R. Lancaster, Finance Director, responded by letter dated March 10, 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 Chino Hills'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

April 22, 2014

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2011, through June 30, 2012**

	Special Gas Tax Street Improvement Fund <u>Highway Users Tax Allocation</u> ¹
Beginning fund balance per city	\$ 1,281,428
Revenues	<u>2,237,664</u>
Total funds available	3,519,092
Expenditures	<u>(1,651,449)</u>
Ending fund balance per city	<u>1,867,643</u>
SCO adjustments:	
Finding ² —Gas tax cash loan	
Cash	955,195
Due from other funds	<u>(955,195)</u>
Total SCO adjustment	<u>—</u>
Ending fund balance per audit	<u>\$ 1,867,643</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 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, 2012; however, this schedule includes only the period of July 1, 2011, through June 30, 2012.

² See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Gas tax cash loan

Our review found that the city made a loan of \$955,195 from the Gas Tax Fund (fund number 183) to the Miscellaneous Grants Fund (fund number 199) during fiscal year (FY) 2011-12. Loans from the Special Gas Tax Street Improvement Fund to other funds are not allowable activities.

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). . . .

Highway user's tax apportionments are restricted to street-related expenditures only.

Recommendation

The city should replenish the Special Gas Tax Street Improvement Fund by \$955,195. In addition, the city should adopt policies and procedures to prevent any loans from the Special Gas Tax Street Improvement Fund to any other funds.

City's Response

Management acknowledges this finding, however, this issue was discovered and corrected by City staff prior to the gas tax audit fieldwork which commenced in FY 2013/14. A correcting adjustment was executed in September 2012 immediately following close of FY 2011/12. The timing of correction led to misstated fund balance at June 30, 2012. In FY 2012/13, all gas tax monies were repaid and the fund balance was restored to the proper balance. The scope of the SCO audit did not encompass FY 2012/13, therefore, the corrective action was not recognized by SCO audit staff. The City has addressed this issue and will continue to diligently follow the prescribed code relating to the usage and accounting of gas tax monies.

SCO's Comment

The city agreed with the finding and recommendation. We agree with the city that the issue was discovered and corrected by city staff in September 2012 prior to the gas tax audit fieldwork. However, the reason that FY 2012-13 was not audited by the SCO was that on October 21, 2013, the date of the entrance conference, the auditor-in-charge was

informed by the city's senior accountant that the city's books for FY 2012-13 were still open. Normally, our office does not audit books that are still "open" because the city would be able to make reclassifications or adjustments up to the date the books are "closed."

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

City of Chino Hills



March 10, 2014

Steven Marc, Chief
Local Government Audits Bureau
Division of Audits
State Controller's Office
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Sacramento, CA 94250

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Chino Hills, CA 91709
(909) 364-2600

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RE: CITY OF CHINO HILLS – MANAGEMENT RESPONSE

The State Controller's Office (SCO) audited the City of Chino Hills's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2012. Below is the City of Chino Hills's management response to the finding in the State Controller's report dated February 25, 2014.

Finding- Gas tax cash loan, *The City understated the cash balance in the Special Gas Tax Street Improvement Fund by \$955,195 as of June 30, 2012, primarily because it loaned money from the Gas Tax Street Improvement Fund to the Miscellaneous Grant Fund, which is an ineligible use of gas tax monies.*

Management acknowledges this finding, however, this issue was discovered and corrected by City staff prior to the gas tax audit fieldwork which commenced in FY 2013/14. A correcting adjustment was executed in September 2012 immediately following the close of FY 2011/12. The timing of the correction led to a misstated fund balance at June 30, 2012. In FY 2012/13, all gas tax monies were repaid and the fund balance was restored to the proper balance. The scope of the SCO audit did not encompass FY 2012/13, therefore, the corrective action was not recognized by SCO audit staff. The City has addressed this issue and will continue to diligently follow the prescribed code relating to the usage and accounting of gas tax monies.

In the event you have any questions, please contact Elizabeth Carlock, Accounting Supervisor, at (909) 364-2653 or ecarlock@chinohills.org.

Sincerely,


Judy R. Lancaster
Finance Director

JRL:EC:dk

City Council: Art Bennett ▪ Ed M. Graham ▪ Ray Marquez ▪ Cynthia Moran ▪ Peter J. Rogers

**State Controller's Office
Division of Audits
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