

# **CITY OF SAN FERNANDO**

Audit Report

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

*July 1, 2009, through June 30, 2013*

## **TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS**

*July 1, 2009, through June 30, 2011*

## **PROPOSITION 1B ALLOCATIONS**

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



**JOHN CHIANG**  
California State Controller

October 2014



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

October 29, 2014

The Honorable Sylvia Ballin  
Mayor of the City of San Fernando  
117 Macneil Street  
San Fernando, CA 91340

Dear Mayor Ballin:

The State Controller's Office audited the City of San Fernando's Special Gas Tax Street Improvement Fund for the period of July 1, 2009, 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, 2009, through June 30, 2011. In addition, we audited the Proposition 1B allocations recorded in the Special Gas Tax Street Improvement 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 in compliance with requirements, except that it understated the fund balance by \$43,954 as of June 30, 2013. The city understated the fund balance because it expended gas tax funds for non-street-related purposes.

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/mh

Attachment

cc: Nick Kimball, Finance Director  
City of San Fernando

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## **Audit Report**

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# Audit Report

## Summary

The State Controller's Office audited the City of San Fernando's Special Gas Tax Street Improvement Fund for the period of July 1, 2009, 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, 2009, through June 30, 2011; and the Proposition 1B allocations recorded in the Special Gas Tax Street Improvement 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 in compliance with requirements, except that the city understated the fund balance by \$43,954 as of June 30, 2013. The city understated the fund balance because it expended gas tax funds for non-street-related purposes.

## 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 street and roads. The city recorded its Proposition 1B allocations in the Special Gas Tax Street Improvement Fund. A city also is required to expend its allocations within four 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 allocations, and Proposition 1B allocations in compliance with Article XIX of the California Constitution, Government Code section 8879.23, 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;
- 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 found that the City of San Fernando accounted for and expended its Special Gas Tax Street Improvement Fund, TCRF allocations, and Proposition 1B allocations in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2009, through June 30, 2013, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of \$43,954 to the city's accounting records.

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, 2009, through June 30, 2011.

**Follow-Up on Prior  
Audit Findings**

The city satisfactorily resolved the findings noted in our prior audit report, issued on January 26, 2011.

**Views of  
Responsible  
Officials**

We issued a draft audit report on September 25, 2014. Nick Kimball, Finance Director, responded by letter dated October 7, 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 San Fernando'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

October 29, 2014

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

	Special Gas Tax Street Improvement Fund		Totals
	Highway Users Tax Allocations <sup>1, 2</sup>	Proposition 1B Allocations <sup>3</sup>	
Beginning fund balance per city	\$ 561,635	\$ 373,814	\$ 935,449
Revenues	575,883	—	575,883
Total funds available	1,137,518	373,814	1,511,332
Expenditures	(838,221)	(351,434)	(1,189,655)
Ending fund balance per city	299,297	22,380	321,677
SCO adjustments: <sup>4</sup>			
Finding 1—Ineligible expenditure	18,494	—	18,494
Finding 2—Ineligible alley sweeping cost	25,460	—	25,460
Total SCO adjustments	43,954	—	43,954
Ending fund balance per audit	<u>\$ 343,251</u>	<u>\$ 22,380</u>	<u>\$ 365,631</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, 2009, 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 TCRF allocations were recorded in the Special Gas Tax Street Improvement Fund. The audit period was July 1, 2009, through June 30, 2011. The TCRF allocations were all spent by fiscal year 2010-11.

<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.

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

# Findings and Recommendations

## **FINDING 1— Ineligible expenditure**

In fiscal year 2012-13, the city made an \$18,494 reimbursement of gas tax monies to the general fund for non-street administrative costs relating to a grant used to purchase buses and related facilities.

Streets and Highways Code section 2101 specifies that gas tax monies be expended only for street-related purposes.

### Recommendation

The city should transfer \$18,494 in to the Gas Tax Fund and establish policies and procedures to ensure the fund is only charged street-related expenditures.

### City's Response

The City will prepare and post a general ledger journal entry to transfer \$18,494 from the General Fund to the Special Gas Tax Street Improvement Fund.

Chapter 2, Section 2-653 of the City's Code requires the establishment of a Special Gas Tax Street Improvement Fund and explicitly restricts the expenditure of Gas Tax monies exclusively for the purposes authorized by and subject to the provisions of Streets and Highways Code. To ensure proper compliance, a copy of Streets and Highway Code §§ 2106 – 2116 will be distributed to, and reviewed with, the appropriate Finance and Public Works Department staff.

### SCO's Comment

The city agrees with the finding and recommendation.

## **FINDING 2— Ineligible alley- sweeping cost**

From fiscal year (FY) 2009-10 through FY 2012-13, the city made reimbursements totaling \$25,460 (\$5,534 in FY 2009-10; \$6,642 in FY 2010-11; \$6,642 in FY 2011-12; and, \$6,642 in FY 2012-13) of gas tax monies to the general fund for non-street alley sweeping. Per the city's municipal code a street is defined as a right-of-way open to or intended to be opened to the public primarily for the movement of vehicles and access to adjacent property. This definition does not include an alley or walkway.

Streets and Highways Code section 2101 specifies that gas tax monies be expended only for street-related purposes.

### Recommendation

The city should transfer \$25,460 in to the Gas Tax Fund and establish policies and procedures to ensure the fund is only charged street-related expenditures.



City's Response

The City will prepare and post a general ledger journal entry to transfer \$25,460 from the General Fund to the Gas Tax fund.

Chapter 2, Section 2-653 of the City's Code requires the establishment of a Special Gas Tax Street Improvement Fund and explicitly restricts the expenditure of Gas Tax monies exclusively for the purposes authorized by and subject to the provisions of Streets and Highway Code. To ensure proper compliance, a copy of Streets and Highways Code §§ 2106 – 2116 will be distributed to, and reviewed with, the appropriate Finance and Public Works Department staff.

SCO's Comment

The city agrees with the finding and recommendation.

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

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THE CITY OF  
**SAN FERNANDO**

CITY COUNCIL

October 7, 2014

MAYOR  
SYLVIA BALLIN

Steven Mar, Chief  
Division of Audits, Local Government Audits Bureau  
State Controller's Office  
P.O. Box 942850  
Sacramento, CA 94250-5874

MAYOR PRO TEM  
ROBERT C. GONZALES

COUNCILMEMBER  
JESSE H. AVILA

COUNCILMEMBER  
JOEL FAJARDO

COUNCILMEMBER  
ANTONIO LOPEZ

**Subject: Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund,  
and Proposition 1B Audit Draft Report**

Dear Mr. Mar:

The City has reviewed the Special Gas Tax Street Improvement ("Gas Tax"), Traffic Congestion Relief Fund ("TCRF"), and Proposition 1B ("Prop 1B") audit draft report dated September 25, 2014 and staff will make the following corrective actions to address the audit findings:

**Finding No. 1 – Ineligible Expenditures**

In fiscal year (FY) 2012-2013, the City used \$18,494 in Gas Tax monies to reimburse the General Fund for non-street administrative costs relating to a grant used to purchase buses and related facilities.

Streets and Highways Code Section 2101 specifies that Gas Tax monies be expended only for street related purposes.

*Recommendation*

The City should transfer \$18,494 in to the Gas Tax Fund and establish policies and procedures to ensure the fund is only charged street related expenditures.

*Management Response*

The City will prepare and post a general ledger journal entry to transfer \$18,494 from the General Fund to the Special Gas Tax Street Improvement Fund.

FINANCE  
DEPARTMENT

117 MACNEIL STREET  
SAN FERNANDO  
CALIFORNIA  
91340

(818) 898-1200

[WWW.SFCITY.ORG](http://WWW.SFCITY.ORG)

Chapter 2, Section 2-653 of the City's Code requires the establishment of a Special Gas Tax Street Improvement Fund and explicitly restricts the expenditure of Gas Tax monies exclusively for the purposes authorized by and subject to the provisions of Streets and Highways Code. To ensure proper compliance, a copy of Streets and Highways Code §§ 2106 – 2116 will be distributed to, and reviewed with, the appropriate Finance and Public Works Department staff.

**Finding No. 2 -- Ineligible Alley Sweeping Cost**

From FY 2009-10 through FY 2012-13, the City used \$25,460 (\$5,534 in FY 2009-10; \$6,642 in FY 2010-11; \$6,642 in FY 2011-12; and, \$6,642 in FY 2012-13) in Gas Tax monies to reimburse the General Fund for non-street alley sweeping. Per the City's Municipal Code a street is defined as a right of way open to or intended to be opened to the public primarily for the movement of vehicles and access to adjacent property. This definition does not include an alley or walkway.

Streets and Highway Code section 2101 specifies that Gas Tax monies be expended only for street related purposes.

*Recommendation*

The City should transfer \$25,460 into the Gas Tax Fund and establish policies and procedures to ensure the fund is only charged street related expenditures.

*Management Response*

The City will prepare and post a general ledger journal entry to transfer \$25,460 from the General Fund to the Gas Tax fund.

Chapter 2, Section 2-653 of the City's Code requires the establishment of a Special Gas Tax Street Improvement Fund and explicitly restricts the expenditure of Gas Tax monies exclusively for the purposes authorized by and subject to the provisions of Streets and Highways Code. To ensure proper compliance, a copy of Streets and Highways Code §§ 2106 – 2116 will be distributed to, and reviewed with, the appropriate Finance and Public Works Department staff.

For your reference, a copy of the City's Municipal Code Section 2-653 is included as Attachment A. Please contact me for additional information or clarification.

Sincerely,



Nick Kimball  
Finance Director

cc: Brian Saeki, City Manager  
Chris Marcarello, Assistant City Manager/Public Works Director

ATTACHMENT A – City of San Fernando Municipal Code

The screenshot shows the municode website interface. On the left is a navigation menu for the City of San Fernando, California, listing various chapters and sections. The main content area displays three sections:

- Sec. 2-663. Special Gas Tax Street Improvement Fund.**
  - (a) To comply with the provisions of Streets and Highways Code § 2113, there is created in the city treasury a special fund to be known as the Special Gas Tax Street Improvement Fund.
  - (b) All monies received by the city from the state under the provisions of the Streets and Highways Code for the acquisition of real property or interests therein or for engineering or for the construction, maintenance or improvement of streets or highways by the city shall be paid into such fund.
  - (c) All monies in the fund shall be expended exclusively for the purposes authorized by and subject to the provisions of Streets and Highways Code §§ 2106–2116. (Code 1997, § 2.230)
- Sec. 2-664. Traffic Safety Fund.**
  - (a) To comply with the provisions of Vehicle Code § 42200, there is created in the city treasury a special fund to be known as the Traffic Safety Fund.
  - (b) All monies received by the city under Penal Code § 1463 in accordance with provisions of Vehicle Code § 42200 shall be paid into such fund.
  - (c) All monies in the fund shall be expended exclusively for the purposes authorized by and subject to the provisions of Vehicle Code § 42200. (Code 1997, § 2.211)
- Sec. 2-665. Prop A Local Transit Assistance Fund.**
  - (a) To comply with the requirements of the Metropolitan Transit Authority, there is created in the city treasury a special fund to be designated as "The Prop A Local Transit Assistance Fund."
  - (b) All monies received by the city from the Metropolitan Transit Authority as the city's share of the transportation sales tax imposed for local transportation purposes, including any interest earned through the investment of Prop A local return funds, shall be paid into this fund.
  - (c) Before expenditures are made from this fund, all such expenditures shall be budgeted in accordance with the fiscal procedures established in the Code and with such other budget procedures as may be adopted by the city council.



**State Controller's Office  
Division of Audits  
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