

CITY OF ONTARIO

Audit Report

SPECIAL GAS TAX STREET FUND

July 1, 2020, through June 30, 2021



MALIA M. COHEN
California State Controller

July 2023



MALIA M. COHEN
California State Controller

July 27, 2023

Scott Ochoa, City Manager
City of Ontario
303 East B Street
Ontario, CA 91764

Dear Mr. Ochoa:

The State Controller's Office audited the City of Ontario's Special Gas Tax Street Fund to determine whether the city accounted for and expended its Special Gas Tax Street Fund in compliance with requirements for the period of July 1, 2020, through June 30, 2021.

Our audit found an instance of non-compliance. The city understated the fund balance by \$9,059 as of June 30, 2021, because it under-allocated interest revenue to the Special Gas Tax Street Fund in fiscal year 2020-21.

If you have any questions, please contact Efren Loste, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226, or by email at eloste@sco.ca.gov.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/rs

cc: The Honorable Paul S. Leon, Mayor
City of Ontario
Armen Harkalyan, Executive Director of Finance
City of Ontario

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Ontario's Special Gas Tax Street Fund to determine whether the city accounted for and expended its Special Gas Tax Street Fund in compliance with requirements for the period of July 1, 2020, through June 30, 2021.

Our audit found an instance of non-compliance. The city understated the fund balance by \$9,059 as of June 30, 2021, because it under-allocated interest revenue to the Special Gas Tax Street Fund in fiscal year (FY) 2020-21.

Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) 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 Streets and Highways Code, cities must establish individual Special Gas Tax Street Funds for the deposit of their HUTA fund apportionments. Additionally, cities must expend their HUTA fund apportionments only for street-related purposes in accordance with Article XIX of the California Constitution and Streets and Highways Code.

Audit Authority

We conducted this audit of the city's Special Gas Tax Street Fund under the authority of Government Code section 12410, which provides the SCO with general authority to audit the disbursement of state money for correctness, legality, and sufficient provisions of law for payment.

Objective, Scope, and Methodology

Our audit objective was to determine whether the City of Ontario accounted for and expended its Special Gas Tax Street Fund in compliance with Article XIX of the California Constitution and Streets and Highways Code.

The audit period was July 1, 2020, through June 30, 2021.

To achieve our objective, we completed the following procedures:

- We interviewed key personnel, completed an internal control questionnaire, and reviewed the city's organization chart to obtain an understanding of the internal controls to the extent necessary to plan the audit. We deemed all components of internal control significant to our audit objective.
- We assessed the reliability of computer-processed data by reviewing existing information about the data and the system that produced it; by interviewing city officials knowledgeable about the data; and by tracing data to source documents, based on auditor judgment and non-statistical sampling. We determined that the data was sufficiently reliable for the purposes of achieving our audit objective.

- We conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- We performed analytical procedures to identify and explain the existence of unusual or unexpected account balances.
- We verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2014, through June 30, 2020, and by recalculating the trial balance for the period of July 1, 2020, through June 30, 2021.
- We verified that the components of and changes to fund balances were properly computed, described, classified, and disclosed by scheduling and analyzing the Special Gas Tax Street Fund account balances.
- We reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule for FY 2020-21 to determine whether HUTA apportionments received by the city were completely accounted for.
- We reviewed city accruals and adjustments for validity and eligibility.
- We analyzed the system used to allocate interest and determined whether the interest revenue allocated to the Special Gas Tax Street Fund was fair and equitable, by interviewing key personnel and recalculating all interest allocations for the audit period.
- We reviewed the fund cash and receivables accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures and protected from impairment.
- We verified that the expenditures incurred during the audit period were supported by proper documentation and eligible in accordance with the applicable criteria by testing all expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and judgmentally selecting non-statistical samples of other transactions for the following categories:
 - Services and supplies – We tested \$1,617,993 of \$3,631,046.
 - Labor – We tested \$143,617 of \$1,415,272.
 - Indirect – We tested \$22,567 of \$967,931.
 - Transfers – We tested \$2,662,323 of \$2,687,843.

For the selected samples, errors found were not projected to the intended (total) population.

We did not audit the city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the city accounted for and expended its Special Gas Tax Street Fund in accordance with the criteria.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

Our audit found an instance of non-compliance for the period of July 1, 2020, through June 30, 2021, as quantified in the Schedule and described in the Finding and Recommendation section. The finding requires an adjustment of \$9,059 to the City of Ontario’s accounting records.

Follow-up on Prior Audit Findings

Our prior audit report for the period of July 1, 2007, through June 30, 2014, issued on November 2, 2015, disclosed no findings.

Views of Responsible Officials

We issued a draft audit report on May 17, 2023. The City of Ontario’s representatives responded by letter dated May 25, 2023, agreeing with the audit results. This final audit report includes the city’s response as an attachment.

Restricted Use

This audit report is solely for the information and use of the City of Ontario 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 and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

July 27, 2023

**Schedule—
Reconciliation of Fund Balance
July 1, 2020, through June 30, 2021**

The following table shows the beginning and ending balances for City of Ontario's Special Gas Tax Street Fund:

Reconciliation of Fund Balance	Special Gas Tax Street Fund ¹
Beginning fund balance per city	\$ 5,033,269
Revenues	<u>4,061,399</u>
Total funds available	9,094,668
Expenditures	(6,014,249)
Transfers out	<u>(2,687,843)</u>
Ending fund balance per city	\$ 392,576
Interest revenue	
Finding: Under-allocated interest revenue	<u>9,059</u>
Ending fund balance per audit	<u><u>\$ 401,635</u></u>

¹ Cities receive apportionments from the HUTA, 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-related 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. Cities must establish individual Special Gas Tax Street Funds for the deposit of their HUTA apportionments.

Finding and Recommendation

**FINDING—
Under-allocated
interest revenue**

During our recalculation of interest allocations for the audit period, we found that the City of Ontario had under-allocated the interest income to the Special Gas Tax Street Fund by \$9,059. The city allocated a total of \$33,480 in interest revenue to the fund; however, based on our recalculation, the interest income allocable to the fund was \$42,539. Therefore, the city did not allocate fair and equitable interest revenue to the Special Gas Tax Street Fund during FY 2020-21.

Streets and Highways Code section 2113(e) requires that interest received by a city from the investment of money in its Special Gas Tax Street Fund be deposited in the fund and be used for street purposes.

Recommendation

We recommend that the city:

- Review its procedures to ensure that interest revenue allocated to the Special Gas Tax Street Fund is fair and equitable; and
- Credit an additional \$9,059 in interest revenue to the Special Gas Tax Street Fund.

SCO Comments

The city agreed with the finding and has made a journal entry to credit the Special Gas Tax Street Fund an additional \$9,059 in interest revenue.

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

CITY OF



ONTARIO

303 EAST B STREET | ONTARIO, CALIFORNIA 91764

(909) 395-2000 FAX (909) 395-2070 OntarioCA.gov

PAUL S. LEON
MAYOR

DEBRA PORADA
MAYOR PRO TEM

ALAN D. WAPNER
JIM W. BOWMAN
RUBEN VALENCIA
COUNCIL MEMBERS

SHEILA MAUTZ
CITY CLERK

JAMES R. MILHISER
TREASURER

SCOTT OCHOA
CITY MANAGER

May 25, 2023

State Controller's Office
Division of Audits
Financial Audits Bureau/LEA Unit
Post Office Box 942850
Sacramento, CA 94250-5874

To Whom It May Concern;

The City of Ontario agrees that the Gas Tax Fund balance was understated by \$9,059 as of June 30, 2021, due to the under-allocation of interest revenue to the Gas Tax Fund. The City revised the interest allocation schedule to ensure the amount is properly allocated to Gas Tax Fund and made a journal entry to transfer out \$9,059 from General Fund to Gas Tax Fund as of July 1, 2022. Please see the attached spreadsheet.

Sincerely,

A handwritten signature in blue ink, appearing to read "Armen Harkalyan".

Armen Harkalyan
Executive Director of Finance

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

www.sco.ca.gov