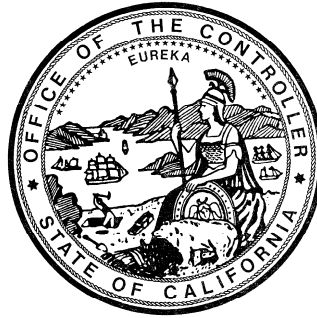


CITY OF ORINDA

Audit Report

GAS TAX FUND AND TRAFFIC CONGESTION RELIEF FUND

July 1, 2004, through June 30, 2005



JOHN CHIANG
California State Controller

January 2007



JOHN CHIANG
California State Controller

January 26, 2007

Rhada Wood
Administrative Services Director
City of Orinda
P.O. Box 2000
Orinda, CA 94563

Dear Ms. Wood:

The State Controller's Office audited the City of Orinda's Gas Tax Fund for the period of July 1, 2004, through June 30, 2005. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, through June 30, 2005.

The city accounted for and expended its Gas Tax Fund in compliance with Article XIX of the California Constitution and the *Streets and Highways Code*.

If you have any questions, please contact Paul R. Criss, Chief, Financial-Related Audits Bureau, at (916) 322-4941.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Orinda's Gas Tax Fund for the period of July 1, 2004, through June 30, 2005. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, through June 30, 2005. The last day of fieldwork was March 15, 2006.

Our audit disclosed that no adjustment to the Gas Tax Fund or TCRF Fund is required.

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 are derived from state taxes on the sale of motor vehicle fuels. In accordance with *Streets and Highways Code* Section 2101 and Article XIX of the California Constitution, a city must deposit all apportionments of highway users taxes in its Gas Tax Fund (also known as the 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 Gas Tax Fund under the authority of *Government Code* Section 12410.

Chapter 91, Statutes of 2000 (Assembly Bill 2928), as amended by Chapter 656, Statutes of 2000 (Senate Bill 1662), established 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. We conducted our audit of the city's TCRF under the authority of *Streets and Highways Code* Sections 2182 and 2182.1.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Gas Tax Fund and TCRF 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 Gas Tax 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 our audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Gas Tax Fund and the TCRF in accordance with the requirements of the *Streets and Highways Code*. 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 accounted for and expended its Gas Tax Fund in compliance with Article XIX of the California Constitution and the *Streets and Highways Code* for the period of July 1, 2004, through June 30, 2005.

Our audit also disclosed that the city accounted for and expended its TCRF in compliance with Article XIX of the California Constitution and the *Streets and Highways Code* for the period of July 1, 2000, through June 30, 2005.

**Views of
Responsible
Official**

We issued a draft audit report dated September 15, 2006. Radha Wood, Administrative Services Director, responded by preparing correcting journal entries to reclassify expenditures from the Capital Improvement Fund to the TCRF.

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

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2004, through June 30, 2005**

	Gas Tax Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ 27,321	\$ 63,879
Revenues	<u>351,012</u>	<u>2,060</u>
Total funds available	378,333	65,939
Expenditures	<u>(102,267)</u>	<u>(65,939)</u>
Ending fund balance per city	276,066	—
SCO adjustment	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u><u>\$ 276,066</u></u>	<u><u>\$ —</u></u>

¹ 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 apportionments are restricted 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.

² Chapter 91, Statutes of 2000 (Assembly Bill 2928), as amended by Chapter 656, Statutes of 2000 (Senate Bill 1662), established the State Traffic Congestion Relief Fund (TCRF), which allocates funds to cities and counties for street or road maintenance and reconstruction.

Findings and Recommendations

FINDING 1— TCRF expenditure requirements not met

The city did not expend its allocations of the Traffic Congestion Relief Fund (TCRF) within the fiscal year following the fiscal year in which the allocations were made as required by *Streets and Highways Code* Section 2182.1(g). The unexpended allocation subject to the spending requirements as of June 30, 2005, is \$62,432. The *Streets and Highways Code* further states, “. . . funds not expended within that period shall be returned to the Controller. . . .”

Recommendation

The city should return the unexpended TCRF allocations and interest earned on the funds, in the amount of \$62,432, to the State Controller’s Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

Additionally, the city should review its TCRF expenditure levels to ensure compliance with program requirements.

City’s Response

Upon receipt and review of the SCO’s draft audit report relating to the TCRF, the city has made correcting journal entries to reclassify qualifying TCRF expenditures from the Capital Improvement Fund #700 to the TCRF #016. Additionally, the city will ensure that future TCRF allocations are expended in a timely manner.

SCO’s Comment

We reviewed the correcting adjustments made by the city relating to the TCRF allocations, and we withdraw the audit finding.

FINDING 2— Deficit fund balance

As of June 30, 2005, the city’s recorded fund balance in the TCRF was \$0. However, as the city did not meet the TCRF expenditure requirements and must return \$62,432 (see Finding 1) from the TCRF to the SCO, the city’s TCRF balance will be in a deficit of \$62,432.

Pursuant to the California *Government Code* Section 12440, warrants may only be drawn from an unexhausted specific appropriation provided by law. As a result of the SCO’s adjustment, the city’s TCRF will be exhausted and no funds will be available in the TCRF to meet those warrants. Additionally, the city may not carry forward a deficit fund balance to the subsequent fiscal year.

Recommendation

The city should eliminate the deficit fund balance in the TCRF. In the future, the city should adopt a balanced budget that limits expenditures to the funds available.

City's Response

By reclassifying expenditures from the Capital Improvement Fund #700 to the TCRF #016, the city has eliminated the deficit fund balance.

SCO's Comment

We reviewed the correcting adjustments made by the city relating to the TCRF allocations, and we withdraw the audit finding.

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

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