

CITY OF BIG BEAR LAKE

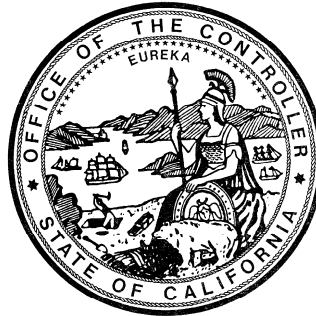
Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006

TRAFFIC CONGESTION RELIEF FUND

July 1, 2000, through June 30, 2006



JOHN CHIANG
California State Controller

March 2008



JOHN CHIANG
California State Controller

March 28, 2008

Rick Herrick, Mayor
City of Big Bear Lake
39707 Big Bear Boulevard
P.O. Box 10000
Big Bear Lake, CA 92315-8900

Dear Mr. Herrick:

The State Controller's Office audited the City of Big Bear Lake's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2000, through June 30, 2006.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required. Further, our audit disclosed that the city overstated the fund balance in its Traffic Congestion Relief Fund by \$1,808 as of June 30, 2006. This overstatement occurred because the city did not expend its fiscal year (FY) 2002-03 Traffic Congestion Relief Fund allocations within the fiscal year following the fiscal year in which the allocations were made.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: Kelly Ent, Director of Administrative Services
City of Big Bear Lake

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Views of Responsible Official	2
Restricted Use	2
Schedule 1—Reconciliation of Fund Balance	3
Findings and Recommendations	4
Attachment—City’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the City of Big Bear Lake's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2000, through June 30, 2006.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required. Our audit also disclosed that the city overstated the fund balance in the Traffic Congestion Relief Fund (TCRF) by \$1,808 as of June 30, 2006. This overstatement occurred because the city did not expend its fiscal year (FY) 2002-03 TCRF allocations within the fiscal year following the fiscal year in which the allocations were made.

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 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 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.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief 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 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 Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief 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 disclosed that the city 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, 2005, through June 30, 2006. Our audit also disclosed 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, 2000, through June 30, 2006, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require that the city return \$1,808 to the SCO.

Views of Responsible Official

We issued a draft audit report on December 19, 2007. Kelly Ent, Director of Administrative Services, responded by letter dated January 14, 2008, 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 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

March 28, 2008

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2005, through June 30, 2006**

	<u>Special Gas Tax Street Improvement Fund ¹</u>	<u>Traffic Congestion Relief Fund ²</u>
Beginning fund balance per city	\$ 12,110	\$ —
Revenues	<u>438,671</u>	<u>27,853</u>
Total funds available	450,781	27,853
Expenditures	<u>(438,535)</u>	<u>(19,897)</u>
Ending fund balance per city	<u>12,246</u>	<u>7,956</u>
SCO adjustment: ³		
Finding 1—TCRF expenditure requirement not met	—	(1,808)
Finding 2—Ineligible expenditures	<u>—</u>	<u>1,808</u>
Total SCO adjustments (net)	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 12,246</u>	<u>\$ 7,956</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 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.

² 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 Traffic Congestion Relief Fund. The audit period was July 1, 2000, through June 30, 2007.

³ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
TCRF expenditure
requirement not met**

The city did not expend its fiscal year (FY) 2002-03 Traffic Congestion Relief Fund (TCRF) allocations within the fiscal year following the fiscal year in which the allocations were made, as required by Streets and Highways Code section 2182. The unexpended allocations and interest earned subject to the spending requirement have accumulated to a total of \$1,808 as of June 30, 2006. Section 2182 further states, “. . . any funds not expended within that period shall be returned to the Controller.”

Recommendation

The city must return the unexpended TCRF allocations and interest earned on these funds, in the amount of \$1,808, 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 future compliance with program requirements.

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

City’s Response

We have reviewed the draft Audit Report and recognize the audit findings to be an accurate representation of what has transpired during the period under review. In addition, we agree with the recommendations as described and are sending payment in the amount of \$1,808.

SCO’s Comment

We concur with the city’s response.

**FINDING 2—
Ineligible
expenditures**

The city did not meet its expenditure requirement during FY 2002-03 as noted in Finding 1. Consequently, the subsequent expenditure of these funds, totaling \$1,808, was not eligible to be funded with TCRF allocations.

Recommendation

The city must reimburse the Traffic Congestion Relief Fund by \$1,808 to eliminate the ineligible expenditures.

City’s Response

We have reviewed the draft Audit Report and recognize the audit findings to be an accurate representation of what has transpired during the period under review. In addition, we agree with the recommendations as described and are sending payment in the amount of \$1,808.

SCO’s Comment

We concur with the city’s response.

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

City of Big Bear Lake



ADMINISTRATIVE SERVICES DIVISION

January 14, 2008

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

RE: City of Big Bear Lake Audit Report
Special Gas Tax Street Improvement Fund July 1, 2005 through June 30, 2006 and
Traffic Congestion Relief Fund July 1, 2000 through June 30, 2006

Dear Mr. Mar:

We have reviewed the attached draft Audit Report and recognize the audit findings to be an accurate representation of what has transpired during the period under review. In addition, we agree with the recommendations as described and are sending payment in the amount of \$1,808 (Ck#040177 dated 01/11/2008) to the attention of Bill Byall per the instructions provided in the attached report.

If you have any questions or need additional information to finalize your report, please let me know.

Sincerely,

Kelly Ent
Director of Administrative Services
kent@citybigbearlake.com

cc: Kathleen Smith, Chief Operations Officer

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

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