

CITY OF COALINGA

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2006



JOHN CHIANG
California State Controller

March 2009



JOHN CHIANG
California State Controller

March 27, 2009

The Honorable Ron Lander
Mayor of the City of Coalinga
155 West Durian
Coalinga, CA 93210

Dear Mayor Lander:

The State Controller's Office audited the City of Coalinga'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 (TCRF) allocations recorded in the Capital Expenditure 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 and TCRF allocations recorded in the Capital Expenditure Fund in compliance with requirements, except the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$288,437 as of June 30, 2006, because it incurred ineligible gas tax expenditures.

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/vb

cc: Robert Barron
Finance Director
City of Coalinga

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Audit Report

Summary

The State Controller's Office audited the City of Coalinga'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 (TCRF) allocations recorded in the Capital Expenditure 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 and TCRF allocations recorded in the Capital Expenditure Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$288,437 as of June 30, 2006, because it incurred ineligible gas tax expenditures.

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 Capital Expenditure 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 TCRF allocations recorded in the Capital Expenditure 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 its Special Gas Tax Street Improvement Fund and the TCRF allocations recorded in the Capital Expenditure 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 of Coalinga 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, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$288,437 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Capital Expenditure 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.

Views of Responsible Official

We issued a draft audit report on September 30, 2008. Robert Barron, Finance Director, responded by letter dated October 30, 2008, disagreeing 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 27, 2009

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

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund Allocation ²
Beginning fund balance per city	\$ —	\$ —
Revenues	<u>307,610</u>	<u>76,233</u>
Total funds available	307,610	76,233
Expenditures	<u>(307,610)</u>	<u>(76,233)</u>
Ending fund balance per city	—	—
SCO adjustment: ³		
Finding—Ineligible expenditures	<u>288,437</u>	<u>—</u>
Ending fund balance per audit	<u><u>\$ 288,437</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 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 Capital Expenditure Fund. The audit period was July 1, 2000, through June 30, 2006.

³ See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Ineligible gas tax expenditures

The City of Coalinga expended gas tax funds totaling \$288,437 for dirt alley paving projects during fiscal year (FY) 2005-06. Maintenance or construction costs on alleys that have not been formally designated as part of the city's street system are not eligible for funding under the highway users tax program. The city was not able to provide documentation showing that these dirt alleys were designated as part of the city's street system through a resolution by its governing body. Therefore, these expenditures cannot be charged to the Special Gas Tax Street Improvement Fund.

Streets and Highways Code section 1806 states:

(a) No city shall be held liable for failure to maintain any road until it has been accepted in the city street system in accordance with subdivision (b) or (c).

(b) Except as provided by section 989, or by section 57329 or 57385 of the Government Code, no public or private street or road shall become a city street or road until the governing body, by resolution, has caused the street or road to be accepted into the city street system.

(c) In lieu of the procedure set forth in subdivision (b), the governing body of a city may, by ordinance, designate a city officer to accept, on behalf of the governing body, streets and roads or portions thereof, into the city street system and to record conveyances to the city of real property interests for street and road uses and purposes. The designee shall, prior to recording any conveyance under this section, affix a certificate to the instrument stating the acceptance into the city street system and designating the name or number, or both, of the city-street or road.

Streets and Highways Code section 2101 states:

All moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for all of the following:

(a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes.

Due to these ineligible expenditures, the Special Gas Tax Street Improvement Fund ending balance was understated by \$288,437.

Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund in the amount of \$288,437 for the ineligible expenditures incurred for dirt alley paving projects.

City's Response

In your audit finding it states, "Maintenance or construction costs on alleys that have not been formally designated as part of the City's street system are not eligible for funding under the highway users tax program" The audit finding recommends that the City should reimburse the Gas Tax Street Fund in the amount of \$288,437. The City of Coalinga respectfully contends that the alleys are part of City's right away and street system and accepts alley dedications with the approval of Final Tract maps. The City engineer accepts streets, roads and portions of with the Final Tract Map and the City Council records and accepts right away with the approval of all maps. The City has accepted alleyways as part of the overall system in all subdivision maps. [*sic*]

SCO's Comments

The city did not provide us with any documentation to support its assertions that the alleys are part of the city's right away and street system and whether these dedications and the Final Tract maps were officially approved by the City Council. We made numerous attempts to contact city officials to go over this matter and to obtain sufficient documentation to resolve this finding, but were not successful. As such, the finding and recommendation remain as stated.

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



155 W. Durian Avenue
Coalinga, CA 93210

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October 30, 2008

Steven Mar
Chief Local Government Audits Bureau
State Controllers Office
Division of Audits
P.O. Box 942850
Sacramento, CA. 942850

RE: City of Coalinga Special Gas Tax Street Audit

Dear Mr. Steven Mar:

We have received the State Audit report regarding the City of Coalinga 2005-2006 Gas Tax funds. In your audit finding it states, "Maintenance or construction costs on alleys that have not been formally designated as part of the City's street system are not eligible for funding under the highway users tax program" The audit finding recommends that the City should reimburse the Gas Tax Street Fund in the amount of \$288,437. The City of Coalinga respectfully contends that the alleys are part of City's right away and street system and accepts alley dedications with the approval of Final Tract maps. The City engineer accepts streets, roads and portions of with the Final Tract Map and the City Council records and accepts right away with the approval of all maps. The City has accepted alleyways as part of the overall system in all subdivision maps.


All alleys in the City are dedicated for public use not private parcels, and used for the installation of City sewer lines, water lines, and gas lines. The City requires dedicated alleys to allow for solid waste collection and grants access to garages that were required to be constructed via the alleyways. As a result the necessity of the paving of the alleyways was to prevent Air Quality violations.

If needed the City could provide samples of tract maps to show that alleyways were dedicated into the street system. We request that the Division of Audits reconsider and reverse such findings of the Gas Tax Funds use for the

City of Coalinga. We also request that we could have a conference call to further clarify any issues regarding the use of the Gas Tax Funds for the alley paving project.

If you have any questions please feel free to contact myself or Bill Skinner, Interim City Manager at (559)935-1531.

Kind Regards,

A handwritten signature in black ink, appearing to read "Robert Barron". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Robert Barron, Financial Services Director

Cc: City Files
Bill Skinner, Interim City Manager

**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>