

CITY OF COMPTON

Audit Report

**SPECIAL GAS TAX STREET IMPROVEMENT FUND
TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS
AND
PROPOSITION 1B FUND ALLOCATIONS**

July 1, 2007, through June 30, 2016



BETTY T. YEE
California State Controller

April 2018



BETTY T. YEE
California State Controller

April 16, 2018

Cecil W. Rhambo, Jr., City Manager
City of Compton
205 South Willowbrook Avenue
Compton, CA 90220

Dear Mr. Rhambo:

The State Controller's Office audited the City of Compton's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2016. We also audited the Traffic Congestion Relief Fund allocations recorded in its Transportation Investment Fund, and the Proposition 1B Fund allocations recorded in its Proposition 1B Fund for the period of July 1, 2007, through June 30, 2016.

Our audit found that the city accounted for and expended its Proposition 1B Fund allocations in compliance with requirements. However, the City of Compton did not account for and expend its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund allocations in compliance with requirements as follows:

- For the Special Gas Tax Street Improvement Fund, the city borrowed from the fund, charged the fund with unsupported and ineligible expenditures, overstated gas tax revenue adjustments, and understated income; and
- For the Traffic Congestion Relief Fund allocations, the city charged the fund with unsupported costs, and did not spend the funds within the required statutory period.

We also identified one deficiency in internal control that is insignificant to the audit objective, but warrants the attention of management. This deficiency is described in the Observation and Recommendation section of this report.

If you have any questions, please contact Efren Lose, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

cc: The Honorable Aja Brown, Mayor
City of Compton
Janna Zurita, Councilmember
City of Compton
Isaac Galvan, Councilmember
City of Compton
Tana McCoy, Councilmember
City of Compton
Emma Sharif, Councilmember
City of Compton
Rafaela King, City Controller
City of Compton

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Compton's:

- Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2016;
- Traffic Congestion Relief Fund allocations recorded in its Transportation Investment Fund for the period of July 1, 2007, through June 30, 2016; and
- Proposition 1B Fund allocations recorded in its Proposition 1B Fund, for the period of July 1, 2007, through June 30, 2016.

Our audit found that the city accounted for and expended its Proposition 1B Fund allocations in compliance with requirements. However, the City of Compton did not account for and expend its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund allocations in compliance with requirements as follows:

- For the Special Gas Tax Street Improvement Fund, the city borrowed from the fund, charged the fund with unsupported and ineligible expenditures, overstated gas tax revenue adjustments, and understated income; and
- For the Traffic Congestion Relief Fund allocations, the city charged the fund with unsupported costs, and did not spend the funds within the required statutory period.

We also identified one deficiency in internal control that is insignificant to the audit objective, but warrants the attention of management. This deficiency is described in the Observation and Recommendation section of this report.

Background

The State apportions funds monthly from the 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 Article XIX of the California Constitution and Streets and Highways Code, 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 (GC) section 12410.

Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 636, Statutes of 2000, (Senate Bill 1662) and GC 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 Traffic

Congestion Relief Fund allocations in its Transportation Investment Fund. We conducted our audit of the city's Traffic Congestion Relief Fund 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 must be deposited into an account that is designated for the receipt of State funds allocated for streets and roads. The city recorded its Proposition 1B Fund allocations in its Proposition 1B Fund. A city also must expend its allocations within four years following the end of the fiscal year in which the allocation was made, and must expend the funds in compliance with GC section 8879.23. We conducted our audit of the city's Proposition 1B Fund allocations under the authority of GC section 12410.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with Article XIX of the California Constitution, the Streets and Highways Code, Revenue and Taxation Code section 7104, and GC section 8879.23.

We audited the city's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2016. We also audited the Traffic Congestion Relief Fund allocations and the Proposition 1B Fund allocations for the period of July 1, 2007, through June 30, 2016.

To meet our objective, we:

- Gained a limited understanding of internal controls that would have an effect on the reliability of the accounting records of the Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations by interviewing key personnel, completing the internal control questionnaire, and reviewing the city's organization chart;
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing;
- Performed analytical procedures to determine and explain the existence of unusual or unexpected account balances;
- Verified the accuracy of the fund balances by recalculating the trial balances of the Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations;
- Verified whether the components of and changes to the fund balances were properly computed, described, classified, and disclosed by

- scheduling and analyzing the Special Gas Tax Street Improvement Fund balances;
- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule to determine whether HUTA apportionments, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations received by the city were completely accounted for;
 - Reviewed city accruals and adjustments for validity and eligibility;
 - Analyzed the system used to allocate interest and determined whether the interest revenue allocated to the Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations was fair and equitable, by interviewing key personnel and recalculating interest allocations for the period of July 1, 2012, through June 30, 2016;
 - Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures and protected from impairment; and
 - Verified whether the expenditures incurred during the audit period were supported by proper documentation and eligible in accordance with the applicable criteria by testing all of the expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold); and judgmentally selecting samples of other transactions for the following categories (for the selected sample, errors found, if any, were not projected to the intended population):
 - Services and Supplies – We tested \$4,797,816 of \$6,879,713.
 - Labor – We tested \$146,954 of \$13,810,448.
 - Indirect – We tested \$1,261,770 of \$1,585,053.
 - Capital Outlay – We tested \$1,478,640 of \$1,677,297.

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 Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in accordance with the criteria. We considered the city's internal controls only to the extent necessary to plan the audit.

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 that the City of Compton accounted for and expended its Proposition 1B Fund allocations recorded in its Proposition 1B Fund in compliance with GC section 8879.23 for the period of July 1, 2007, through June 30, 2016. However, our audit found that the City of Compton did not account for and expend 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, 2007, through June 30, 2016. The instances of noncompliance are noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require adjustments of \$4,423,248 to the city's accounting records (Schedule 1 and Finding 1); and
- Traffic Congestion Relief Fund allocations recorded in its Transportation Investment 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, 2007, through June 30, 2016. The instances of noncompliance are noted in Schedule 2 and described in the Findings and Recommendations section of this report. The findings require adjustments of \$783,787 to the city's accounting records.

We also identified one deficiency in internal control that is insignificant to the audit objective, but warrants the attention of management. This deficiency is described in the Observation and Recommendation section of this report.

**Follow-up on Prior
Audit Findings**

The city satisfactorily resolved the findings noted in our prior audit report, issued on August 22, 2008.

**Views of
Responsible
Officials**

We issued a draft audit report on March 9, 2018. Cecil W. Rhambo, Jr., City Manager, responded by letter dated March 26, 2018. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is solely for the information and use of the City of Compton 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

April 16, 2018

**Schedule 1—
Special Gas Tax Street Improvement Fund¹
Reconciliation of Fund Balances
July 1, 2007, through June 30, 2016**

	Per City		Per SCO		SCO	Comment
	Per City	Per SCO	Per City	Per SCO	Adjustment ²	
Fund Balance at June 30, 2007	\$ 230,633	\$ 637,393				
Prior SCO Audit Adjustment	406,760					
FY 2007-08 Revenues	1,743,058	1,743,058				
FY 2007-08 Expenditures	<u>(1,627,583)</u>	<u>(1,627,583)</u>				
Fund Balance at June 30, 2008	<u>752,868</u>	<u>752,868</u>				
FY 2008-09 Revenues	1,588,945	1,588,945				
FY 2008-09 Expenditures	<u>(2,145,531)</u>	<u>(1,798,930)</u>	346,601			Finding 3
Fund Balance at June 30, 2009	<u>196,282</u>	<u>542,883</u>				
FY 2009-10 Revenues	1,719,965	1,719,965				
FY 2009-10 Expenditures	<u>(2,242,197)</u>	<u>(1,726,071)</u>	516,126			Finding 3, 5
Fund Balance at June 30, 2010	<u>(325,950)</u>	<u>536,777</u>				
FY 2010-11 Revenues	2,550,830	2,550,830				
FY 2010-11 Expenditures	<u>(1,935,721)</u>	<u>(1,910,290)</u>	25,431			Finding 3
Fund Balance at June 30, 2011	<u>289,159</u>	<u>1,177,317</u>				
FY 2011-12 Revenues	2,765,723	2,765,723				
FY 2011-12 Expenditures	<u>(2,045,347)</u>	<u>(2,045,347)</u>				
FY 2011-12 City Adjustment	<u>(321,434)</u>	<u>(321,434)</u>				
Fund Balance at June 30, 2012	<u>688,101</u>	<u>1,576,259</u>				
FY 2012-13 Revenues	2,307,701	2,307,914	213			Finding 8
FY 2012-13 Expenditures	<u>(1,024,286)</u>	<u>(1,024,286)</u>				
Fund Balance at June 30, 2013	<u>1,971,516</u>	<u>2,859,887</u>				
FY 2013-14 Revenues	3,207,053	3,235,414	28,361			Finding 7, 8
FY 2013-14 Expenditures	<u>(1,797,503)</u>	<u>(1,723,137)</u>	74,366			Finding 4
Fund Balance at June 30, 2014	<u>3,381,066</u>	<u>4,372,164</u>				
FY 2014-15 Revenues	2,545,999	2,550,060	4,061			Finding 8
FY 2014-15 Expenditures	<u>(2,671,635)</u>	<u>(2,612,644)</u>	58,991			Finding 4
Fund Balance at June 30, 2015	<u>3,255,430</u>	<u>4,309,580</u>				
FY 2015-16 Revenues	2,115,887	2,061,047	(54,840)			Finding 7, 8
FY 2015-16 Expenditures	<u>(3,160,255)</u>	<u>(2,761,072)</u>	399,183			Finding 4
Fund Balance at June 30, 2016	<u>\$2,211,062</u>	<u>\$3,609,555</u>				
Total Adjustments					<u>\$1,398,493</u>	

¹The city receives apportionments from the State 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. The city deposits its HUTA apportionment pursuant to Streets and Highways Code section 2103 in its Transportation Investment Fund; the city deposits its HUTA apportionments pursuant to Streets and Highways Code sections 2105, 2106, 2107, and 2107.5 in its Special Gas Tax Street Improvement Fund. The two funds are presented together in this schedule.

²See the Findings and Recommendations section.

**Schedule 2—
Traffic Congestion Relief Fund Allocations¹
Reconciliation of Fund Balances
July 1, 2007, through June 30, 2016**

	Per City	Per SCO	SCO	Comment
			Adjustment ²	
Fund Balance at June 30, 2007	\$ 297,787	\$ 382,861		
Prior SCO Audit Adjustment	85,074			
FY 2007-08 Revenues	-	-		
FY 2007-08 Expenditures	(382,861)	(85,074)	297,787	Finding 2, 6
Fund Balance at June 30, 2008	-	297,787		
FY 2008-09 Revenues	840,461	840,461		
FY 2008-09 Expenditures	(355,330)	(355,330)		
Fund Balance at June 30, 2009	485,131	782,918		
FY 2009-10 Revenues	900,097	900,097		
FY 2009-10 Expenditures	(936,177)	(450,177)	486,000	Finding 2
Fund Balance at June 30, 2010	449,051	1,232,838		
FY 2010-11 Revenues	-	-		
FY 2010-11 Expenditures	(449,051)	(449,051)		
Fund Balance at June 30, 2011	-	783,787		
FY 2011-12 Revenues	-	-		
FY 2011-12 Expenditures	-	(783,787)	(783,787)	
Fund Balance at June 30, 2012	-	-		
FY 2012-13 Revenues	-	-		
FY 2012-13 Expenditures	-	-		
Fund Balance at June 30, 2013	-	-		
FY 2013-14 Revenues	-	-		
FY 2013-14 Expenditures	-	-		
Fund Balance at June 30, 2014	-	-		
FY 2014-15 Revenues	-	-		
FY 2014-15 Expenditures	-	-		
Fund Balance at June 30, 2015	-	-		
FY 2015-16 Revenues	-	-		
FY 2015-16 Expenditures	-	-		
Fund Balance at June 30, 2016	\$ -	\$ -		
Total Adjustments			\$ -	

¹ GC section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The city records its Traffic Congestion Relief Fund allocations in its Transportation Investment Fund.

² See the Findings and Recommendations section.

Schedule 3—
Proposition 1B Fund Allocations¹
Reconciliation of Fund Balances
July 1, 2007, through June 30, 2016

	Per City	Per SCO
Fund Balance at June 30, 2007	\$ -	\$ -
FY 2007-08 Revenues	1,599,602	1,599,602
FY 2007-08 Expenditures	(29,510)	(29,510)
Fund Balance at June 30, 2008	1,570,092	1,570,092
FY 2008-09 Revenues	517	517
FY 2008-09 Expenditures	(983,697)	(983,697)
Fund Balance at June 30, 2009	586,912	586,912
FY 2009-10 Revenues	1,478,646	1,478,646
FY 2009-10 Expenditures	(436,680)	(436,680)
Fund Balance at June 30, 2010	1,628,878	1,628,878
FY 2010-11 Revenues	51	51
FY 2010-11 Expenditures	(1,094,933)	(1,094,933)
Fund Balance at June 30, 2011	533,996	533,996
FY 2011-12 Revenues	16	16
FY 2011-12 Expenditures	(57,382)	(57,382)
Fund Balance at June 30, 2012	476,630	476,630
FY 2012-13 Revenues	2,266	2,266
FY 2012-13 Expenditures	(122,565)	(122,565)
Fund Balance at June 30, 2013	356,331	356,331
FY 2013-14 Revenues	2,278	2,278
FY 2013-14 Expenditures	(358,609)	(358,609)
Fund Balance at June 30, 2014	-	-
FY 2014-15 Revenues	-	-
FY 2014-15 Expenditures	-	-
Fund Balance at June 30, 2015	-	-
FY 2015-16 Revenues	-	-
FY 2015-16 Expenditures	-	-
Fund Balance at June 30, 2016	\$ -	\$ -

¹Senate 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 city records its Proposition 1B Fund allocations in its Proposition 1B Fund.

Findings and Recommendations

**FINDING 1—
Unallowable borrowing
from Highway Users
Tax Account
apportionments**

As of June 30, 2016, the city borrowed \$3,024,755 from its HUTA apportionments; this amount was comprised of \$2,260,802 Due from Other Funds and \$763,953 from Advances to the General Fund. HUTA apportionments are restricted to street-related expenditures only; borrowing is an unallowable activity. The unallowable borrowing is summarized below:

<u>Fiscal Year</u>	<u>Description</u>	<u>Amount</u>
2013-14	Due from Other Funds	\$ 2,260,802
2012-13	Advances to the General Fund	763,953
	Total Unallowable Borrowing	\$ 3,024,755

On July 1, 2012, the city advanced \$756,446 to the General Fund from its Transportation Investment Fund, in which the city deposits its Section 2103 HUTA apportionments. As of June 30, 2016, the outstanding advance to the General Fund from the HUTA apportionments, including accrued interest of \$7,507, is \$763,953.

On June 30, 2014, the city borrowed HUTA apportionments totaling \$2,260,802 from its Transportation Investment Fund and its Special Gas Tax Street Improvement Fund to cover the negative cash balances of various special revenue funds. The city used Due From Other Funds/Due To Other Funds accounts to track the amounts borrowed, as follows:

<u>Description</u>	<u>Amount</u>
Martin Luther King Transit Center Expansion Fund	\$ 952,326
Rosecrans Traffic Signal Upgrade Fund	734,714
Metropolitan Transportation Authority Fund	319,948
Department of Transportation Community Improvement Projects Fund	140,598
Proposition 1B Fund	68,325
Sobriety Checkpoint Program Fund	28,718
Used Oil Payment Program Fund	6,525
Click it or Ticket Program Fund	4,294
Used Oil Block Grant Fund	4,061
Compton Creek Biketrail Fund	1,293
Total Due from Other Funds	\$ 2,260,802

Streets and Highways Code section 2101 states, in part:

...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for...
 (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways....

Recommendation

We recommend that the city transfer \$3,024,755 to the Special Gas Tax Street Improvement Fund to replenish the fund for the unallowable

borrowing. In addition, we recommend that the city adopt policies and procedures to prevent any future borrowing of HUTA apportionments.

City’s Response

...the City will comply with the Controller’s direction to...reimburse the indicated funds as recommended by the State Controller’s audit. Finally, the city is in agreement with the State Controller’s recommendation to follow internal control policies and procedures....

SCO Comment

The city will comply with our recommendations to reimburse the Special Gas Tax Street Improvement Fund for the unallowable borrowing, and to adopt internal control policies and procedures.

**FINDING 2—
Unsupported Traffic
Congestion Relief
Fund allocations costs**

The city charged \$652,982 of unsupported costs to its Traffic Congestion Relief Fund allocations for FY 2007-08 and FY 2009-10. Therefore, the costs are unallowable.

The city charged \$166,982 of unsupported contract service costs in FY 2007-08 and allocated \$486,000 of equipment rental shortfall in FY 2009-10 to the Transportation Investment Fund. The city did not support these costs with proper documentation.

The unsupported Traffic Congestion Relief Fund costs charged to the Transportation Investment Fund are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2007-08	\$ 166,982
2009-10	486,000
Total	<u>\$ 652,982</u>

Revenue and Taxation Code section 7104(e) states, in part:

Funds allocated to a city, county, or city and county under paragraph (4) or (5) of subdivision (c) shall be used only for street and highway maintenance, rehabilitation, reconstruction, and storm damage repair...

Revenue and Taxation Code section 7104(f)(7) requires a city to expend its Traffic Congestion Relief Fund allocations within the fiscal year following the fiscal year in which the allocations were made. In addition, the code indicates that funds not expended within that period shall be returned to the SCO.

Recommendation

We recommend that the city return \$652,982 to the SCO, Attention: Departmental Accounting Office – A/R, P.O. Box 942850, Sacramento, California 94250.

City’s Response

...the City will comply with the Controller’s direction to...return requested funds to the State Controller’s Office....

SCO Comment

The city will comply with our recommendation to return the Traffic Congestion Relief Funds to SCO.

**FINDING 3—
Unsupported
equipment rental
charges**

The city charged \$562,208 of unsupported equipment rental charges to its Special Gas Tax Street Improvement Fund for FY 2008-09 through FY 2010-11. Therefore, the costs are unallowable.

The city allocated equipment rental charges at an hourly rate based on usage for each month. The city did not identify how it determined the rates charged for equipment usage, or substantiate that the equipment was used for street-related purposes. The city did not substantiate the allocations made to cover its equipment rental shortage.

Streets and Highways Code section 2101 states, in part:

...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for...
(a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways....

The unsupported costs charged to the Special Gas Tax Street Improvement Fund are as follows:

<u>Fiscal Year</u>	<u>Description</u>	<u>Amount</u>
2008-09	Automotive Equipment Rental Cost	\$ 346,601
2009-10	Automotive Equipment Rental Cost	190,176
2010-11	Equipment Rental Shortage	25,431
Total		<u>\$ 562,208</u>

Therefore, the \$562,208 of unsupported costs charged to the Special Gas Tax Street Improvement Fund are unallowable.

Recommendation

We recommend that the city:

- Reimburse the Special Gas Tax Street Improvement Fund \$562,208 for the unsupported costs; and
- Establish procedures to ensure that expenditures charged to the Special Gas Tax Street Improvement Fund are adequately supported.

City’s Response

...the City will comply with the Controller’s direction to...reimburse the indicated funds as recommended by the State Controller’s audit. Finally, the city is in agreement with the State Controller’s recommendation to follow internal control policies and procedures....

SCO Comment

The city will comply with our recommendations to reimburse the Special Gas Tax Street Improvement Fund for the unsupported equipment rental charges, and to adopt internal control policies and procedures to ensure that expenditures are adequately supported.

**FINDING 4—
Ineligible gas tax
expenditures**

The city charged \$532,540 for non-street-related services and supplies to the Special Gas Tax Street Improvement Fund and Transportation Investment Fund (for which the city deposits Section 2103 HUTA apportionments) for FY 2013-14 through FY 2015-16. Therefore, the expenditures are ineligible.

The city charged \$6,879,713 of services and supplies. We tested \$4,797,816 and identified \$532,540 of ineligible expenditures.

The ineligible expenditures are as follows:

<u>Fiscal Year</u>	<u>Description</u>	<u>Amount</u>
2013-14	Transportation Assessments/Reports	\$ 36,686
	Water/Waste Fees	18,883
	Memberships/Certifications	9,820
	Sewer Assessment	8,977
FY 2013-14 Total		<u>\$ 74,366</u>
2014-15	Transportation Reports	\$ 25,000
	Water/Waste Fees	11,195
	Paint, Motor Oil, and Chemical Removal	9,350
	July 1 – July 7 – Five Towable Light Towers	5,189
	Home Depot Center Landscaping	4,900
	Compton Monetary Fair Share Analysis	2,115
	Interpreting services – Town Hall Meeting	750
	Memberships/Certifications	492
FY 2014-15 Total		<u>\$ 58,991</u>
2015-16	Interest	\$ 243,485
	Graffiti Abatement/Clean-up	74,935
	National Pollutant Discharge Elimination System	69,234
	Compton Christmas Parade – Barricades	6,760
	Ditch Gates – Trucks	3,996
	Memberships/Certifications	773
FY 2015-16 Total		<u>\$ 399,183</u>
Total Ineligible Expenditures		<u><u>\$ 532,540</u></u>

Streets and Highways Code section 2101 states, in part:

...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for...
(a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways....

As a result, the ineligible expenditures totaling \$532,540 are unallowable.

Recommendation

We recommend that the city:

- Reimburse the Special Gas Tax Street Improvement Fund \$532,540; and
- Establish adequate procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are for street-related purposes.

City's Response

...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the city is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

SCO Comment

The city will comply with our recommendations to reimburse the Special Gas Tax Street Improvement Fund for the ineligible gas tax expenditures, and to adopt internal control policies and procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are for street-related purposes.

**FINDING 5—
Over-expended gas tax funds**

The city charged expenditures in excess of available funds to the Special Gas Tax Street Improvement Fund by \$325,950 during FY 2009-10. Therefore, the excess expenditures are unallowable.

The practice of funding one fiscal year's activities with revenues from the following fiscal year is contrary to established municipal budgetary and accounting practice; and is in violation of Article 16, section 18, of the California Constitution, which states, in part:

(a) No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year.

Therefore, the over-expended fund balance of \$325,950 in the Special Gas Tax Street Improvement Fund is unallowable.

Recommendation

We recommend that the city:

- Transfer \$325,950 to the Special Gas Tax Street Improvement Fund to replenish the fund; and
- Establish procedures to verify the existence of available funds prior to charging expenditures to the fund.

City's Response

...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the city is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

SCO Comment

The city will comply with our recommendations to reimburse the Special Gas Tax Street Improvement Fund for the over-expended fund balance, and to adopt internal control policies and procedures to verify the existence of available funds prior to charging expenditures to the fund.

**FINDING 6—
Traffic Congestion
Relief Fund
expenditure
requirement not met**

The city did not spend \$130,805 of its FY 2006-07 Traffic Congestion Relief Fund allocations by June 30, 2008. Therefore, the city is required to return the amount to the SCO.

The city received \$721,672 in Traffic Congestion Relief Fund allocations in FY 2006-07; it expended \$423,885 in FY 2006-07 and \$166,982 in FY 2007-08. Therefore, as of June 30, 2008, the unexpended balance was \$130,805.

Revenue and Taxation Code section 7104(f)(7) states that Traffic Congestion Relief Fund allocations are to be spent within the fiscal year following the fiscal year in which the allocations were made. It further states that funds not spent within that period are to be returned to the SCO.

Recommendation

We recommend that the city return \$130,805 to the SCO, Attention: Departmental Accounting Office – A/R, P.O. Box 942850, Sacramento, California 94250.

City's Response

...the City will comply with the Controller's direction to...return requested funds to the State Controller's Office....

SCO Comment

The city will comply with our recommendation to return the Traffic Congestion Relief Funds to SCO.

**FINDING 7—
Unsupported gas tax
revenue adjustments**

The city understated gas tax revenues in FY 2013-14 by \$26,758 and overstated gas tax revenues by \$58,930, for a net overstatement of \$32,172.

The city records Streets and Highways Code Section 2103 apportionments (Section 2103 HUTA) in the Transportation Investment Fund.

For the Special Gas Tax Street Improvement Fund, the city reversed the July 2013 Section 2103 HUTA apportionment of \$85,362 and accrued \$35,180 in unsupported revenues in June 2016, totaling \$58,930 in understated revenues. The city did not support these adjustments.

For the Transportation Investment Fund, the city accrued \$58,604 in unsupported Section 2103 HUTA apportionments in June 2013, and \$23,750 in unsupported Section 2103 HUTA apportionments in June 2016, totaling \$82,354 in overstated revenues. The city did not support these adjustments.

Recommendation

We recommend that the city:

- Reimburse the Special Gas Tax Street Improvement Fund \$50,182 and reduce the Transportation Investment Fund balance by \$82,354 for the unsupported revenue adjustments; and
- Establish procedures to ensure that adjustments to the Special Gas Tax Street Improvement Fund are adequately supported.

City's Response

...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the city is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

SCO Comment

The city will comply with our recommendations to reimburse the Special Gas Tax Street Improvement Fund for the unsupported gas tax revenue adjustments, and to adopt internal control policies and procedures to ensure that adjustments to the fund are adequately supported.

**FINDING 8—
Unallocated interest
income**

The city did not allocate \$9,967 of interest income earned between FY 2012-13 and FY 2015-16, to the Special Gas Tax Street Improvement Fund. This amount consisted of \$7,582 interest earned on advanced funds and \$2,385 from investment of money in the fund.

As noted in Finding 1, on July 1, 2012, the city advanced \$756,446 to the General Fund from its HUTA apportionments. Per City Resolution No. 23,970, the city accrued interest income at 0.495%, yielding interest income as shown in the following table. The city credited interest income it earned during FY 2012-13 and FY 2013-14 to the advanced funds; however, it did not credit the interest earnings for FY 2014-15 and FY 2015-16, totaling \$7,582, to the advanced funds.

Fiscal Year	Beginning Balance	Annual Interest Rate	Interest Accrued
2012-13	\$ 756,446	0.495%	\$ 3,744
2013-14	\$ 760,190	0.495%	\$ 3,763
2014-15	\$ 763,953	0.495%	\$ 3,782
2015-16	\$ 767,735	0.495%	\$ 3,800

In addition, the city did not allocate to the Special Gas Tax Street Improvement Fund its share of interest income from the investment of money, from FY 2012-13 through FY 2015-16, totaling \$2,385.

Streets and Highways Code section 2113 states, in part, “Interest received by a city from the investment of money in its special gas tax street improvement fund shall be deposited in the fund and shall be used for street purposes.”

We scheduled the investment interest earned and concluded that the Special Gas Tax Street Improvement Fund should have been allocated \$2,385, as shown in the table below.

Interest not allocated to the Special Gas Tax Street Improvement Fund from investment earnings and from the advance to the General Fund is as follows:

Fiscal Year	Unallocated Investment Interest	Unallocated Interest from Advance	Total
2012-13	\$ 213	\$ -	\$ 213
2013-14	1,603	-	1,603
2014-15	279	3,782	4,061
2015-16	290	3,800	4,090
Total	\$ 2,385	\$ 7,582	\$ 9,967

Recommendation

We recommend that the city:

- Transfer \$9,967 to the Special Gas Tax Street Improvement Fund for the unallocated interest income; and

- Establish procedures to ensure that interest income is correctly allocated to the Fund.

City's Response

...the City will comply with the Controller's direction to...reimburse the indicated funds as recommended by the State Controller's audit. Finally, the city is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

SCO Comment

The city will comply with our recommendations to reimburse the Special Gas Tax Street Improvement Fund for the unallocated interest income, and to adopt internal control policies and procedures to ensure that interest income is correctly allocated to the fund.

Observation and Recommendation

**OBSERVATION—
Payment on invoices
that do not agree with
terms of contracts**

The city made payments to vendors on invoices that do not agree with the terms of contracts.

Service contracts between the city and vendors indicate that the vendor shall be reimbursed by city upon the receipt of itemized receipts, and that invoices shall detail the work performed on each task, as applicable. However, invoices received by the city lacked itemized, detailed descriptions of work performed.

In addition, while reviewing a catch basin cleaning contract, we noted that the unit price charged and the frequency of services did not agree with the terms stated in the contract.

Although the expenditures for these service contracts were in compliance with applicable code sections, we noted that the invoices for eligible work were not in agreement with the terms of the contracts. Following invoice procedures as indicated in the service contracts will help ensure that the city is paying for services stated in its contracts.

Recommendation

We recommend that the city follow invoice procedures as indicated in service contracts.

City's Response

...the city is in agreement with the State Controller's recommendation to follow internal control policies and procedures....

SCO Comment

The city agreed with our recommendation to follow its own procedures relating to service contracts.

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



City of Compton

OFFICE OF THE CITY MANAGER

Cecil W. Rhambo, Jr.
City Manager

Office: (310) 605-5585
Fax: (310) 761-1455
email: crhambo@comptoncity.org

March 26, 2018

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

Efren Loste
Chief, Local Government Audits Bureau
California State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, California 94250-5874

RE: CITY OF COMPTON RESPONSES TO THE SPECIAL GAS TAX
STREET IMPROVEMENT FUND AUDIT FINDINGS

Dear Mr. Loste;

Please find the City's responses to your office's review report below.
Please contact me with any items that you wish further discussion.

CITY'S RESPONSE TO THE OVERALL FINDINGS

The City of Compton appreciates the audit conducted by the State
Controller's Office of the following funds for the period of July 1, 2007
through June 30, 2016:

- Special Gas Tax Street Improvement Fund.
- Traffic Congestion Relief Fund.
- Proposition 1B Fund.

COMPTON CITY HALL

205 South Willowbrook Avenue Compton, California 90220

We were pleased that audit found that the City was in compliance with the expenditure of its Proposition 1B Fund allocations. As it relates to the other findings, the City will comply with the Controller's direction to return requested funds to the State Controller's Office and to reimburse the indicated funds as recommended by the State Controller's Audit. Finally, the City is in agreement with the State Controller's recommendation to follow internal control policies and procedures. I have directed my department directors to re-brief their concerned staff on those policies and have also met with the City Controller who is also ensuring that her staff is double checking for policy adherence.

Thank you for this opportunity to respond to the State's preliminary findings on these funds. I assure you that the Mayor and Council as well as my entire staff will be working diligently to implement your recommendations for policies, procedures, and practices to bring significant and measurable fiscal accountability to the City of Compton.

Sincerely,



Cecil W. Rhambo, Jr.
City Manager

Cc: City of Compton

Aja Brown, Mayor
Janna Zurita, Councilwoman District 1
Isaac Galvan, Councilman District 2
Tana McCoy, Councilwoman District 3
Emma Sharif, Councilwoman District 4
Alita Godwin, City Clerk
Craig J. Cornwell, City Attorney
Douglas Sanders, City Treasurer
Rafaela King, City Controller
Laurence Adams, Assistant City Manager
Dr. Gail-Dixon McMahan, Assistant City Manager

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

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