

CITY OF WALNUT CREEK

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

May 2008



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California State Controller

May 30, 2008

The Honorable Gwen Regalia
Mayor of the City of Walnut Creek
1666 North Main Street
Walnut Creek, CA 94596

Dear Mayor Regalia:

The State Controller's Office audited the City of Walnut Creek'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 and Traffic Congestion Relief Fund (TCRF) in compliance with requirements, except that it understated the TCRF fund balance by \$183,252 as of June 30, 2003. The city understated the fund balance because it incurred expenditures in excess of available funds.

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: Fred March
Finance Manager
City of Walnut Creek

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Audit Report

Summary

The State Controller's Office audited the City of Walnut Creek'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 and Traffic Congestion Relief Fund (TCRF) in compliance with requirements, except that the city understated the TCRF fund balance by \$183,252 as of June 30, 2003. The city understated the fund balance because it incurred expenditures in excess of available funds.

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 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 of Walnut Creek 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 Finding and Recommendation section of this report. The finding required an adjustment of \$183,252 to the city's accounting records.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on December 24, 1998, disclosed no findings.

Views of Responsible Official

We discussed the audit results with city representatives during an exit conference on June 22, 2007. Fred Marsh, Finance Manager, agreed with the audit results. Mr. Marsh further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

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

May 30, 2008

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

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ 2,095,112	\$ (183,252)
Revenues	<u>1,304,948</u>	<u>296,486</u>
Total funds available	3,400,060	113,234
Expenditures	<u>(1,266,427)</u>	<u>—</u>
Ending fund balance per city	2,133,633	113,234
SCO adjustment: ³		
Finding—Expenditures in excess of available funds	<u>—</u>	<u>183,252</u>
Ending fund balance per audit	<u><u>\$ 2,133,633</u></u>	<u><u>\$ 296,486</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 Traffic Congestion Relief Fund. The audit period was July 1, 2000, through June 30, 2006.

³ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Expenditures in excess
of available funds**

As of June 30, 2003, the recorded fund balance in the Traffic Congestion Relief Fund was a deficit of \$183,252. The deficit fund balance resulted from the city incurring expenditures in excess of available funds.

Pursuant to California Government Code section 12440, “the Controller shall draw warrants on the Treasurer . . . but a warrant shall not be drawn unless . . . unexhausted specific appropriations provided by law are available to meet it.” As the city’s Traffic Congestion Relief Fund was exhausted, there were no funds available to meet those warrants.

Recommendation

The city must replenish the Traffic Congestion Relief Fund to eliminate the deficit fund balance. In the future, the city should adopt a balanced budget that limits expenditures to the amount of funds available.

City’s Response

The city agreed with our recommendation and replenished the Traffic Congestion Relief Fund to eliminate the deficit fund balance. This was accomplished by transferring \$183,252 from the General Fund into the Traffic Congestion Relief Fund with a Journal Entry dated May 2, 2007.

SCO’s Comment

We concur.

**State Controller's Office
Division of Audits
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