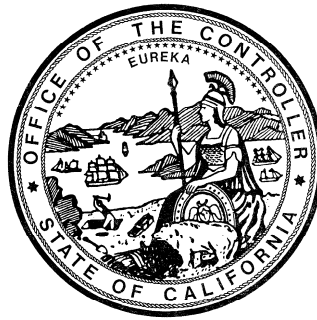


CITY OF POWAY

Audit Report

GAS TAX FUND AND TRAFFIC CONGESTION RELIEF FUND

July 1, 2005, through June 30, 2006



JOHN CHIANG
California State Controller

June 2007



JOHN CHIANG
California State Controller

June 27, 2007

Andrew White
Finance Manager
City of Poway
P.O. Box 789
Poway, CA 92074-0789

Dear Mr. White:

The State Controller's Office audited the City of Poway's Gas Tax 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.

The city accounted for and expended its Gas Tax Fund and TCRF in compliance with Article XIX of the California Constitution and the *Streets and Highways Code*, except for our adjustments to the funds. Our audit disclosed that the city understated the balance in the Gas Tax Fund by \$5,435 as of June 30, 2006. This understatement occurred primarily because the city's allocation of interest to the fund was not equitable. Also, our audit disclosed that the city overstated the balance in the TCRF by \$142,153 as of June 30, 2006. This overstatement occurred primarily because the city did not expend its fiscal year (FY) 2000-01 and FY 2002-03 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/jj:vb

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology.....	1
Conclusion	2
Follow-Up on Prior Audit Findings.....	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 Poway's Gas Tax Fund for the period of July 1, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, through June 30, 2006. The last day of fieldwork was December 14, 2006.

Our audit disclosed that the city understated the balance in the Gas Tax Fund by \$5,435 as of June 30, 2006. This understatement occurred primarily because the city's allocation of interest to the fund was not equitable. Also, our audit disclosed that the city overstated the fund balance in the TCRF by \$142,153 as of June 30, 2006. This overstatement occurred primarily because the city did not expend its FY 2000-01 and FY 2002-03 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 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. The city recorded the TCRF allocations in the Traffic Congestion Relief Fund. 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 the 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 allocated state funds 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, 2005, through June 30, 2006, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of \$5,435 to the city's accounting records.

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 and the *Streets and Highways Code* 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 \$142,153 to the State Controller.

Follow-Up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report, issued on June 23, 1998.

Views of Responsible Official

We issued a draft audit report on April 20, 2007. Andrew White, Finance Manager, responded by letter dated May 22, 2007, 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

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

	<u>Gas Tax Fund ¹</u>	<u>TCRF Fund ²</u>
Beginning fund balance per city	\$ 793,679	\$ 138,271
Revenues	<u>992,904</u>	<u>232,210</u>
Total funds available	1,786,583	370,481
Expenditures	<u>(1,324,686)</u>	<u>—</u>
Ending fund balance per city	<u>461,897</u>	<u>370,481</u>
SCO adjustments: ³		
Finding 1—Inequitable interest	5,435	—
Finding 2—Unexpended TCRF	<u>—</u>	<u>(142,153)</u>
Total SCO adjustments	<u>5,435</u>	<u>(142,153)</u>
Ending fund balance per audit	<u>\$ 467,332</u>	<u>\$ 228,328</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. The TCRF allocations were recorded in the Traffic Congestion Relief Fund.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Inequitable interest

The city did not allocate an equitable interest income that was due to the Gas Tax Fund during fiscal year (FY) 2005-06.

Streets and Highways Code Section 2113 states that interest earned on the investment of gas tax moneys must be the equitable pro-ration of interest earned on the total funds invested and must be deposited in the Gas Tax Fund and be used for street purposes.

We computed the allocable equitable interest income at \$5,435 over the amount the city credited to the Gas Tax Fund. The computation was based on average monthly cash balances.

Recommendation

The city should credit an additional \$5,435 in interest income to the Gas Tax Fund. Also, the city should review its procedures to ensure that interest income allocated to all appropriate funds is equitable.

City's Response

. . . the City will transfer \$5,435 to the Gas Tax Fund to make up for the under allocated interest earnings.

SCO's Comment

The city has agreed to comply with our recommendation.

FINDING 2— City did not meet TCRF expenditure requirements

The city did not expend its FY 2000-01 and FY 2002-03 allocations of Traffic Congestion Relief Program funds 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 allocations subject to the spending requirement have accumulated to total \$142,153 computed cumulatively as of June 30, 2006.

The *Streets and Highways Code* states, “. . . funds not expended within that period shall be returned to the Controller. . . .”

Recommendation

The city should refund unexpended Traffic Congestion Relief Program funds in the amount of \$142,153 to the State Controller as required by *Streets and Highways Code* Section 2182.1(g).

City's Response

. . . because of personnel changes in the City's Engineering division, the funds from fiscal year 2002-03 went unexpended. Eligible expenditures were made during that time frame, but were not allocated to the Traffic Congestion Funds. Though at this point it would not be appropriate to go back to that time frame and change our accounting, we do request an exception be made that would allow us to expend the \$142,153 in the current fiscal year, 2006-07.

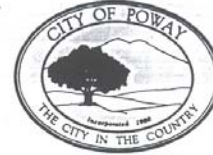
SCO's Comment

Granting exceptions to the law is beyond the scope of our authority. The finding remains unchanged.

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

CITY OF POWAY

MICKEY CAFAGNA, Mayor
MERRILEE BOYACK, Deputy Mayor
BOB EMERY, Councilmember
DON HIGGINSON, Councilmember
BETTY REXFORD, Councilmember



May 22, 2007

Paul Criss
Chief, Financial-Related Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Criss:

In regards to the City of Poway Audit Report for the Gas Tax Fund and Traffic Congestion Relief Fund, dated April 2007 we offer the following responses to the two Conclusions/Findings:

1. Interest Earning - the City will transfer \$5,435 to the Gas Tax Fund to make up for the under allocated interest earnings.
2. Unexpended Traffic Congestion Relief Funds - primarily because of personnel changes in the City's Engineering division, the funds from fiscal year 2002-03 went unexpended. Eligible expenditures were made during that time frame, but were not allocated to the Traffic Congestion Funds. Though at this point it would not be appropriate to go back to that time frame and change our accounting, we do request an exception be made that would allow us to expend the \$142,153 in the current fiscal year, 2006-07.

Thank you for consideration of our request and we do appreciate Mr. Miranda's efforts during his site visit.

Sincerely,

A handwritten signature in cursive script that reads "Andrew White".

Andrew White
Finance Manager

City Hall Located at 13325 Civic Center Drive
Mailing Address: P.O. Box 789, Poway, California 92074-0789 • (858) 668-4400

**State Controller's Office
Division of Audits
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