

# **CITY OF COVINA**

Audit Report

## **SPECIAL GAS TAX STREET IMPROVEMENT FUND**

*July 1, 2007, through June 30, 2012*

## **TRAFFIC CONGESTION RELIEF FUND**

*July 1, 2007, through June 30, 2011*



**JOHN CHIANG**  
California State Controller

June 2014



**JOHN CHIANG**  
**California State Controller**

June 10, 2014

The Honorable Walter Allen, III  
Mayor of the City of Covina  
125 East College Street  
Covina, CA 91723

Dear Mayor Allen:

The State Controller's Office audited the City of Covina's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2012. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2007, through June 30, 2011.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$440,573 as of June 30, 2012, because the city made errors in accounting for expenditures of the gas tax apportionments, TCRF allocations, and related interest.

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, CPA  
Chief, Division of Audits

JVB/mh

cc: Daryl Parrish, City Manager  
City of Covina

# Contents

## **Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>1</b>
<b>Conclusion .....</b>	<b>2</b>
<b>Follow-Up on Prior Audit Findings .....</b>	<b>2</b>
<b>Views of Responsible Official .....</b>	<b>2</b>
<b>Restricted Use .....</b>	<b>3</b>
<b>Schedule 1—Reconciliation of Fund Balance .....</b>	<b>4</b>
<b>Finding and Recommendation .....</b>	<b>5</b>
<b>Attachment—City’s Response to Draft Audit Report</b>	

# Audit Report

## Summary

The State Controller's Office audited the City of Covina's Special Gas Tax Street Improvement Fund—highway users tax—for the period of July 1, 2007, through June 30, 2012. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2007, through June 30, 2011.

Our audit found 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 fund balance in the Special Gas Tax Street Improvement Fund by \$440,573 as of June 30, 2012, because the city made errors in accounting for expenditures of the gas tax apportionments, TCRF allocations, and related interest.

## 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 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 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 found that the City of Covina 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, 2007, through June 30, 2012, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$440,573 to the city's accounting records.

Our audit also found 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, 2007, through June 30, 2011.

## **Follow-Up on Prior Audit Findings**

The city satisfactorily resolved the findings noted in our prior audit report, issued on November 26, 2008.

## **Views of Responsible Official**

We issued a draft audit report on October 22, 2013. DiLu de Alwis, Finance Director, responded by letter dated November 20, 2013, 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 the City of Covina's 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, CPA  
Chief, Division of Audits

June 10, 2014

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2011, through June 30, 2012**

	Special Gas Tax Street Improvement Fund <hr/> Highway Users Tax Allocations <sup>1</sup> <hr/>
Beginning fund balance per city	\$ 925,052
Revenues	<u>1,381,964</u>
Total funds available	2,307,016
Expenditures	<u>(861,500)</u>
Ending fund balance per city	<u>1,445,516</u>
SCO adjustment: <sup>2</sup>	
Finding—Error expenditure adjustment – gas tax	<u>440,573</u>
SCO adjustment	<u>440,573</u>
Ending fund balance per audit	<u><u>\$ 1,886,089</u></u>

<sup>1</sup> The city receives apportionments from the State highway users tax account, 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 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 audit period was July 1, 2007, through June 30, 2012; however, this schedule includes only the period of July 1, 2011, through June 30, 2012.

<sup>2</sup> See the Finding and Recommendation section.

# Finding and Recommendation

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

The city did not expend its Traffic Congestion Relief Fund (TCRF) allocations for fiscal year (FY) 2007-08 and FY 2009-10, and the interest earned as of FY 2011-12, as required by Streets and Highways Code section 2182.1(g). The TCRF allocations subject to the spending requirement total \$476,832 as of June 30, 2012 (\$8,576 for FY 2007-08, \$451,005 for FY 2009-10, and \$17,251 in interest). The TCRF program ended in FY 2010-11 and all funds should have been expended.

Streets and Highways Code section 2182.1(g) states:

The allocation made under paragraph section 2182 shall be expended not later than the end of the fiscal year following the fiscal year in which the allocation was made, and any funds not expended within that period shall be returned to the Controller...

### Recommendation

The city must return the TCRF allocations of \$476,832, which were unspent within the time requirement, to the State Controller's Office, Attention: Rhodora Bravo, Associate Accounting Analyst, P.O. Box 942850, Sacramento, CA 94250.

### City's Response

The City of Covina is in receipt of the draft report for the audit performed on the City of Covina's Special Gas Tax Street Improvement Fund as well as the Traffic Congestion Relief Fund (TCRF). The audit report identified \$476,832 as the remit amount for unspent TCRF funds for our City.

In reviewing the City's records, it has been determined that certain expenditures previously identified as "Discretionary" or General Fund expenditures qualify as expenditures using Traffic Congestion Relief Funds (TCRF).

For the fiscal year 2007/2008, the audit report identifies a balance of \$8,576 to be returned to the state. During this fiscal year, the City worked on Project P0711 Street Resurfacing in various locations throughout the City and had expenditures of \$298,330 for this project. The City will reclassify \$8,576 of these expenditures as TCRF expenditures during the fiscal year ended 6/30/13.

For the fiscal year 2009/2010, the audit report identifies a balance of \$451,005 to be returned to the state. During this fiscal year, the City incurred \$254,564 in engineering costs associated with reconstruction of streets in project W0808. The City worked on Project W0808 Water Main Replacement in various locations throughout the City, a portion of this expenditure was reconstruction of streets, and had expenditures of \$1,162,772 for this project. The City will reclassify a total of \$481,787 of these expenditures as TCRF expenditures during the fiscal year ended 6/30/13.



By reclassifying the above qualified expenditures as TCRF expenditures, the City will have used the entire allocation of TCRF funds received as well as any related interest allocated.

SCO's Comment

After reviewing the city's response to our draft audit report and additional documentation provided by the city, we have concluded that the city made errors in accounting for expenditures of the gas tax apportionments, TCRF allocations, and related interest. Correction of an accounting error may be made after the error is discovered. The city's correction of the accounting errors relating to the TCRF allocations for fiscal year (FY) 2007-08 and FY 2009-10, and the interest earned as of FY 2011-12 eliminates the condition that caused us to report this finding. With that condition eliminated, the city is now in compliance with Streets and Highways Code section 2182.1(g).

However, correcting the TCRF allocation errors resulted in gas tax expenditures being overstated by \$440,573 (\$412,898 of gas tax apportionments and \$27,675 of related interest) during the audit period because eligible TCRF expenditures had been incorrectly charged to the Special Gas Tax Street Improvement Fund. Consequently, the city must reimburse the Special Gas Tax Street Improvement Fund \$440,573.

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

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# CITY OF COVINA

125 East College Street • Covina, California 91723-2199

Finance Department

November 20, 2013

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

Mr. Mar,

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By reclassifying the above qualified expenditures as TCRF expenditures, the City will have used the entire allocation of TCRF funds received as well as any related interest allocated.

Feel free to contact me with any questions you may have at (626) 384-5516 or [ddealwis@covinaca.gov](mailto:ddealwis@covinaca.gov).

Sincerely,

Dilu de Alwis  
Finance Director

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

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