

CITY OF NATIONAL CITY

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

September 2008



JOHN CHIANG
California State Controller

September 10, 2008

The Honorable Ron Morrison
Mayor of the City of National City
1243 National City Boulevard
National City, CA 91950

Dear Mayor Morrison:

The State Controller's Office audited the City of National City'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 in compliance with requirements, except that the city understated the fund balance in its Traffic Congestion Relief Fund by \$123,968 as of June 30, 2004. 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:vb

cc: Jeanette Ladrido, CPA
Finance Director
City of National City

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Audit Report

Summary

The State Controller's Office audited the City of National City'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 in compliance with requirements. Our audit also disclosed that the city understated the fund balance in its Traffic Congestion Relief Fund by \$123,968 as of June 30, 2006. The city understated the fund balance during the fiscal year ended June 30, 2004, 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 (TCRF) 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 disclosed that the City of National City 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 Findings and Recommendations section of this report. The finding requires an adjustment of \$123,968 to the city's accounting records.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on August 31, 2000, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on June 30, 2008. Jeanette Ladrido, CPA, Finance Director, responded by letter dated July 28, 2008. 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

September 10, 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	\$ 1,002,031	\$ —
Revenues	<u>1,212,998</u>	<u>284,323</u>
Total funds available	2,215,029	284,323
Expenditures	<u>(1,506,599)</u>	<u>—</u>
Ending fund balance per city	<u>708,430</u>	<u>284,323</u>
SCO adjustment: ³		
Finding 3—Deficit fund balance	<u>—</u>	<u>123,968</u>
Total net SCO adjustments	<u>—</u>	<u>123,968</u>
Ending fund balance per audit	<u>\$ 708,430</u>	<u>\$ 408,291</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 Findings and Recommendations section.

Findings and Recommendations

FINDING 1— TCRF expenditure requirement not met

The city did not expend its Traffic Congestion Relief Fund (TCRF) allocations for fiscal year (FY) 2001-02 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) and Revenue and Taxation Code section 7104. The unexpended allocations subject to the spending requirement total \$315,576 as of June 30, 2002. The codes state, “. . . funds not expended within that period shall be returned to the Controller. . . .”

Recommendation

The city must return the unearned TCRF allocations in the amount of \$315,576, to the State Controller’s Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250. Additionally, the city should review its TCRF expenditures levels to ensure compliance with program requirements.

City’s Response

In fiscal year 20001, the City received \$395,215 in TCRF allocations. The city allocated these funds to the street resurfacing project and had expended the allocations within the appropriate time frame. Unfortunately, there were accounting errors and the expenditures were booked in the incorrect fiscal year. Below is a detail explanation of the expenditures:

In fiscal year 2002, the city expended a total of \$1,375,912 on the project. The expenditures were paid utilizing the funds from Gas Taxes, Proposition A and Traffic Congestion Relief as follows:

Gas Taxes Fund	466,166
Proposition A Fund	830,157
Traffic Congestion Relief Fund	79,639
Total all Funds	1,375,912

All expenditures were eligible to be covered by the TCRF allocations. Below is the description of the Street Resurfacing Project (provided by the City Engineer).

“National City Street Resurfacing Project

The project consists of the repair of bituminous pavements in various locations within the City of National City using Asphalt-Rubber & Aggregate membrane (ARAM) systems of pavement. Four difference systems will be used in this project. System 1 consists of the application of a 3/8-inch ARAM layer followed by a Type II slurry seal and is utilized on streets of the application of a 3/4-inch asphalt leveling course plus System 1 and is utilized in residential areas. System 3 consists of grinding approximately 1-inch off the surface full width, applying a 3/4-inch asphalt leveling course, applying a 3/8-inch ARAM layer followed by a 1.2-inch gap graded asphalt rubberized hot mix and is utilized on high traffic areas (bus routes). System 4 (2-Layer

System) consists of grinding 1-inch for 6-feet from edge of curb, applying a 3/8-inch ARAM layer followed by a 1.2-inch gap graded asphalt rubberized hot mix and is utilized on high traffic residential areas.

This project includes approximately 519,370 square feet of Cold Milling, approximately 1,559,631 square feet of 3/4" Leveling Course, approximately 378,002 square yards of ARAM, approximately 312,381 square feet of Asphalt Rubber Hot Mix, approximately 294,266 square yards of Type II Slurry Seal, approximately 85,335 square feet of Remove and Replace 3" Asphalt over 8" Class II Base, approximately 27,507 square feet of Remove and Replace Asphalt only, 1 lump sum of Crack Filling, 9,955 square feet of Remove and Replace Sidewalk, 246 linear feet of Remove and Replace Curb Only, approximately 795 linear feet of Remove and Replace Curb and Gutter, approximately 1,155 square feet of Remove and Replace Driveway, approximately 836 square feet of Remove and Replace Alley Apron, approximately 1,623 square feet of Remove and Replace Cross Gutter, approximately 14 Pedestrian Ramps, approximately 154 Adjustments of Sewer Manhole, approximately 11 Adjust Sewer Cleanout to Grade, approximately 16 Adjustment of Survey Monument to grade, the reinstallation of approximately 38 Traffic Loops, the replacement of all damage traffic striping, provide ARHM-GG Warranty, 24 30" x 30" signs, approximately 230 tons of conventional Asphalt, approximately 145 linear feet of 6" Asphalt Dike. All affected pavement markings will be replaced."

Rather than return funds to the State Controller, the city requests to reimburse the Gas Taxes Fund for the \$315,576 in expenditures.

SCO's Comment

After reviewing the city's response to our draft, we have concluded that the city made accounting errors. Correction of an accounting error may be made after the error is discovered. The city's correction of the accounting error renders the city in compliance with Streets and Highways Code sections 2182 and 2182.5 and Revenue and Taxation Code section 7104. The finding is reversed.

**FINDING 2—
Ineligible
expenditures**

The city did not expend its FY 2001-02 TCRF allocations within the required time period. The city expended its FY 2001-02 TCRF allocations of \$315,576 in FY 2003-04. However, the expenditures were not incurred within the time period required by Streets and Highways Code section 2182.1(g) and Revenue and Taxation Code section 7104. TCRF allocations received in each fiscal year should have been expended by the end of the fiscal year following the fiscal year in which they were received.

Recommendation

The city must reimburse \$315,576 to the Traffic Congestion Relief Fund.

City's Response

The city has shown in its response to Finding 1 above that the city had eligible expenditures within the time period in which TCRF allocations were available. The city request to reimburse the Gas Taxes Fund for the \$315,576 in expenditures.

SCO's Comment

The city's correction of the accounting error referred to in Finding 1 makes the expenditures eligible. The finding is reversed.

**FINDING 3—
Deficit fund balance**

During the fiscal year ended June 30, 2004, the city incurred more expenditures than it had in available resources in the Traffic Congestion Relief Fund. The expenditures exceeded available funding by \$123,968. Government Code section 12440 states, "... a warrant shall not be drawn unless authorized by law, and unless, except for refunds authorized by Section 13144, unexhausted specific appropriations provided by law are available to meet it."

Recommendation

The city should transfer \$123,968 into the Traffic Congestion Relief Fund. The city should also monitor future TCRF expenditures to prevent future negative fund balances.

City's Response

The city will transfer \$123,968 to the Traffic Congestion Relief fund.

In closing, the city will ensure that future allocations are expended in accordance with the Streets and Highways Code Section 2182.1(g) and Revenue and Taxation Code Section 7104.

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

Mayor
Ron Morrison

Councilmembers
Louie Natividad
Frank Parks
Fidoles Ungab
Rosalie Zarate

City Manager
Chris Zapata



Department of Finance

Finance Director
Janette Ladrillo, CPA

Financial Services Officer
Tess Lujanosa

July 28, 2008

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

Dear Mr. Mar:

We received a copy of the draft audit report of the City of National City's Special Gas Tax Street Improvement Fund for the period of July 1, 2005 through June 30, 2006. The draft also included an audit of the Traffic Congestion Relief Fund for the period of July 1, 2000 through June 30, 2006.

Below are the city's responses to the finding identified in the draft report:

FINDING 1 – TCRF Expenditure requirement not met

The city did not expend its Traffic Congestion Relief Fund (TCRF) allocations for fiscal year 2001-02 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) and Revenue and Taxation Code Section 7104. The expended allocations subject to the spending requirement total \$315,576 as of June 30, 2002. The codes state, "...funds not expended within that period shall be returned to the Controller..."

Recommendation

The city must return the unearned TCRF allocations in the amount of \$315,576, to the State Controller's Office. Additionally, the city should review its TCRF expenditures levels to ensure compliance with program requirements.

City Response

In fiscal year 2001, the City received \$395,215 in TCRF allocations. The city allocated these funds to the street resurfacing project and had expended the allocations within the appropriate time frame. Unfortunately, there were accounting errors and the expenditures were booked in the incorrect fiscal year. Below is a detail explanation of the expenditures:

In fiscal year 2002, the city expended a total of \$1,375,912 on the project. The expenditures were paid utilizing funds from Gas Taxes, Proposition A and Traffic Congestion Relief as follows:

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National City Street Resurfacing Project

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Asphalt over 8" Class II Base, approximately 27,507 square feet of Remove and Replace Asphalt only, 1 lump sum of Crack Filling, 9,955 square feet of Remove and Replace Sidewalk, 246 linear feet of Remove and Replace Curb Only, approximately 795 linear feet of Remove and Replace Curb and Gutter, approximately 1,155 square feet of Remove and Replace Driveway, approximately 836 square feet of Remove and Replace Alley Apron, approximately 1,623 square feet of Remove and Replace Cross Gutter, approximately 14 Pedestrian Ramps, approximately 154 Adjustments of Sewer Manhole, approximately 11 Adjust Sewer Cleanout to Grade, approximately 16 Adjustment of Survey Monument to grade, the reinstallation of approximately 38 Traffic Loops, the replacement of all damaged traffic striping, provide ARHM-GG Warranty, 24 30" x 30" signs, approximately 230 tons of conventional Asphalt, approximately 145 linear feet of 6" Asphalt Dike. All affected pavement markings will be replaced.

Rather than return funds to the State Controller, the city requests to reimburse the Gas Taxes Fund for the \$315,576 in expenditures.

FINDING 2 - Ineligible expenditures

The city did not expend its FY 2001-02 TCRF allocations within the required time period. The city expended its FY 2001-02 TCRF allocations of \$315,576 in FY 2003-04. However, the expenditures were not incurred the time period required by Streets and Highways Code section 2182.1(g) and Revenue and Taxation Code section 7104. TCRF allocations received in each fiscal year should have been expended by the end of the fiscal year following the fiscal year in which they were received.

Recommendation

The city must reimburse \$315,576 to the Traffic Congestion Relief Fund.

City Response

The city has shown in its response to Finding 1 above that the city had eligible expenditures within the time period in which TCRF allocations were available. The city requests to reimburse the Gas Taxes Fund for the \$315,576 in expenditures.

FINDING 3 - Deficit fund balance

During the fiscal year ended June 30, 2004, the city incurred more expenditures than it had in available resources in the Traffic Congestion Relief Fund. The expenditures exceeded available funding by \$123,968. Government Code section 12440 states, "...a warrant shall not be authorized by Section 13144, unexhausted specific appropriations provided by law are available meet it."

Recommendation

The city should transfer \$123,968 in to the Traffic Congestion Relief Fund. The city should also monitor future TCRF expenditures to prevent future TCRF expenditures to prevent future negative fund balances.

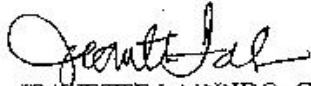
City Response

The city will transfer \$123,968 to the Traffic Congestion Relief fund.

In closing, the city will ensure that future allocations are expended in accordance with the Streets and Highways Code Section 2182.1(g) and Revenue and Taxation Code Section 7104.

If you have any questions or concerns, please feel free to contact me at (619) 336-4331 or via email at jladrado@nationalcityca.gov.

Sincerely,



JEANETTE LADRIDO, CPA
Finance Director

cc: Chris Zapata, City Manager
Leslic Deese, Assistant City Manager
Maryam Babaki, City Engineer

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

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