

CITY OF SOUTH EL MONTE

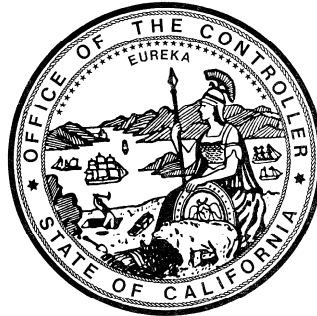
Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2007

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2007



JOHN CHIANG
California State Controller

September 2008



JOHN CHIANG
California State Controller

September 17, 2008

The Honorable Blanca Figueroa
Mayor of the City of South El Monte
1415 N. Santa Anita
South El Monte, CA 91733

Dear Mayor Figueroa:

The State Controller's Office audited the City of South El Monte's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required.

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/vb

cc: Dave A. Bass
Interim Finance Director
City of South El Monte

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Audit Report

Summary

The State Controller's Office audited the City of South El Monte's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required.

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 Special Gas Tax Street Improvement 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 in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104. 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;
- 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 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 South El Monte 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, 2006, through June 30, 2007.

Our audit also disclosed that the city accounted for and expended its Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement 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, 2007.

Follow-Up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report, issued on November 30, 2001.

Views of Responsible Official

We issued a draft audit report on July 18, 2008. David A. Bass, Interim Finance Director, responded by letter dated August 11, 2008, 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 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 17, 2008

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2006, through June 30, 2007**

	<u>Special Gas Tax Street Improvement Fund</u>		
	<u>Highway Users Tax Allocation ¹</u>	<u>TCRF Allocation ²</u>	<u>Totals</u>
Beginning fund balance per city	\$ 433,464	\$ 99,956	\$ 533,420
Revenues	<u>425,976</u>	<u>163,093</u>	<u>589,069</u>
Total funds available	859,440	263,049	1,122,489
Expenditures	<u>(319,909)</u>	<u>(99,956)</u>	<u>(419,865)</u>
Ending fund balance per city	539,531	163,093	702,624
Timing adjustment:			
Accrual of June 2007 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	40,436	—	40,436
SCO adjustment	—	—	—
Ending fund balance per audit	<u>\$ 579,967</u>	<u>\$ 163,093</u>	<u>\$ 743,060</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 Special Gas Tax Street Improvement Fund. The audit period was July 1, 2000, through June 30, 2007.

Findings and Recommendations

**FINDING 1—
Maintenance-of-effort
requirement not met**

The city was not eligible to receive the Traffic Congestion Relief Fund (TCRF) apportionment of \$56,498 for fiscal year (FY) 2002-03 because it did not meet the maintenance-of-effort requirement as set forth in the Streets and Highways Code section 2182.1(b).

Streets and Highways Code section 2182.1(b) states:

In order to receive any allocation pursuant to section 2182, the city or county shall annually expend from its general fund for street, road, and highway purposes an amount not less than the annual average of its expenditures from its general fund during the 1996-97, 1997-98, and 1998-99 fiscal years. . . .

Recommendation

The city must return the TCRF allocations, in the amount of \$56,498 to the State Controller’s Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

Additionally, city officials should review discretionary expenditure levels to ensure future compliance with program requirements.

City’s Response

Based on our research we believe that two corrections to your finding are necessary and appropriate. The first item is the maintenance of effort. A review of our expenditure ledger for the three fiscal years that comprise the maintenance of effort base indicates that the General Fund expenditures are as follows:

Fiscal Year	Program Code	Program Name	Amount
FY 1996-97	01-170-1760	Street Maintenance	\$308,371.01
FY 1997-98	01-170-1760	Street Maintenance	\$218,581.52
FY 1998-99	01-170-1760	Street Maintenance	<u>\$281,758.40</u>
Total			\$808,710.93
Average			\$269,570.31

Based on this, it appears that the City’s maintenance of effort should be \$269,570.31, not the \$294,479 used in the letter. I have attached the total pages from our expenditure ledger for each of the three years.

In FY 2002-03 the City expended \$206,623.82 in General Fund street maintenance (program code 01-170-1760). In addition, the City expended \$119,328.60 in non-Gas Tax funds for street improvements in FY 2002-03 (see attached summary page of fund 67 street improvement fund expenditures). These two items result in a total non Gas Tax Fund street related expenditures for FY 2002-03 of \$325,952.42.

The total non Gas Tax Fund street expenditures for FY 2002-03 were in excess of the maintenance of effort requirement (both the recalculated amount and the amount stated in your letter). Therefore, the City believes that it did meet the maintenance of effort requirement for FY 2002-03 and therefore, the Gas Tax fund balance was not overstated by the City.

SCO's Comment

After reviewing the additional information the city submitted in response to our draft audit report, we revised the city's maintenance-of-effort (MOE) amount to \$98,371. Therefore, the MOE expenditure requirement for FY 2002-03 was met by the city. Consequently, our audit finding is withdrawn.

**FINDING 2—
Unallowable
expenditures**

The city did not meet its maintenance-of-effort requirement during FY 2002-03 as noted in Finding 1. Consequently, the expenditure of these funds, totaling \$56,498, was not allowable.

Recommendation

The city must reimburse the fund by \$56,498 for unallowable expenditures.

City's Response

See the city's response to Finding 1.

SCO's Comment

Due to the resolution of Finding 1 (see SCO's Comment on Finding 1), this finding is also withdrawn.

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



CITY OF SOUTH EL MONTE

1415 N. SANTA ANITA AVENUE
SOUTH EL MONTE, CALIFORNIA 91733
(626) 579-6540 • FAX (626) 579-2107

August 11 2008

Jeffrey V. Brownfield
Chief, Division of Audits
State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

RE: Audit Findings – Gas Tax Fund & Traffic Congestion Relief Fund

This letter is in response to your letter dated July 18, 2008 and received July 31, 2008.

Since receipt of the letter our Finance staff has researched the basis for your findings. Based on our research we believe that two corrections to your finding are necessary and appropriate. The first item is the maintenance of effort. A review of our expenditure ledger for the three fiscal years that comprise the maintenance of effort base indicates that the General Fund expenditures are as follows:

Fiscal Year	Program Code	Program Name	Amount
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		Total	\$808,710.93
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The total non Gas Tax Fund street expenditures for FY 2002-03 were in excess of the maintenance of effort requirement (both the recalculated amount and the amount stated in your letter). Therefore, the City believes that it did meet the maintenance of effort requirement for FY 2002-03 and therefore, the Gas Tax fund balance was not overstated by the City.

Sincerely,

A handwritten signature in dark ink, appearing to read "David A. Bass". The signature is cursive and somewhat stylized.

David A. Bass
Interim Finance Director

CC: Blanca Figueroa, Mayor
Anthony R. Ybarra, City Manager
Joann Shao, Accounting Manager

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

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