

# **CITY OF ARVIN**

Audit Report

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

*July 1, 2007, through June 30, 2008*

## **TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS**

*July 1, 2000, through June 30, 2008*



**JOHN CHIANG**  
California State Controller

October 2009



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

October 16, 2009

The Honorable Tim Tarver  
Mayor of the City of Arvin  
200 Campus Drive, P.O. Box 548  
Arvin, CA 93203

Dear Mayor Tarver:

The State Controller's Office audited the City of Arvin's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2008. 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, 2008.

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; however, we identified a procedural finding.

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: David Powell, Director of Finance  
City of Arvin

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## **Audit Report**

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# Audit Report

## Summary

The State Controller's Office audited the City of Arvin's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2008. 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, 2008.

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; however, we identified a procedural finding.

## 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 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 Arvin 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, 2008.

Our audit also disclosed that the city accounted for and expended its TCRF 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, 2008.

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

Our prior audit report, issued on February 19, 1998, disclosed no findings.

## **Views of Responsible Official**

We issued a draft audit report on March 27, 2009. David Powell, Director of Finance, responded by telephone on September 14, 2009, agreeing with the audit results.

## **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

October 16, 2009

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2007, through June 30, 2008**

|  | Special Gas Tax Street Improvement Fund         |                                 |                   |
|--|---|---------------------------------|-------------------|
|  | Highway<br>Users Tax<br>Allocation <sup>1</sup> | TCRF<br>Allocation <sup>2</sup> | Totals            |
| Beginning fund balance per city                | \$ 429,645                                      | \$ 76,412                       | \$ 506,057        |
| Revenues                                       | <u>269,916</u>                                  | <u>—</u>                        | <u>269,916</u>    |
| Total funds available                          | 699,561   | 76,412                          | 775,973           |
| Expenditures                                   | <u>(432,190)</u>                                | <u>(76,412)</u>                 | <u>(508,602)</u>  |
| Ending fund balance per city                   | 267,371   | —                               | 267,371           |
| SCO adjustment: <sup>3</sup>                   |   |                                 |                   |
| Finding—Inaccurate street report fund balances | <u>—</u>  | <u>—</u>                        | <u>—</u>          |
| Ending fund balance per audit                  | <u>\$ 267,371</u>                               | <u>\$ —</u>                     | <u>\$ 267,371</u> |

<sup>1</sup> 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.

<sup>2</sup> 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, 2008.

<sup>3</sup> See the Finding and Recommendation section.

# Finding and Recommendation

**FINDING—  
Inaccurate street  
report fund balances**

The Special Gas Tax Street Improvement Fund balances in the city’s annual street reports for fiscal year (FY) 2002-03 through FY 2007-08 did not reflect the balances in the city’s general ledgers. Also, the city inaccurately reported Traffic Congestion Relief Fund (TCRF) balances in the annual street reports for FY 2000-01 through FY 2007-08.

Streets and Highways Code section 2152(b) specifies that all annual street reports filed with the Controller should contain a detailed and complete statement of street expenditures. Street and Highways Code section 2153 imposes a mandatory duty on the Controller to ensure that the annual street and road reports are adequate and accurate.

The Special Gas Tax Street Improvement Fund balances in the annual street reports for FY 2002-03 through FY 2007-08 were consistently understated.

|                          | Fiscal Year       |                    |                    |                    |                    |                    |
|--------------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                          | 2002-03           | 2003-04            | 2004-05            | 2005-06            | 2006-07            | 2007-08            |
| Gas tax fund balance in: |                   |                    |                    |                    |                    |                    |
| Annual street report     | \$ 87,007         | \$ 79,698          | \$(261,252)        | \$ 102,328         | \$ 277,283         | \$ 32,597          |
| General ledger           | <u>179,006</u>    | <u>227,255</u>     | <u>279,190</u>     | <u>446,570</u>     | <u>506,057</u>     | <u>267,371</u>     |
| Difference               | <u>\$(91,999)</u> | <u>\$(147,557)</u> | <u>\$(540,442)</u> | <u>\$(344,242)</u> | <u>\$(228,774)</u> | <u>\$(234,774)</u> |

The Traffic Congestion Relief Fund (TCRF) balances were incorrectly reported in the annual street reports for FY 2000-01 through FY 2007-08.

|                      | Fiscal Year     |                  |                  |                  |                    |                  |                  |                   |
|----------------------|-----------------|------------------|------------------|------------------|--------------------|------------------|------------------|-------------------|
|                      | 2000-01         | 2001-02          | 2002-03          | 2003-04          | 2004-05            | 2005-06          | 2006-07          | 2007-08           |
| TCRF balance in:     |                 |                  |                  |                  |                    |                  |                  |                   |
| Annual street report | \$ 20,408       | \$ 54,112        | \$ 71,873        | \$ 71,873        | \$(310,127)        | \$ 66,800        | \$ 172,536       | \$ 172,536        |
| General ledger       | <u>13,600</u>   | <u>—</u>         | <u>4,479</u>     | <u>—</u>         | <u>—</u>           | <u>36,182</u>    | <u>76,412</u>    | <u>—</u>          |
| Difference           | <u>\$ 6,808</u> | <u>\$ 54,112</u> | <u>\$ 67,394</u> | <u>\$ 71,873</u> | <u>\$(310,127)</u> | <u>\$ 30,618</u> | <u>\$ 96,124</u> | <u>\$ 172,536</u> |

The annual street reports prepared by the city and filed with the State Controller’s Office (SCO) included errors and omissions in reporting street expenditures.

Recommendation

The city should review carefully the SCO’s Instructions to Cities for Preparing the Annual Street Report when preparing its annual street reports. Additionally, the reported balances should reflect the amounts recorded on the city’s general ledgers.

City’s Response

The city concurs with our finding and recommendation and will take steps to minimize reporting errors.

**State Controller's Office  
Division of Audits  
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**<http://www.sco.ca.gov>**