

CITY OF COVINA

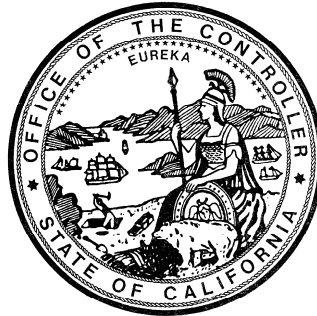
Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2007

TRAFFIC CONGESTION RELIEF FUND

July 1, 2000, through June 30, 2007



JOHN CHIANG
California State Controller

November 2008



JOHN CHIANG
California State Controller

November 26, 2008

Kevin Stapleton
Mayor of the City of Covina
125 E. College Street
Covina, CA 91723

Dear Mayor Stapleton:

The State Controller's Office audited the City of Covina'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 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 and Traffic Congestion Relief Fund in compliance with requirements, except for our adjustments to the Traffic Congestion Relief Fund. In addition, our audit disclosed that the city overstated the fund balance in its Traffic Congestion Relief Fund by \$39,648 as of June 30, 2007. The city overstated the fund balance primarily because it did not comply with various requirements of Revenue and Taxation Code section 7104 and Government Code section 12440.

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

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Audit Report

Summary

The State Controller's Office audited the City of Covina'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 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 and Traffic Congestion Relief Fund in compliance with requirements, except for our adjustments to the Traffic Congestion Relief Fund. Our audit disclosed that the city overstated the fund balance in its Traffic Congestion Relief Fund by \$39,648 as of June 30, 2007. The city overstated the fund balance primarily because it did not comply with various requirements of Revenue and Taxation Code section 7104 and Government Code section 12440.

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 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 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 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, 2006, through June 30, 2007.

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, 2007, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required a net adjustment of \$39,648 to the city's accounting records.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on March 26, 2002, disclosed no findings.

Views of Responsible Officials

We issued a draft audit report on July 18, 2008. Victoria Gallo, Acting Finance Director, responded by letter dated October 17, 2008, agreeing with the audit results with the exception of Findings 1, 2, and 3. 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

November 26, 2008

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

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ 636,964	\$ 408,945
Revenues	990,897	387,470
Total funds available	1,627,861	796,415
Expenditures	(1,086,317)	(33,181)
Ending fund balance per city	541,544	763,234
SCO adjustments: ³		
Finding 1—Expenditure requirement not met	—	—
Finding 2—Maintenance-of-effort requirement not met	—	(120,468)
Finding 3—Unallowable expenditures	—	—
Finding 4—Deficit fund balance	—	46,598
Finding 5—Ineligible expenditures	—	34,222
Total SCO adjustments	—	(39,648)
Ending fund balance per audit	\$ 541,544	\$ 723,586

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, 2007.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Expenditure requirement not met

The city did not meet the Traffic Congestion Relief Fund expenditure requirement for fiscal year (FY) 2000-01 as required by Streets and Highways Code section 21.82.1(g), which states:

The allocation made under 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 and shall be reallocated to the other cities and counties pursuant to the allocation formulas set forth in Section 2182.

The \$335,571 in unexpended allocations is subject to the spending requirement of the Traffic Congestion Relief Fund.

Recommendation

The city must return the unexpended Traffic Congestion Relief Fund allocations of \$335,571 to the State Controller's Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

City's Response

Expenditure requirement not met. The City of Covina (City) disagrees with this finding. Attached you will find a copy of the City of Covina's annual Street Report Schedule 3 for fiscal year 2000-2001 which shows discretionary funds in the amount of \$1,032,902 being expended. The City's maintenance of effort requirement is \$413,381. Also attached is Schedule 2 of the annual Street Report that shows during the fiscal year 2000/2001, the City expended \$480,631 on street maintenance and repair as allowed within the guidelines to expending Traffic Congestion Relief Funds. **The expenditures were not deducted from the TCRF allocation due to accounting errors.** The amount proposed by the State Controller to be returned is \$335,571.

According to the "Guidelines Relating to Traffic Congestion Relief Funds", "Funds transferred to cities must be deposited in local accounts in order to avoid commingling the funds with other local funds. These funds must be used for street or road maintenance or reconstruction. Cities are required to maintain their existing commitment of general funds for street or road work in order to remain eligible for allocation of the specified funds.". **The City did deposit the TCRF monies received into a separate account in order to separate and not commingle these funds with other local funds. The City did maintain their existing commitment of general funds for street or road work as indicated above in the amount spent for maintenance of effort. The City did spend the TCRF apportionment on the maintenance or reconstruction of streets within the City.**

For the reasons discussed above, the City did comply in all respects with the requirements of the "Guidelines Relating to Traffic Congestion Relief Funds". Therefore, the City does not believe that the TCRF apportionment in the amount of \$335,571 should be returned to the

State Controller. However, the City will transfer from its General Fund to the TCRF fund expenditures in the amount of \$335,571 in order to show that TCRF funds were in fact spend.

SCO's Comment

After reviewing the city's response to our draft report and additional documentation provided by the city, we have concluded that the city did make accounting errors. An accounting error may be corrected after the error is discovered. The city's correction of the accounting errors allows the city to be in compliance with Streets and Highways Code sections 2182 and 2182.5 and Revenue and Taxation Code section 7104. The finding is withdrawn.

FINDING 2— Maintenance-of-effort requirement not met

The city did not expend an amount equal to or greater than the maintenance of effort requirement for FY 2005-06, including the two-year option; therefore, it did not meet the requirement to receive the allocation of \$220,979 from the Traffic Congestion Relief Fund. Allocations received were expended on a slurry seal project; however, due to non-compliance of the allocation requirement, funds received cannot be expended on any street projects.

Recommendation

The city must return the allocations of \$220,979 to the State Controller as required by Revenue and Taxation Code section 7104.

City's Response

Maintenance of effort requirement not met. The City concurs that the maintenance of effort requirement was not met for the fiscal year 2005/2006, as it only expended \$333,825 of General Fund monies. The City has reviewed the Street Report prepared by a staff member of the State Controller's office for 2006-2007 and has determined that the amount reported as the maintenance of effort was incorrect. For 2006-2007, the amount should have been reported as \$597,131. See attached worksheet and Annual Street Report Schedule 2 and Schedule 3. **Using the two-year method of determining whether the maintenance of effort was met, the City has maintained the required amount.** An adjustment will be made on the Street Report filed for the fiscal year 2007-2008 to reflect this adjustment.

The City expended \$118,778 during fiscal year 2005-06, and using the two-year method, expended an additional \$181. Therefore, the City expended a total of \$118,959, with a remainder of \$120,467.85 to be returned to the State Controller as unspent TCRF funds.

SCO's Comment

After reviewing the city's response to our draft report and additional documentation provided by the city, we have concluded that the city made a reporting error and that the city did meet its maintenance-of-effort requirements. However, the city is correct that it did not meet the expenditure requirement of expending the allocation within the fiscal

year following the fiscal year in which the allocation was received as required by Streets and Highways Code sections 2182 and 2182.5 and Revenue and Taxation Code section 7104. We also agree that the city must return \$120,468 to the State Controller's Office.

**FINDING 3—
Unallowable
expenditures**

The city expended Traffic Congestion Relief Fund allocations for FY 2005-06 totaling \$118,778 on a slurry seal project. The project is an eligible project; however, due to non-compliance of the maintenance-of-effort requirement, the city is not allowed to fund the slurry seal project with Traffic Congestion Relief Fund allocations. The expenditure is not allowable pursuant to Revenue and Taxation Code section 7104(f).

Recommendation

The city must return \$118,778 to the Traffic Congestion Relief Fund.

City's Response

Unallowable expenditures. As the maintenance of effort requirement was met for the fiscal year 2005/2006 as explained in Response to Finding 2, no adjustment is necessary.

SCO's Comment

We concur with the city's response. The finding is withdrawn.

**FINDING 4—
Deficit fund balance**

During FY 2005-06, the city incurred expenditures in excess of available resources. The expenditures exceeded available funding by \$46,598.

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 \$46,598 into the Traffic Congestion Relief Fund. The city should also monitor the expenditures of the Traffic Congestion Relief Fund to prevent future negative fund balances.

City's Response

Deficit fund balance. During the fiscal year 2002/2003, the City incurred expenditures in excess of available resources by \$46,598. This was caused by City staff not fully understanding that the funds received for Traffic Congestion Relief must be expended by the end of the fiscal year following the year in which the allocation was received. The City will transfer expenditures of \$46,598 from the Traffic Congestion Relief Fund to the General Fund.

**FINDING 5—
Ineligible expenditures**

The city expended Traffic Congestion Relief Fund allocations on various administrative costs during FY 2004-05. Also, during FY 2006-07, the city funded a traffic signal project with Traffic Congestion Relief Fund allocations totaling \$33,000. Administrative costs and traffic signal projects are not eligible expenditures under Revenue and Taxation Code section 7104.

Recommendation

The city must reimburse the Traffic Congestion Relief Fund \$34,222 for the ineligible expenditures.

City's Response

Ineligible expenditures. During fiscal year 2006/2007, the City expended \$33,000 on a traffic signal project. As this type of project is not allowable for the Traffic Congestion Relief Funds, the City will transfer expenditures in the amount of \$33,000 from the Traffic Congestion Relief Fund to the General Fund.

In addition, during fiscal year 2004/2005, the City expended \$1,222 from the Traffic Congestion Relief Fund. This was done in error. The City will transfer expenditures in this amount from the Traffic Congestion Relief Fund to the General Fund.

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



CITY OF COVINA

125 East College Street • Covina, California 91723-2199

October 17, 2008

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

Dear Mr. Mar,

This letter is being written in response to the findings listed in the City of Covina Audit Report of Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Funds (TCRF).

Response to Finding 1 – Expenditure requirement not met. The City of Covina (City) disagrees with this finding. Attached you will find a copy of the City of Covina's annual Street Report Schedule 3 for fiscal year 2000-2001 which shows discretionary funds in the amount of \$1,032,902 being expended. The City's maintenance of effort requirement is \$413,381. Also attached is Schedule 2 of the annual Street Report that shows during the fiscal year 2000/2001, the City expended \$480,631 on street maintenance and repair as allowed within the guidelines to expending Traffic Congestion Relief Funds. **The expenditures were not deducted from the TCRF allocation due to accounting errors.** The amount proposed by the State Controller to be returned is \$335,571.

According to the "Guidelines Relating to Traffic Congestion Relief Funds", "Funds transferred to cities must be deposited in local accounts in order to avoid commingling the funds with other local funds. These funds must be used for street or road maintenance or reconstruction. Cities are required to maintain their existing commitment of general funds for street or road work in order to remain eligible for allocation of the specified funds." **The City did deposit the TCRF monies received into a separate account in order to separate and not commingle these funds with other local funds. The City did maintain their existing commitment of general funds for street or road work as indicated above in the amount spent for maintenance of effort. The City did spend the TCRF apportionment on the maintenance or reconstruction of streets within the City.**

For the reasons discussed above, the City did comply in all respects with the requirements of the "Guidelines Relating to Traffic Congestion Relief Funds". Therefore, the City does not believe that the TCRF apportionment in the amount of \$335,571 should be returned to the State Controller. However, the City will transfer from its General Fund to the TCRF fund expenditures in the amount of \$335,571 in order to show that TCRF funds were in fact spent.

S:\Covina_PVT\Finance_PVT\Letter re audit of TCRF funds revised per L. Alexander SCO.doc

Response to Finding 2 – Maintenance of effort requirement not met. The City concurs that the maintenance of effort requirement was not met for the fiscal year 2005/2006, as it only expended \$333,825 of General Fund monies. The City has reviewed the Street Report prepared by a staff member of the State Controller's office for 2006-2007 and has determined that the amount reported as the maintenance of effort was incorrect. For 2006-2007, the amount should have been reported as \$597,131. See attached worksheet and Annual Street Report Schedule 2 and Schedule 3. **Using the two-year method of determining whether the maintenance of effort was met, the City has maintained the required amount.** An adjustment will be made on the Street Report filed for the fiscal year 2007-2008 to reflect this adjustment.

The City expended \$118,778 during fiscal year 2005-2006, and using the two-year method, expended an additional \$181. Therefore, the City expended a total of \$118,959, with a remainder of \$120,467.85 to be returned to the State Controller as unspent TCRF funds.

Response to Finding 3 – Unallowable expenditures. As the maintenance of effort requirement was met for the fiscal year 2005/2006 as explained in Response to Finding 2, no adjustment is necessary.


Response to Finding 4 – Deficit fund balance. During the fiscal year 2002/2003, the City incurred expenditures in excess of available resources by \$46,598. This was caused by City staff not fully understanding that the funds received for Traffic Congestion Relief must be expended by the end of the fiscal year following the year in which the allocation was received. The City will transfer expenditures of \$46,598 from the Traffic Congestion Relief Fund to the General Fund.

Response to Finding 5 – Ineligible expenditures. During fiscal year 2006/2007, the City expended \$33,000 on a traffic signal project. As this type of project is not allowable for the Traffic Congestion Relief Funds, the City will transfer expenditures in the amount of \$33,000 from the Traffic Congestion Relief Fund to the General Fund.

In addition, during fiscal year 2004/2005, the City expended \$1,222 from the Traffic Congestion Relief Fund. This was done in error. The City will transfer expenditures in this amount from the Traffic Congestion Relief Fund to the General Fund.

In summary, the City will discuss with our auditors the proper way to record the transfer of \$335,571 from the General Fund to the TCRF fund for Finding 1 above. The City will send a check under separate cover, in the amount of \$120,467.85 in response to Finding 2 above. The City will discuss with our auditors the proper way to record the transfer of a total of \$80,820 from the Traffic Congestion Relief Fund for Findings 3, 4, and 5.

Sincerely,



Victoria Gallo
Acting Finance Director

MOE FY 06/07 USING STATE CONTROLLER PREPARER'S METHOD

	amt	%	amt alloc	
1010-2100-00 Engineering Streets	403,053.01	0.54	217,648.63	403,053.01
1010-2200-00	558,916.66	0.54	301,815.00	558,916.66 ??
1010-2200-xx				94,467.00
18 Sidewalk Repair	25,463.75	1.00	25,463.75	25,464.00
22 Resurface Badillo	52,203.19	1.00	52,203.19	52,203.00
2710-xxxx-xx Street Lighting Assmt				191,840.00 ??
4307-xxxx-xx Bicycle/Ped Path				55,478.00 ??
4500-xxxx-xx Shoppers Lane				20.00
				11,572.00

TOTAL

597,130.56

253,308.00

THIS AMOUNT AGREES WITH STREET REPORT PREPARED BUT DOES NOT FOLLOW CONSISTENTLY WITH PRIOR YEAR'S CALCULATIONS OF THIS FIGURE

MOE FY 05/06

1010-2100-00 Engineering Streets	490,138.86	0.54	284,674.98
1010-2200-00	59,780.00	0.54	32,281.20
1010-2200-xx			
15 Sidewalk Repair	21,141.78	1.00	21,141.78
22 Resurface Badillo	433.53	1.00	433.53
25 Grand Ave/Badillo	15,293.28	1.00	15,293.28

TOTAL

333,824.77

TCRF analysis

MOE Analysis

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

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