

CITY OF MONTAGUE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2003, through June 30, 2014

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2003, through June 30, 2014

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2014



BETTY T. YEE
California State Controller

December 2015



BETTY T. YEE
California State Controller

December 22, 2015

The Honorable Jayne Keller
Mayor of the City of Montague
P.O. Box 428
Montague, CA 96064

Dear Mayor Keller:

The State Controller's Office audited the City of Montague's Special Gas Tax Street Improvement Fund for the period of July 1, 2003, through June 30, 2014. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the General Fund, for the period of July 1, 2003, through June 30, 2014, and the Proposition 1B Fund allocations recorded in the Capital Projects Fund, for the period of July 1, 2007, through June 30, 2014.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, TCRF allocations recorded in the General Fund, and Proposition 1B Fund allocations recorded in the Capital Projects Fund, in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$49,770 as of June 30, 2014, because it deposited its TCRF allocations in the General Fund but the related expenditures were posted in the Special Gas Tax Street Improvement Fund; transferred gas tax monies to correct a deficit balance in the Capital Projects Fund; and used gas tax monies for non-street related activities. In addition, our audit found that the city overstated the fund balance for its TCRF allocations recorded in the General Fund by \$43,706 as of June 30, 2014. The city overstated the fund balance because it deposited its TCRF allocations in the General Fund but the related expenditures were posted in the Special Gas Tax Street Improvement Fund.

If you have any questions, please contact Mike Spalj, Chief, Local Government Audits Bureau, at (916) 324-6984.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Janie Sprague, City Clerk
City of Montague

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Audit Report

Summary

The State Controller's Office audited the City of Montague's:

- Special Gas Tax Street Improvement Fund for the period of July 1, 2003, through June 30, 2014;
- Traffic Congestion Relief Fund (TCRF) allocations for the period of July 1, 2003, through June 30, 2014; and
- Proposition 1B Fund allocations for the period of July 1, 2007, through June 30, 2014.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, TCRF allocations recorded in the General Fund, and Proposition 1B Fund allocations recorded in the Capital Projects Fund, in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$49,770 as of June 30, 2014, because it deposited its TCRF allocations in the General Fund but the related expenditures were posted in the Special Gas Tax Street Improvement Fund; transferred gas tax monies to correct a deficit balance in the Capital Projects Fund; and used gas tax monies for non-street related activities. Our audit also found that the city overstated the fund balance for the TCRF allocations recorded in the General Fund by \$43,706 as of June 30, 2014. The city overstated the fund balance because it deposited its TCRF allocations in the General Fund but the related expenditures were posted in the Special Gas Tax Street Improvement Fund.

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.

Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 636, Statutes of 2000, (Senate Bill 1662) and 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 General Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties shall be deposited into an account that is designated for the receipt of State funds allocated for streets and roads. The city recorded its Proposition 1B Fund allocations in the Capital Projects Fund. A city also is required to expend its allocations within four years following the end of the fiscal year in which the allocation was made and to expend the funds in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B Fund allocations under the authority of Government Code section 12410.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund, TCRF allocations recorded in the General Fund, and Proposition 1B Fund allocations recorded in the Capital Projects Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23.

To meet the audit objective, we performed the following procedures:

Special Gas Tax Street Improvement Fund

- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule to determine whether Highway Users Tax Account (HUTA) funds received by the city were completely accounted for.
- Judgmentally selected sample expenditure transactions and verified proper documentation and eligibility to determine whether HUTA funds were expended in accordance with the criteria above.
- Analyzed and tested sample transactions to determine whether recoveries of prior HUTA fund expenditures were identified and credited to the Special Gas Tax Street Improvement Fund.
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures.
- Interviewed city employees and reviewed policies and procedures to gain an understanding of the city's internal controls and accounting systems related to this audit.

Traffic Congestion Relief Fund (TCRF) Allocations

- Reconciled the TCRF revenue recorded in the city ledger to confirm that the TCRF allocations received by the city agreed with the SCO's apportionment schedule.

- Judgmentally selected sample expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.
- Reconciled the City's "Schedule of Expenditures as Reported in the Streets and Roads Annual Report" with the SCO's "Average Annual Expenditures Computation of Discretionary Funds" to determine compliance with the maintenance-of-effort (MOE) requirement.

Proposition 1B Fund Allocations

- Reconciled the Proposition 1B revenue recorded in the city ledger to confirm that the Proposition 1B allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected sample expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.

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 its Special Gas Tax Street Improvement Fund, TCRF allocations recorded in the General Fund, and Proposition 1B Fund allocations recorded in the Capital Projects Fund, in accordance with the requirements of the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street-related 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 Montague 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, 2003, through June 30, 2014, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$49,770 to the city's accounting records.

- TCRF allocations recorded in the General 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, 2003, through June 30, 2014, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$43,706 to the city’s accounting records.
- Proposition 1B Fund allocations recorded in the Capital Projects Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2014.

**Follow-Up on Prior
Audit Findings**

The city satisfactorily resolved the findings noted in our prior audit report, issued on July 9, 2004.

**Views of
Responsible
Officials**

We discussed the audit results with city representatives during an exit conference on February 19, 2015. Janie Sprague, City Clerk; Donald Kincade, Public Works Supervisor; and John Hammond, Mayor Pro-Tem, agreed with the audit results. Ms. Sprague further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This report is intended for the information and use of the City of Montague’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

December 22, 2015

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2013, through June 30, 2014**

	Special Gas Tax Street Improvement Fund Highway Users Tax Allocations ^{1,3}	Traffic Congestion Relief Fund Allocations ²
Beginning fund balance per city	\$ 91,115	\$ 43,706
Revenues	52,679	—
Total funds available	143,794	43,706
Expenditures	(43,474)	—
Ending fund balance per city	100,320	43,706
SCO adjustments: ⁴		
Finding 1—TCRF not expended	43,706	(43,706)
Finding 2—Fund transfer	3,818	—
Finding 3—Ineligible expenditures	2,246	—
Total SCO adjustments	49,770	(43,706)
Ending fund balance per audit	\$ 150,090	\$ —

¹ 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, 2003, through June 30, 2014; however, this schedule includes only the period of July 1, 2013, through June 30, 2014.

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 General Fund. The audit period was July 1, 2003, through June 30, 2014; however, this schedule includes only the period of July 1, 2013, through June 30, 2014.

³ Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds for a variety of transportation priorities. The audit period was July 1, 2007, through June 30, 2014. The city did not receive any Proposition 1B revenues and did not incur any Proposition 1B expenditures during FY 2013-14; therefore, it is not included in this schedule.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
TCRF expenditure
requirement not met**

The city did not expend its fiscal year (FY) 2006-07, FY 2008-09, and FY 2009-10 Traffic Congestion Relief Fund (TCRF) allocations of \$17,557, \$12,654, and \$13,495 respectively, as required by Streets and Highways Code section 2182.1(g). The total unexpended amount is \$43,706.

Streets and Highways Code section 2182.1(g) requires a city to expend its TCRF allocations within the fiscal year following the fiscal year in which the allocation was made. In addition, the code indicates that funds not expended with that period shall be returned to the State Controller's Office.

However, our audit found that the city deposited the TCRF allocations in the General Fund (Fund 101) but expended all the allocations through the Special Gas Tax Street Improvement Fund (Fund 201) and in a timely manner.

Recommendation

The city should transfer \$43,706 from its General Fund to the Special Gas Tax Street Improvement Fund. In the future, the city should ensure that TCRF allocations are deposited and expended from the same Fund.

The city provided a Journal Entry dated February 18, 2015, to transfer the funds from the General Fund to the Special Gas Tax Street Improvement Fund.

**FINDING 2—
Fund transfer**

During FY 2013-14, the city transferred unexpended gas tax monies of \$3,818 to the Capital Projects Fund to correct a deficit balance.

Streets and Highways Code section 2101 requires that all gas tax monies be expended for streets and/or street-related purposes.

Recommendation

The city should reimburse \$3,818 to the Special Gas Tax Street Improvement Fund and establish procedures to ensure that gas tax monies are expended for street purposes.

The city provided a Journal Entry dated February 18, 2015, to reimburse the Special Gas Tax Street Improvement Fund.

**FINDING 3—
Ineligible expenditures**

During FY 2013-14, the city improperly charged \$2,246 to the Special Gas Tax Street Improvement Fund for three non-street-related costs.

Streets and Highways Code section 2101 specifies that gas tax monies may only be expended for street related purposes.

As a result, the following non-street-related costs are unallowable:

<u>Description</u>	<u>Amount</u>
1 50 Yard Sand	\$ 840
2 Vehicle fuel for water station	824
3 Water pump repairs	<u>582</u>
	<u>\$ 2,246</u>

Recommendation

The city should reimburse \$2,246 into the Special Gas Tax Street Improvement Fund. In the future, the city should establish procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are for street-related purposes.

The city provided a Journal Entry dated February 18, 2015, to reimburse the Special Gas Tax Street Improvement Fund.

**State Controller's Office
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