CITY OF PLACERVILLE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2013

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2007, through June 30, 2013

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2013

BETTY T. YEE

California State Controller

December 2015

BETTY T. YEE
California State Controller

December 28, 2015

The Honorable Carl Hagen
Mayor of the City of Placerville
3101 Center Street
Placerville, CA 95667

Dear Mayor Hagen:

The State Controller's Office audited the City of Placerville's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013. We also audited the Traffic Congestion Relief Fund (TCRF) recorded in the Special Gas Tax Street Improvement Fund, for the period of July 1, 2007, through June 30, 2013, and the Proposition 1B Fund allocations recorded in the Transportation Fund for the period of July 1, 2007, through June 30, 2013.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, TCRF allocations recorded in the Special Gas Tax Street Improvement Fund, and Proposition 1B Fund allocations recorded in the Transportation Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by $581 as of June 30, 2013, because it charged negative interest income to the fund. Our audit also found that the city overstated the fund balance for the Proposition 1B Fund allocations recorded in the Transportation Fund by $166,680 as of June 30, 2013, because it recorded the Proposition 1B Fund expenditures in the General Fund.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Dave Warren, Finance Director
City of Placerville

Contents

Audit Report

Summary

The State Controller's Office (SCO) audited the City of Placerville's:

- Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013;
- Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013; and
- Proposition 1B Fund allocations recorded in the Transportation Fund for the period of July 1, 2007, through June 30, 2013.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, TCRF allocations recorded in the Special Gas Tax Street Improvement Fund, and Proposition 1B Fund allocations recorded in the Transportation Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by $581 as of June 30, 2013, because it charged negative interest income to the fund. Our audit also found that the city overstated the fund balance for the Proposition 1B Fund allocations recorded in the Transportation Fund by $166,680 as of June 30, 2013, because it recorded the Proposition 1B Fund expenditures in the General 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 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.

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 Transportation 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 Special Gas Tax Street Improvement Fund, and Proposition 1B Fund allocations recorded in the Transportation 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 a sample of 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 a sample of 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 a sample of 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 Special Gas Tax Street Improvement Fund, and Proposition 1B Fund allocations recorded in the Transportation 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 Placerville 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, 2013, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of $581 to the city's accounting records.

- 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, 2007, through June 30, 2013.

- Proposition 1B Fund allocations recorded in the Transportation Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2013, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of $166,680 to the city's accounting record.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on August 20, 2004, disclosed no findings.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on July 25, 2014. Dave Warren, Finance Director, agreed with the audit results. Mr. Warren 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 Placerville 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 28, 2015

Schedule 1—
Reconciliation of Fund Balance
July 1, 2012, through June 30, 2013

	Special Gas Tax Street Improvement Fund	
	Highway Users Tax Allocations [1, 2]	Proposition 1B Fund Allocations [3]
Beginning fund balance per city	$ 166,607	$ 196,669
Revenues	292,099	–
Total funds available	458,706	196,669
Expenditures	(277,469)	(29,989)
Ending fund balance per city	181,237	166,680
SCO adjustments: [4]		
Finding 1—Misposted Proposition 1B Fund expenditures	–	(166,680)
Finding 2—Negative interest income	581	–
Ending fund balance per audit	$ 181,818	$ –

[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, 2007, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

[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, 2007, through June 30, 2013. The city did not receive any TCRF revenues and did not incur any TCRF expenditures during FY 2012-13; therefore, it is not included in this schedule.

[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, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

[4] See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1—Misposted Proposition 1B Fund Allocations Expenditures

At June 30, 2013, the Proposition 1B Fund allocations recorded in the Transportation Fund carried a fund balance of $166,680. The city received its Proposition 1B Fund allocations during fiscal year (FY) 2009-10, and should have expended these allocations by the end of FY 2012-13, or four fiscal years after receipt of the allocations.

Government Code section 8879.65(d)(2) states:

> ….a city or county shall have four fiscal years from the last day of the fiscal year in which the funds were allocated to it by the Controller to expend the funds.

During the audit, the city provided information of recording Proposition 1B expenditures within its General Fund. We reviewed the documentation and determined that the projects were eligible Proposition 1B expenditures. Additionally, the city provided Journal Entry #1815, dated July 30, 2014, reclassifying the General Fund street expenditures as Proposition 1B fund expenditures.

Recommendation

The city should ensure that transactions are properly classified and recorded to the appropriate fund.

FINDING 2—Negative Interest Income

During FY 2009-10, the city charged negative interest of $581 to the Special Gas Tax Street Improvement Fund.

Streets and Highways Code Section 2101 specifies that Highway User's Tax Apportionments are to be expended only for the construction, maintenance, and operation of public streets and roads. It does not identify negative interest charges as an allowable use of gas tax money.

Recommendation

The city should transfer $581 into the Special Gas Tax Street Improvement Fund and establish procedures to ensure that the Fund is not charged negative interest.

The city provided Journal Entry #1812, dated July 30, 2014, transferring funds from its general fund to the Special Gas Tax Street Improvement Fund.

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