

CITY OF TAFT

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2007

TRAFFIC CONGESTION RELIEF FUND

July 1, 20001, through June 30, 2007



JOHN CHIANG
California State Controller

April 2009



JOHN CHIANG
California State Controller

April 30, 2009

The Honorable Dave Neorr
Mayor of the City of Taft
209 East Kern Street
Taft, CA 93268

Dear Mayor Neorr:

The State Controller's Office audited the City of Taft'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, 2001, 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 that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$16,979 as of June 30, 2007. The city overstated the fund balance because it did not meet the maintenance-of-effort requirement of Streets and Highways Code section 2182.1(b).

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: Teresa Statler, Finance Director
City of Taft

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Audit Report

Summary

The State Controller's Office audited the City of Taft'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, 2001, 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 that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$16,979 as of June 30, 2007. The city overstated the fund balance because it did not meet the maintenance-of-effort requirement of Streets and Highways Code section 2182.1(b).

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 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 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 Taft 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, 2001, through June 30, 2007, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$16,979 to the city's accounting records.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on October 26, 1999, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on February 25, 2009. Teresa Statler, Finance Director, responded by letter dated March 20, 2009. 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

April 30, 2009

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

	<u>Highway Users Tax Allocation ¹</u>	<u>Traffic Congestion Relief Fund ²</u>
Beginning fund balance per city	\$ (15,117)	\$ —
Revenues	<u>161,034</u>	<u>68,870</u>
Total funds available	145,917	68,870
Expenditures	<u>(145,917)</u>	<u>(68,870)</u>
Ending fund balance per city	<u>—</u>	<u>—</u>
SCO adjustments: ³		
Finding 1—Unearned TCRF apportionment and interest income	—	(16,979)
Finding 2—Unallowable expenditure	<u>—</u>	<u>16,979</u>
Net SCO adjustments	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ —</u>	<u>\$ —</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 Traffic Congestion Relief Fund. The audit period was July 1, 2001, through June 30, 2007.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unearned TCRF apportionment and interest income

The city did not meet the maintenance-of-effort requirement of Streets and Highways Code section 2182.1(b), which 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 fiscal year (FY) 1996-97, FY 1997-98, and FY 1998-99, as reported to the Controller pursuant to Section 2151.

The city reported its average annual maintenance-of-effort as \$306,965. This is the amount the city is required to expend annually. The city did not meet its discretionary fund spending in fiscal year (FY) 2002-03.

The city should return \$16,979 to the State Controller's Office pursuant to Streets and Highways Code section 2182, which states:

Any city or county that has not complied with subdivision (b) shall reimburse the state for the funds it received during that fiscal year.

Recommendation

The city must return the TCRF allocations for FY 2002-03, in the amount of \$16,979, to the State Controller's Office: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

City's Response

In response to Finding 1 & 2—Unearned TCRF apportionment and interest income & unallowable expenditures, the City budgeted and fully intended to exceed the average maintenance-of-effort amount of \$306,965. The following street projects were budgeted for the fiscal year 2002-2003 through the current budget year 2008-2009:

- Street Reconstruction project on Lassen & Cascade Street, budgeted cost of \$350,000
- Wheel Chair Ramps on 4th Street and 6th Street, budgeted cost of \$513,663.

These projects were above our normal process of street striping and regular maintenance. Due to unforeseeable problems we were unable to do our normal street striping project which normally cost the City \$125,000 and due to a lack in staffing were had fell behind in our normal street maintenance.

The City has completed the Lassen & Cascade project and currently we are in the process of installing the wheelchair ramps which should be completed some time in April 2009. Each of these projects had been delayed due to problems in engineering and funding. The City respectfully request that the finding be reversed and the City be allowed to keep the Traffic Congestion Relief Funds of \$16,979.

SCO's Comment

The Streets and Highways Code is clear; consequently, the finding must stand.

**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 expenditures of this fund, totaling \$16,979, are not allowable.

Recommendation

The city must reimburse the TCRF by \$16,979 for the unallowable expenditures.

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



March 20, 2009

Steven Mar, Chief
Local Government Audits Bureau
State Controller's Office
Division of Audits
300 Capital Mall, Ste. 518
P.O. Box 942850
Sacramento, CA 95814

RE: SPECIAL GAS TAX STREET IMPROVEMENT FUND AND TRAFFIC CONGESTION
RELIEF FUND COMMENTS ON AUDIT FINDINGS

Dear Mr. Mar,

In response to Finding 1 & 2—Unearned TCRF apportionment and interest income & unallowable expenditures, the City budgeted and fully intended to exceed the average maintenance-of-effort amount of \$306,965. The following street projects were budgeted for the fiscal year 2002-2003 through the current budget year 2008-2009:

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Sincerely,

Teresa Statler
Finance Director

Cc: Robert Gorson, City Manager
Craig Jones, Acting Public Works Director
File

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