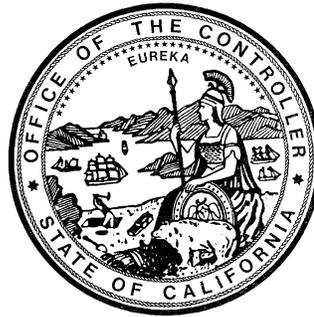


CITY OF BELL GARDENS

Audit Report

GAS TAX FUND

July 1, 2003, through June 30, 2004



JOHN CHIANG
California State Controller

January 2007



JOHN CHIANG
California State Controller

January 26, 2007

Misty V. Cheng
Director of Finance and Administrative Services
City of Bell Gardens
7100 South Garfield Avenue
Bell Gardens, CA 90201

Dear Ms. Cheng:

The State Controller's Office audited the City of Bell Gardens' Gas Tax Fund for the period of July 1, 2003, through June 30, 2004. We also audited the Traffic Congestion Relief Fund (TCRF) recorded in the city's Gas Tax Fund for the period of July 1, 2000, through June 30, 2003.

The city accounted for and expended its Gas Tax Fund—highway users tax and TCRF allocations—in compliance with Article XIX of the California Constitution and the *Streets and Highways Code*, except for our adjustment to the fund. Our audit disclosed that the city understated the fund balance in the Gas Tax Fund by \$163,704 as of June 30, 2004. This understatement occurred because the city charged the fund with expenditures exceeding the available fund balance.

If you have any questions, please contact Paul R. Criss, Chief, Financial-Related Audits Bureau, at (916) 322-4941.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Follow-Up on Prior Audit Findings	2
Views of Responsible Official	2
Restricted Use	2
Schedule 1—Reconciliation of Fund Balance	3
Finding and Recommendation	4
Attachment—City’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the City of Bell Gardens' Gas Tax Fund for the period of July 1, 2003, through June 30, 2004. We also audited the Traffic Congestion Relief Fund (TCRF) recorded in the Gas Tax Fund for the period of July 1, 2000, through June 30, 2003. The last day of fieldwork was September 5, 2006.

Our audit disclosed that the city understated the fund balance in the Gas Tax Fund by \$163,704 as of June 30, 2004. This understatement occurred because the city charged the fund with expenditures exceeding the available fund balances.

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 are derived from state taxes on the sale of motor vehicle fuels. In accordance with *Streets and Highways Code* Section 2101 and Article XIX of the California Constitution, a city must deposit all apportionments of highway users taxes in its Gas Tax Fund (also known as the 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 Gas Tax Fund under the authority of *Government Code* Section 12410.

Chapter 91, Statutes of 2000 (Assembly Bill 2928), as amended by Chapter 656, Statutes of 2000 (Senate Bill 1662), established 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 the TCRF in the Gas Tax Fund. We conducted our audit of the city's TCRF under the authority of *Streets and Highways Code* Sections 2182 and 2182.1.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Gas Tax 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 Gas Tax 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 Gas Tax Fund in accordance with the requirements of the *Streets and Highways Code*. 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 accounted for and expended its Gas Tax 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, 2004, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$163,704 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its TCRF recorded in the Gas Tax Fund in compliance with Article XIX of the California Constitution and the *Streets and Highways Code* for the period of July 1, 2000, through June 30, 2003.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on October 23, 1998, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on November 3, 2006. Misty V. Cheng, Director of Finance and Administrative Services, responded by letter dated November 27, 2006, agreeing with the audit results. 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

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2003, through June 30, 2004**

	Gas Tax Fund ¹
Beginning fund balance per city	\$ (69,020)
Revenues	845,615
Total funds available	776,595
Expenditures	(940,299)
Ending fund balance per city	(163,704)
SCO adjustment: ²	
Finding—Deficit fund balance	163,704
Ending fund balance per audit	\$ —

NOTE: Chapter 91, Statutes of 2000 (Assembly Bill 2928), as amended by Chapter 656, Statutes of 2000 (Senate Bill 1662) established the State Traffic Congestion Relief Fund (TCRF), which allocates funds to cities and counties for street or road maintenance and reconstruction from FY 2000-01 through 2002-03. TCRF allocations were suspended during FY 2003-04 and 2004-05.

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 apportionments are restricted 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 See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Deficit Fund Balance

As of June 30, 2004, the recorded fund balance in the State Gas Tax Fund was a deficit \$163,704.

Pursuant to *Government Code* Section 12440, warrants may only be drawn from an unexhausted specific appropriation provided by law. As the city's Traffic Congestion Relief Fund was exhausted, no funds were available to meet those warrants. Additionally, the city may not carry forward a deficit fund balance to the subsequent fiscal year.

Recommendation

The city should replenish the State Gas Tax Fund to relieve the deficit fund balance. In the future, the city should adopt a balanced budget that limits expenditures to the amount of funds available.

City's Response

The City will make a prior period audit adjustment in FY05-06 to the fund balance of the Gas Tax Fund to remedy the deficit fund balance. The City will be more cognizant of the budget constraints governing that fund so as to not incur expenditures over revenues.

SCO's Comment

The city is complying with our recommendation.

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



CITY OF BELL GARDENS

7100 So. Garfield Avenue • Bell Gardens, California 90201
(562) 806-7700

November 27, 2006

California State Controller
Paul R. Criss
Financial-Related Audits Bureau
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Criss:

The City of Bell Gardens has received your letter dated November 3, 2006 regarding the FY03-04 Gas Tax fund. Below is my response to the Findings and Recommendations your office has issued.

FINDING-Deficit Fund Balance

As of June 30, 2004, the recorded fund balance in the State Gas Tax Fund was a deficit \$163,704.

Pursuant to *Government Code* Section 12440, warrants may only be drawn from an unexhausted specific appropriation provided by law. As the city's Traffic Congestion Relief Fund was exhausted, no funds were available to meet those warrants. Additionally, the city may not carry forward a deficit fund balance to the subsequent fiscal year.

Recommendation

The city should replenish the State Gas Tax Fund to relieve the deficit fund balance. In the future, the city should adopt a balanced budget that limits expenditures to the amount of funds available.

City Response

The City will make a prior period audit adjustment in FY05-06 to the fund balance of the Gas Tax Fund to remedy the deficit fund balance. The City will be more cognizant of the budget constraints governing that fund so as to not incur expenditures over revenues.

If you have any further questions on this matter, please do not hesitate to contact me at (562) 806-7700.

Sincerely,

A handwritten signature in black ink, appearing to read "Misty V. Cheng".

Misty V. Cheng
Director of Finance & Admin. Svcs.

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

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