

# **CITY OF FRESNO**

Audit Report

## **GAS TAX FUND AND TRAFFIC CONGESTION RELIEF FUND**

*July 1, 2004, through June 30, 2005*



**JOHN CHIANG**  
California State Controller

January 2007



**JOHN CHIANG**  
**California State Controller**

January 26, 2007

Karen Bradley  
Finance Director  
City of Fresno  
2600 Fresno Street, 2<sup>nd</sup> Floor, Room 2156  
Fresno, CA 93721

Dear Ms. Bradley:

The State Controller's Office (SCO) audited the City of Fresno's Gas Tax Fund for the period of July 1, 2004, through June 30, 2005. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, through June 30, 2005.

The city accounted for and expended its Gas Tax Fund and TCRF in compliance with Article XIX of the California Constitution and the *Streets and Highways Code*, except for our adjustment to the Gas Tax Fund. Our audit disclosed that the city understated the fund balance in the Gas Tax Fund by \$16,987 as of June 30, 2005. This understatement occurred because the city improperly recorded a loan repayment which should have been recorded to the General Fund.

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

cc: S. Kim Jackson  
Assistant Finance Director  
City of Fresno

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Fresno's Gas Tax Fund for the period of July 1, 2004, through June 30, 2005. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, through June 30, 2005. The last day of fieldwork was July 19, 2006.

The city accounted for and expended its Gas Tax Fund and TCRF in compliance with Article XIX of the California Constitution and the *Streets and Highways Code*, except for our adjustment to the Gas Tax Fund. Our audit disclosed that the city understated the fund balance in the Gas Tax Fund by \$16,987 as of June 30, 2005. This understatement occurred because the city improperly recorded a loan repayment which should have been recorded to 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 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. 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 and the TCRF 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 and the TCRF 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, 2004, through June 30, 2005, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of \$16,987 to the city's accounting records. 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 and the *Streets and Highways Code* for the period of July 1, 2000, through June 30, 2005.

## **Follow-Up on Prior Audit Findings**

The city satisfactorily resolved the findings noted in our prior audit report, issued in July 1999.

## **Views of Responsible Official**

We issued a draft audit report dated October 31, 2006. Jean Rousseau, Controller-Finance Director with the City of Fresno, responded by letter dated November 7, 2006. The city's response is included as an attachment to this final audit report.

## **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, 2004, through June 30, 2005**

	Gas Tax Fund <sup>1</sup>	Traffic Congestion Relief Fund <sup>2</sup>
Beginning fund balance per city	\$ 384,435	\$ 344,523
Revenues	<u>13,622,969</u>	<u>19,351</u>
Total funds available	14,007,404	363,874
Expenditures	<u>(13,406,594)</u>	<u>(363,874)</u>
Ending fund balance per city	<u>600,810</u>	<u>—</u>
Timing adjustment:		
Accrual of June 2005 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	<u>719,750</u>	<u>—</u>
SCO adjustment: <sup>3</sup>		
Finding 1—Recording error	—	—
Total SCO adjustments	<u>16,987</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 1,337,547</u>	<u>\$ —</u>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## **FINDING 1— TCRF expenditure requirements not met**

The city did not expend its allocations of the Traffic Congestion Relief Fund (TCRF) within the fiscal year following the fiscal year in which the allocations were made as required by *Streets and Highways Code* Section 2182.1(g). The unexpended allocation subject to the spending requirements as of June 30, 2005, is \$192,888. Further, the *Streets and Highways Code* states “. . . funds not expended within that period shall be returned to the State Controller’s Office. . . .”

### Recommendation

The city should return the unexpended TCRF allocation and interest earned on the funds to the State Controller’s Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

Additionally, the city should review its TCRF expenditure levels to ensure compliance with program requirements.

### City’s Response

The Audit Report states that the City did not expend its allocations of the TCRF funds within the fiscal year following the fiscal year in which the allocations were made as required by the *Street and Highways Code* Section 2182.1(g).

The amount of the unexpended allocation reported on the Audit Report, subject to the spending requirements, as of June 30, 2005, was \$192,888. The State has requested that these reported unexpended funds be returned to the State Controller’s Office.

The City of Fresno reviewed its expenditures for Street Maintenance Projects for the time period of the audit. The City’s review resulted in the discovery of one voucher and invoice that was miscoded, and should have been coded to City Fund #24007, the Traffic Congestion and Relief Fund, utilizing the TCRF funds as intended, for the project. The payment, voucher and invoice to Asphalt Maintenance Company of California for \$251,462, attached as Exhibit “A”, is for “Slurry Seal”, which is used for the repairing and maintenance of the City’s streets by the Streets Maintenance Division of the Public Works Department.

The City of Fresno is submitting this voucher and invoice for the “Slurry Seal” for inclusion of \$251,462 in the allowable expenditures from the TCRF allocations to the City during the period of 7/1/04-6/30/05. The City has attached the voucher and invoice for your review and subsequent favorable inclusion as an appropriate expenditure of the TCRF allocations in the “Final” Audit Report.

### SCO’s Comment

Based on a review of the documentation provided by the city to correct a coding error relating to TCRF eligible expenditures in the amount of \$251,462, we have withdrawn this finding.

**FINDING 2—  
Recording error**

During fiscal year 2004-05, the city improperly recorded a \$16,987 loan repayment to Fund 20101 (Gas Tax) instead of Fund 10101 (General Fund).

Per *Streets and Highways Code* Section 2101, Gas Tax funds must be deposited in the designated Special Gas Tax Street Improvement Fund and must be expended for streets or street-related activities.

**Recommendation**

The city should transfer \$16,987 from its General Fund into the Gas Tax Fund.

Additionally, the city should establish procedures to ensure that such posting errors do not occur.

**City's Response**

The "Draft" Audit Report states that during the fiscal year 2004-05, the City improperly recorded a \$16,987 loan repayment to Fund 20101 (Gas Tax) instead of Fund 10101 (General Fund). The State recommends that the City should transfer \$16,987 from its General Fund into its Gas Tax Fund.

The City concurs with this recommendation, and subsequently prepared and posted the journal entry for the Transfer of Funds. The City provided the State's Auditor a copy of the journal at the exit conference on July 19, 2006.

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

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City of



2600 Fresno Street, Suite 2156 • (559) 621-7001 • FAX (559) 488-4636  
Fresno, California 93721-3622  
www.fresno.gov

Finance Department

Karen M. Bradley, CPA  
Assistant City Controller

November 7, 2006

Paul R. Criss, Chief  
Financial-Related Audits Bureau  
State Controller's Office  
Division of Audits  
Post Office Box 94250  
Sacramento, Calif. 94250-5874

Dear Mr. Criss:

This letter will serve as the City of Fresno's response and comments to the "Draft" Audit Report related to the City's Gas Tax Fund and Traffic Congestion Relief Fund (TCRF) for the period of 7/1/2004-6/30/2005 (Gas Tax Fund) and 7/1/2000-6/30/2005 (TCRF).

**Finding 1-TCRF expenditures requirements not met**

The Audit Report states that the City did not expend its allocations of the TCRF funds within the fiscal year following the fiscal year in which the allocations were made as required by the Streets and Highways Code Section 2182.1(g).

The amount of the unexpended allocation reported on the Audit Report, subject to the spending requirements, as of June 30, 2005, was \$192,888. The State has requested that these reported unexpended funds be returned to the State Controller's Office.

The City of Fresno reviewed its expenditures for Street Maintenance Projects for the time period of the audit. The City's review resulted in the discovery of one voucher and invoice that was miscoded, and should have been coded to City Fund #24007, the Traffic Congestion and Relief Fund, utilizing the TCRF funds as intended, for the project. The payment, voucher and invoice to Asphalt Maintenance Company of California for \$251,462, attached as Exhibit "A", is for "Slurry Seal", which is used for the repairing and maintenance of the City's streets by the Streets Maintenance Division of the Public Works Department.

The City of Fresno is submitting this voucher and invoice for the "Slurry Seal" for **inclusion** of \$251,462 in the allowable expenditures from the TCRF allocations to the City during the period of 7/1/04-6/30/05. The City has attached the voucher and invoice for your review and subsequent favorable inclusion as an appropriate expenditure of the TCRF allocations in the "Final" Audit Report.

**Finding 2-Recording error**

The "Draft" Audit Report states that during the fiscal year 2004-05, the City improperly recorded a \$16,987 loan repayment to Fund 20101 (Gas Tax) instead of Fund 10101 (General Fund). The State recommends that the City should transfer \$16,987 from its General Fund into its Gas Tax Fund.

The City concurs with this recommendation, and subsequently prepared and posted the attached (Exhibit B) journal entry for the Transfer of Funds. The City provided the State's Auditor a copy of the journal at the exit conference on July 19, 2006.

The City of Fresno thanks you for the opportunity to respond and comment on the "Draft" Audit Report for the City's Gas Tax Fund and Traffic Congestion Relief Fund (TCRF) for the period of 7/1/04-6/30/05. The City looks forward to receiving the "Final" Audit Report, and to the favorable consideration and inclusion of its responses and comments to the State's two audit findings and recommendations.

If you have any questions, please contact Kevin Vogt, Senior Accountant, 559-621-7031.

Sincerely,



Jean Rousseau  
Controller-Finance Director

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

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