

CITY OF MENDOTA

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

Rudy Marquez
Finance Director
City of Mendota
643 Quince Street
Mendota, CA 94630

Dear Mr. Marquez:

The State Controller's Office audited the City of Mendota'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 adjustments to the funds. Our audit disclosed that the city understated the fund balance in the Gas Tax Fund by \$5,244 as of June 30, 2005. This understatement occurred because the city erroneously recorded \$5,244 of gas tax apportionments into its General Fund. Also, our audit disclosed that the city overstated the fund balance in the TCRF by \$42,227 as of June 30, 2005. This overstatement occurred because the city did not meet the spending requirement. The city should return the amount to the State.

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

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Mendota'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 May 31, 2006.

Our audit disclosed that the city understated the fund balance in the Gas Tax Fund by \$5,244 as of June 30, 2005. This understatement occurred because the city erroneously recorded \$5,244 of gas tax apportionments into its General Fund. Also, our audit disclosed that the city overstated the fund balance in the TCRF by \$42,227 as of June 30, 2005. This overstatement occurred because the city did not meet the spending requirement. The city should return the amount to the State.

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. Finding 1 requires an adjustment of \$5,244 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its TCRF 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, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. Finding 2 requires that the city return \$42,227 to the State Controller.

Follow-Up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report, issued on November 30, 1998.

Views of Responsible Official

We issued a draft audit report dated September 15, 2006. Gabriel Gonzalez, City Manager, responded by letter dated October 12, 2006. 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, 2004, through June 30, 2005**

	Gas Tax Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ 352,908	\$ 41,809
Revenues	<u>159,417</u>	<u>418</u>
Total funds available	512,325	42,227
Expenditures	<u>(100,164)</u>	<u>—</u>
Ending fund balance per city	<u>412,161</u>	<u>42,227</u>
SCO adjustments: ³		
Finding 1—Apportionment recording error	5,244	—
Finding 2—TCRF expenditure requirements not met	<u>—</u>	<u>(42,227)</u>
Total SCO adjustments	<u>5,244</u>	<u>(42,227)</u>
Ending fund balance per audit	<u>\$ 417,405</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 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 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.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Apportionment recording error

During fiscal year (FY) 2004-05, the city recorded the March 2, 2005, Section 2107 apportionment of \$5,244 in error. The city recorded this apportionment to the city's General Fund. This resulted in the Gas Tax Fund being understated by \$5,244 at June 30, 2005.

Streets and Highways Code Section 2113 states:

No apportionment of money from the Highway Users Tax Fund as provided in Section 2106 or 2107 shall be made to a city unless the city has set up by ordinance a "special gas tax street improvement fund."

All apportionments of such moneys shall be deposited in the "special gas tax street improvement fund."

Recommendation

The city should correct the recording error by transferring \$5,244 from its General Fund into the city's Gas Tax Fund. Additionally, the city should establish procedures to ensure future that gas tax apportionments are properly recorded in the Gas Tax Fund.

City's Response

The City has made the appropriate journal entry to record the transfer of \$5,244 from the General Fund into the Gas Tax Fund. Procedures are already in place to prevent this type of error from occurring in the future.

FINDING 2— TCRF expenditure requirements not met

The city did not expend its allocations of Traffic Congestion Relief Fund (TCRF) within the fiscal year following the fiscal year in which allocations were made as required by *Streets and Highways Code* Section 2182.1(g). The unexpended allocation subject to the spending requirement as of June 30, 2005, is \$42,227.

Further, the *Streets and Highways Code* states:

. . . funds not expended within that period shall be returned to the State Controllers Office. . . .

Recommendation

The city must 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 City is a financially disadvantaged community with limited resources for street maintenance and repairs. Due to staff turnover in the finance department, the city was unaware of the spending requirements. Present staff is knowledgeable of the state requirement and will ensure future TCRF allocations are expended within the required time period. City streets have been identified in which the TCRF allocation of \$42,227 can be expended. Thus, the City respectfully requests it be allowed to retain the unexpended TCRF allocation and interest.

SCO's Comment

Pursuant to *Streets and Highways Code* Section 2182.1(g), TCRF allocations received and not expended within the fiscal year following the fiscal year in which allocations were made shall be returned to the State Controller's Office. Therefore, the finding and recommendation remains unchanged.

As noted in the above recommendation, the city should periodically review its TCRF expenditure requirements to ensure that compliance requirements relating to future allocations are met.

The city's unexpended TCRF allocations as of June 30, 2005, in the amount of \$42,227, must be returned to the State Controller's Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

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



CITY OF MENDOTA

www.ci.mendota.ca.us

October 12, 2006

Paul R. Criss, Chief
Financial-Related Audits Bureau
State Controller's Office
Division of Audits
PO Box 942850
Sacramento, CA 94250-5874

Dear Mr. Criss:

This letter is in response to the draft report of the City of Mendota's Gas Tax Fund dated September 15, 2006. The report identifies two findings: (1) apportionment recording error; (2) TCRF expenditure requirements were not met.

Respond to Finding 1 – the City has made the appropriate journal entry to record the transfer of \$5,244 from the General Fund into the Gas Tax Fund. Procedures are already in place to prevent this type of error from occurring in the future.

Respond to Finding 2 – the City is a financially disadvantaged community with limited resources for street maintenance and repairs. Due to staff turnover in the finance department, the city was unaware of the spending requirements. Present staff is knowledgeable of the state requirement and will ensure future TCRF allocations are expended within the required time period. City streets have been identified in which the TCRF allocation of \$42,227 can be expended. Thus, the City respectfully requests it be allowed to retain the unexpended TCRF allocation and interest.

If you have questions please call me at (559) 655-3291.

Respectfully yours,


Gabriel A. Gonzalez
City Manager

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

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