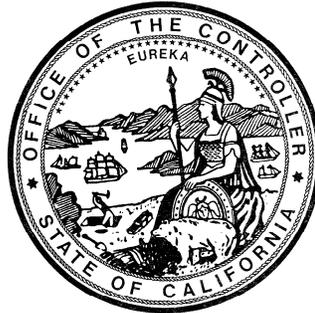


CITY OF BRADBURY

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006



JOHN CHIANG
California State Controller

January 2008



JOHN CHIANG
California State Controller

January 25, 2008

Jennifer Vasquez
City Manager
City of Bradbury
600 Winston Avenue
Bradbury, CA 91008

Dear Ms. Vasquez:

The State Controller's Office audited the City of Bradbury's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2006.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city understated the fund balance by \$1,316 (net adjustment) as of June 30, 2006. This net understatement resulted because the city did not record a \$1,842 check and overstated accounts receivable by \$3,406 and liabilities by \$2,880.

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/vb:wm

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
Findings and Recommendations	4

Audit Report

Summary

The State Controller's Office (SCO) audited the City of Bradbury's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2006.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city understated the fund balance by \$1,316 (net adjustment) as of June 30, 2006. This net understatement resulted because the city did not record a \$1,842 check and overstated accounts receivable by \$3,406 and overstating liabilities by \$2,880.

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 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 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 (TCRF) 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 Streets and Highways Code section 2182 for FY 2000-01 through FY 2002-03, and Revenue and Taxation Code section 7104 for fiscal years thereafter.

Objectives, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, Streets and Highways Code, and Revenue and Taxation code section 7104. 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 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 Special Gas Tax Street Improvement 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 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, 2005, through June 30, 2006, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required a net adjustment of \$1,316 to the city's accounting records. Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2000, through June 30, 2006.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on August 2, 1999, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on September 28, 2007. Claudia Saldana, City Clerk, responded by telephone on December 3, 2007, agreeing with the audit results.

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

January 25, 2008

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2005, through June 30, 2006**

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation ¹	TCRF Allocation ²	Totals
Beginning fund balance per city	\$ 89,655	\$ —	\$ 89,655
Revenues	<u>20,395</u>	<u>3,049</u>	<u>23,444</u>
Total funds available	110,050	3,049	113,099
Expenditures	<u>(45,355)</u>	<u>(4,240)</u>	<u>(49,595)</u>
Ending fund balance per city	<u>64,695</u>	<u>(1,191)</u>	<u>63,504</u>
Timing adjustment:			
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	<u>2,889</u>	<u>1,191</u>	<u>4,080</u>
Balance before SCO adjustments	<u>67,584</u>	<u>—</u>	<u>67,584</u>
SCO adjustments: ³		—	
Finding 1—Unrecorded check	1,842	—	1,842
Finding 2—Overstated accounts receivable	(3,406)	—	(3,406)
Finding 3—Overstated liabilities	<u>2,880</u>	<u>—</u>	<u>2,880</u>
Net adjustments	<u>1,316</u>	<u>—</u>	<u>1,316</u>
Ending fund balance per audit	<u><u>\$ 68,900</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 68,900</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 Special Gas Tax Street Improvement Fund. The audit period for TCRF allocations was July 1, 2000, through June 30, 2006.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unrecorded check

In fiscal year (FY) 2005-06, the city failed to properly record or account for a check in the amount of \$1,842. Failing to record this check resulted in the city understating by \$1,842 its Special Gas Tax Street Improvement Fund balance and total revenues.

Generally accepted accounting principles for governmental entities require that:

Revenues, including funds from other governmental units and the issuance of debt, should be recorded when they are susceptible to accrual. For revenue to be susceptible to accrual, it must be both measurable and available when it is collectible during the current period and the actual collection will occur either (1) during the current period or (2) after the end of the period but in time to pay current year-end liabilities (NCGA-1, paragraphs 62, 63, and 69).

As a recipient of state funds, the city assumes certain financial responsibilities, including a full and complete accounting and reporting of gas tax revenues, expenditures, and ending balances.

Recommendation

We recommend that the city reimburse the Special Gas Tax Street Improvement Fund \$1,842.

City's Response

The city agrees with the finding and will make the adjustment.

FINDING 2— Overstated accounts receivable

The city recorded its gas tax revenue as accounts receivable and the revenue was reflected in the fund balance for FY 2002-03 and FY 2003-04 in the amounts of \$1,711 and \$1,694, respectively. Upon receipt of these funds, the city failed to reverse the accounts receivable and to adjust the fund balance accordingly. Therefore, the accounts receivable and fund balance were overstated by \$3,406.

The city did not adhere to the generally accepted accounting principles for governmental entities, as it failed to properly record and account for its gas tax revenues. As a recipient of state funds, the city assumes certain financial responsibilities, including a full and complete accounting and reporting of gas tax revenues, expenditures, and ending balances.

Recommendation

We recommend that the city make the necessary adjustments to its accounting records for the overstatement of accounts receivable and fund balance in the amount of \$3,406.

City's Response

The city agrees with the finding and will make the adjustment.

**FINDING 3—
Overstated liabilities**

The city recorded, as deferred revenue, the FY 2004-05 gas tax revenues received on August 20, 2006. As a result, the FY 2005-06 fund balance was understated and the FY 2005-06 liabilities were overstated by \$2,880.

The city did not adhere to the generally accepted accounting principles for governmental entities, as it failed to properly record and account for its gas tax revenues. As a recipient of state funds, the city assumes certain financial responsibilities, including a full and complete accounting and reporting of gas tax revenues, expenditures, and ending balances.

Recommendation

We recommend that the city make the necessary adjustments to its accounting records for the overstatement of liabilities and understatement of fund balance in the amount of \$2,880.

City's Response

The city agrees with the finding and will make the adjustment.

**State Controller's Office
Division of Audits
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