

CITY OF HIDDEN HILLS

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2013

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2006, through June 30, 2011



BETTY T. YEE
California State Controller

January 2016



BETTY T. YEE
California State Controller

January 12, 2016

The Honorable Larry G. Weber
Mayor of the City of Hidden Hills
6165 Spring Valley Road
Hidden Hills, CA 91302

Dear Mayor Weber:

The State Controller's Office (SCO) audited the City of Hidden Hills's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2013. We also audited the Traffic Congestion Relief Fund (TCRF) allocations, recorded in the General Fund, for the period of July 1, 2006, through June 30, 2011.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, and TCRF allocations recorded in the General Fund, in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$3,733 as of June 30, 2013, because it charged non-street-related expenditures. In addition, our audit found that the city overstated the fund balance for the TCRF allocations recorded in the General Fund by \$59,240 as of June 30, 2013. The city overstated the fund balance by \$54,159 because it did not meet the Traffic Congestion Relief Fund expenditure requirement for four fiscal years, as required by Revenue and Taxation Code Section 7104, and the city did not return \$5,081 to the SCO as recommended in our prior audit report dated February 6, 2008.

If you have any questions, please contact Mike Spalj at (916) 324-6984.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/ljs

Attachment

cc: Cherie Paglia, City Manager
City of Hidden Hills

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	3
Follow-Up on Prior Audit Findings	3
Views of Responsible Officials.....	3
Restricted Use	3
Schedule 1—Reconciliation of Fund Balance	4
Findings and Recommendations.....	5

Audit Report

Summary

The State Controller's Office (SCO) audited the City of Hidden Hills's:

- Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2013; and
- Traffic Congestion Relief Fund (TCRF) allocations for the period of July 1, 2006, through June 30, 2013.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, and TCRF allocations recorded in the General Fund, in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$3,733 as of June 30, 2013, because it charged non-street-related expenditures.

Our audit also found that the city overstated the fund balance for the TCRF allocations recorded in the General Fund by \$59,240 as of June 30, 2013. The city overstated the fund balance because it did not meet the Traffic Congestion Relief Fund expenditure requirement for four fiscal years by \$54,159, as required by Revenue and Taxation Code Section 7104, and the city did not return \$5,081 to the SCO as recommended in our prior audit report dated February 6, 2008.

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.

Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 636, Statutes of 2000, (Senate Bill 1662) and 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 General 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 its Special Gas Tax Street Improvement Fund and TCRF allocations in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104.

To meet the audit objective, we performed the following procedures:

Special Gas Tax Street Improvement Fund

- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule to determine whether Highway Users Tax Account (HUTA) funds received by the city were completely accounted for.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine whether HUTA funds were expended in accordance with the criteria above.
- Analyzed and tested a sample of transactions to determine whether recoveries of prior HUTA fund expenditures were identified and credited to the Special Gas Tax Street Improvement Fund.
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures.
- Interviewed city employees and reviewed policies and procedures to gain an understanding of the city's internal controls and accounting systems related to this audit.

Traffic Congestion Relief Fund (TCRF) Allocations

- Reconciled the TCRF revenue recorded in the city ledger to confirm that the TCRF allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.
- Reconciled the city's "Schedule of Expenditures as Reported in the Streets and Roads Annual Report" with the SCO's "Average Annual Expenditures Computation of Discretionary Funds" to determine compliance with the maintenance-of-effort (MOE) requirement.

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 its Special Gas Tax Street Improvement Fund and TCRF allocations, recorded in the General Fund, in accordance with the requirements of the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street-related purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit found that the City of Hidden Hills 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, 2013, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding required an adjustment of \$3,733 to the city's accounting records.
- TCRF allocations, recorded in the General 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, 2006, through June 30, 2011 except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$54,159 to the city's accounting records.

Follow-Up on Prior Audit Findings

The city did not satisfactorily resolve a finding noted in our prior audit report, issued on February 6, 2008. This finding requires an adjustment of \$5,081 to the city's accounting records.

Views of Responsible Officials

We issued a draft report on July 30, 2015. Randee Weinberger, Bookkeeper, responded by email on September 1, 2015, agreeing with the audit results.

Restricted Use

This report is intended for the information and use of the City of Hidden Hills's 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, CPA
Chief, Division of Audits

January 12, 2016

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2012, through June 30, 2013**

	Special Gas Tax Street Improvement Fund Highway Users Tax Allocations ¹	Traffic Congestion Relief Fund Allocations ²
Beginning fund balance per city	\$ 254,721	\$ 59,240
Revenues	<u>54,708</u>	<u>—</u>
Total funds available	309,429	59,240
Expenditures	<u>(3,722)</u>	<u>—</u>
Ending fund balance per city	<u>305,707</u>	<u>59,240</u>
Timing adjustments:		
Accruals – FY 2012-13 (Governmental Accounting Standards Board Statement No. 34)	<u>(2,824)</u>	<u>—</u>
SCO adjustments: ³		
Finding 1— Ineligible Expenditures	3,733	—
Finding 2—TCRF expenditure requirement not met		(54,159)
Finding 3—Prior audit exception not corrected		<u>(5,081)</u>
Total SCO adjustments	<u>3,733</u>	<u>(59,240)</u>
Ending fund balance per audit	<u>\$ 306,616</u>	<u>\$ —</u>

¹ The city receives apportionments from the State Highway Users Tax Account, pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments 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. The audit period was July 1, 2006, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

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 General Fund. The audit period was July 1, 2006, through June 30, 2011; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

³ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Ineligible expenditures**

In fiscal year (FY) 2009-10, the city charged the Gas Tax Fund \$3,733 for non-street-related costs relating to the slurry seal of a school parking lot.

Streets and Highways Code section 2101 specifies that gas tax funds be expended only for street-related purposes.

Recommendation

The city should transfer \$3,733 into the Gas Tax Fund and establish policies and procedures to ensure that the fund is charged only street-related expenditures.

City's Response

The city agreed with the finding and recommendation.

SCO's Comment

The city agreed with the finding and recommendation.

**FINDING 2—
TCRF expenditure
requirement not met**

The city did not meet the Traffic Congestion Relief Fund expenditure requirement for FY 2005-06, FY 2006-07, FY 2008-09, and FY 2009-10 as required by Revenue and Taxation Code section 7104, which states:

The allocation made under paragraph (4) or (5) of subdivision (c) shall be expended not later than the end of the fiscal year following the fiscal year in which the allocation was made, and any funds not expended within that period shall be returned to the Controller and shall be reallocated to the other cities and counties.

Recommendation

The city must return the unexpended TCRF allocations of \$54,159 to the State Controller's Office because it did not expend its allocations within the two-year requirement. Returned funds should be mailed to: State Controller's Office, Attention: Rhodora Bravo, P. O. Box 942850, Sacramento, CA 94250.

City's Response

The city agreed with the finding and recommendation.

SCO's Comment

The city agreed with the finding and recommendation.

**FINDING 3—
Prior audit exception
not corrected**

The city did not return \$5,081 to the State Controller's Office as recommended in our prior audit report dated February 6, 2008. The audit adjustment was for the unexpended TCRF allocation related to FY 2002-03. This finding also is based on Revenue and Taxation Code section 7104, as noted in Finding 2.

Recommendation

The city must refund the unexpended TCRF allocations, in the amount of \$5,081, to the State Controller's Office, Attention: Rhodora Bravo, P. O. Box 942850, Sacramento, CA 94250.

City's Response

The city agreed with the finding and recommendation.

SCO's Comment

The city agreed with the finding and recommendation.

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

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