

CITY OF ROSEVILLE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2013

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2007, through June 30, 2013

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2013



BETTY T. YEE
California State Controller

January 2016



BETTY T. YEE
California State Controller

January 29, 2016

The Honorable Carol Garcia
Mayor of the City of Roseville
311 Vernon Street
Roseville, CA 95678

Dear Mayor Garcia:

The State Controller's Office audited the City of Roseville's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013, and the Proposition 1B Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013.

Our audit found that although the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, the city understated the fund balance by \$4,767,477 as of June 30, 2013, because it improperly loaned funds from the Special Gas Tax Street Improvement Fund to the City's Redevelopment Agency.

If you have any questions, please contact Mike Spalj, Chief, Local Government Audits Bureau, by telephone at (916) 324-6984.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Monty Hanks, Finance Director
City of Roseville

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Audit Report

Summary

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

- Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013;
- Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013; and
- Proposition 1B Fund allocations recorded in the Special Gas Tax Street Improvement Fund, for the period of July 1, 2007, through June 30, 2013.

Our audit found that although the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, the city understated the fund balance by \$4,767,477 as of June 30, 2013, because it improperly loaned funds from the Special Gas Tax Street Improvement Fund to the city's Redevelopment Agency.

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 Special Gas Tax Street Improvement Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties shall be deposited into an account that is designated for the receipt of State funds allocated for streets and roads. The city recorded its Proposition 1B Fund allocations in the Special Gas Tax Street Improvement Fund. A city also is required to expend its allocations within four years following the end of the fiscal year in which the allocation was made and to expend the funds in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B Fund allocations under the authority of Government Code section 12410.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund, TCRF allocations, and Proposition 1B Fund allocations in compliance with Article XIX of the California Constitution, the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23.

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 sample 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.

Proposition 1B Fund Allocations

- Reconciled the Proposition 1B revenue recorded in the city ledger to confirm that the Proposition 1B Fund 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.

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 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 Roseville 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, 2007, through June 30, 2013, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$4,767,477 to the city's accounting records.
- TCRF allocations recorded in the Special Gas Tax Street Improvement 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, 2007, through June 30, 2013.

- Proposition 1B Fund allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2013.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on March 28, 2002, disclosed no findings.

Views of Responsible Officials

We issued a draft audit report on December 7, 2015. Monty Hanks, Finance Director, responded by letter dated December 16, 2015, 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 the City of Roseville'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 29, 2016

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

	Special Gas Tax Street Improvement Fund <u>Highway Users Tax Allocations</u> ^{1,2,3}
Beginning fund balance per city	\$12,227,457
Revenues	<u>6,989,847</u>
Total funds available	19,217,304
Expenditures	<u>(7,896,922)</u>
Ending fund balance per city	<u>11,320,382</u>
Timing adjustment:	
Accrual of June 2013 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	<u>238,974</u>
SCO adjustment: ⁴	
Finding—Ineligible Loan	<u>4,767,477</u>
Ending fund balance per audit	<u>\$16,326,833</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, 2007, 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 Special Gas Tax Street Improvement Fund. The audit period was July 1, 2007, through June 30, 2013. The city did not receive any TCRF revenues and did not incur any TCRF expenditures during FY 2012-13; therefore, it is not included in this schedule.

³ Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds for a variety of transportation priorities. The audit period was July 1, 2007, through June 30, 2013. The city did not receive any Proposition 1B revenues and did not incur any Proposition 1B expenditures during FY 2012-13; therefore, it is not included in this schedule.

⁴ See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Ineligible loan

The city improperly loaned \$3,900,000 from the Special Gas Tax Street Improvement Fund to the city's Redevelopment Agency (RDA) in 2002. As of June 30, 2013 the loan balance is still \$3,900,000 plus deferred interest of \$867,477. According to the Streets and Highways Code section 2101, the gas tax apportionments shall only be used for street-related purposes.

Streets and Highways Code, section 2101(a), specifies that Highway Users Tax apportionments may be used for mass transit expenditures only if in connection with the research, planning, construction, and improvement of exclusive public mass transit guideways.

As a result, the \$3,900,000 loan plus deferred interest of \$867,477, for a total amount of \$4,767,477, from the Special Gas Tax Street Improvement Fund to the RDA is ineligible because it is not a street-related activity.

Recommendation

The city should reimburse \$4,767,477 to the Special Gas Tax Street Improvement Fund and ensure that in the future, all costs incurred are for street-related purposes.

City's Response

The City of Roseville's Gas Tax Loan was initially set up to lend funds to the City's Redevelopment Agency (RDA) to construct improvements for a major roadway drainage and bridge project in the City's RDA flood area, called the Sunrise Ave Bridge Replacement & Levee – Oakridge Bypass Channel.

The project was eligible to be a Gas Tax project; however it was decided a loan to the RDA would eventually bring about reimbursement via tax increments to replenish the Gas Tax fund for future roadway use. The \$3,900,000 loan was set up in November 2002. At the time we verified with our outside auditors the ability to use Gas Tax monies as a loan for this particular project and we were told this was allowable.

In December 2011, all the state's redevelopment agencies were dissolved. In the next year, the City reconfigured the loan to the RDA's Successor Agency. This loan was included in the submission to the Department of Finance (DOF) via the Recognized Obligation Payment Schedule (ROPS). This loan has been approved by the DOF and will be paid back through an apportioned residual distribution of tax increments over the next several years. Attached is a copy of the ROPS submitted to the DOF, which includes this loan (item #8).

SCO's Comments

The city agreed with the audit finding

SCO will monitor the repayment plan to ensure the Special Gas Tax Street Improvement Fund is fully reimbursed.

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



December 16, 2015

State Controller's Office
Attn: Mike Spalj, Chief
Division of Audits
P. O. Box 942850
Sacramento, CA 94250

Re: City of Roseville Special Gas Tax Street Improvement Fund Audit (7/2007-6/2013)

Dear Mr. Spalj:

The City of Roseville's Gas Tax Loan was initially set up to lend funds to the City's Redevelopment Agency (RDA) to construct improvements for a major roadway drainage and bridge project in the City's RDA flood area, called the Sunrise Ave Bridge Replacement & Levee – Oakridge Bypass Channel.

This project was eligible to be a Gas Tax project; however it was decided a loan to the RDA would eventually bring about reimbursement via tax increments to replenish the Gas Tax fund for future roadway use. The \$3,900,000 loan was set up in November 2002. At the time we verified with our outside auditors the ability to use Gas Tax monies as a loan for this particular project and we were told this was allowable.

In December 2011, all of the state's redevelopment agencies were dissolved. In the next year, the City reconfigured the loan to the RDA's Successor Agency. This loan was included in the submission to the Department of Finance (DOF) via the Recognized Obligation Payment Schedule (ROPS). This loan has been approved by the DOF and will be paid back through an apportioned residual distribution of tax increments over the next several years. Attached is a copy of the ROPS submitted to the DOF, which includes this loan (item #8).

As per the audit's recommendations, the City's plan is to pay back this loan. Though as mentioned above, it will take several years to accomplish.

Sincerely,

A handwritten signature in blue ink that reads "Monty Hanks".

Monty Hanks
City of Roseville
Finance Director

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

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