

CITY OF RIDGECREST

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2008

TRAFFIC CONGESTION RELIEF FUND

July 1, 2001, through June 30, 2008



JOHN CHIANG
California State Controller

February 2010



JOHN CHIANG
California State Controller

February 5, 2010

The Honorable Steven Morgan
Mayor of the City of Ridgecrest
100 West California Avenue
Ridgecrest, CA 93555-4045

Dear Mayor Morgan:

The State Controller's Office audited the City of Ridgecrest's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2008. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2001, through June 30, 2008.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, except that the city overstated the fund balance in the Special Gas Tax Street Improvement Fund by \$86,014 as of June 30, 2008, because it incurred expenditures in excess of available funds, resulting in a negative \$75,619 fund balance, and because it did not make the \$10,395 prior audit adjustment for ineligible expenditures.

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

cc: W. Tyrell Staheli, Finance Director
City of Ridgecrest
Tess Sloan, Interim Director of Administrative Services
City of Ridgecrest

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Audit Report

Summary

The State Controller's Office audited the City of Ridgecrest's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2008. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2001, through June 30, 2008.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, except that the city overstated the fund balance in the Special Gas Tax Street Improvement Fund by \$86,014 as of June 30, 2008, because it incurred expenditures in excess of available funds, resulting in a negative \$75,619 fund balance, and because it did not make the \$10,395 prior audit adjustment for ineligible expenditures.

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.

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 Traffic Congestion Relief 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 the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund 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 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 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 the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. 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 of Ridgecrest 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, 2008, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of \$86,104 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, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2001, through June 30, 2008.

Follow-Up on Prior Audit Findings

The city did not resolve the finding from our prior audit report, issued on June 11, 1999. This finding is noted in the Findings and Recommendations section of this report.

Views of Responsible Officials

We issued a draft report on October 14, 2009. W. Tyrell Staheli, Finance Director, responded by letter dated October 26, 2009, stating that the city has resolved the prior audit finding and will take necessary steps to avoid the recurrence of a negative fund balance.

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

February 5, 2010

**Schedule 1—
Reconciliation of Fund Balances
July 1, 2007, through June 30, 2008**

| | Special Gas Tax Street Improvement Fund ¹ | Traffic Congestion Relief Fund ² |
|--|---|---|
| Beginning fund balance per city | \$ (60,320) | \$ 207,600 |
| Revenues | <u>469,256</u> | <u>465,571</u> |
| Total funds available | 408,936 | 673,171 |
| Expenditures | <u>(491,338)</u> | <u>(221,060)</u> |
| Ending fund balance per city | <u>(82,402)</u> | <u>452,111</u> |
| Timing adjustment: | | |
| Accrual of June 2008 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34) | <u>43,562</u> | <u>—</u> |
| SCO adjustments: ³ | | |
| Finding 1—Unsettled prior audit finding | 10,395 | — |
| Finding 2—Eliminate negative fund balance | <u>75,619</u> | <u>—</u> |
| Total SCO adjustments | <u>86,014</u> | <u>—</u> |
| Ending fund balance per audit | <u>\$ 47,174</u> | <u>\$ 452,111</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 Traffic Congestion Relief Fund. The audit period was July 1, 2001, through June 30, 2008.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Prior audit adjustment not recorded

The city did not transfer \$7,729 into the Special Gas Tax Street Improvement Fund as required in the SCO prior year audit report (issued June 11, 1999) for the fiscal year ended June 30, 1997.

The \$7,729 adjustment related to ineligible expenditures charged to the Special Gas Tax Street Improvement Fund for the construction of parking lot facilities. Streets and Highways Code section 2101 restricts the expenditures of the Special Gas Tax Street Improvement Fund to street-related costs.

Recommendation

The city should transfer \$7,729 and computed interest of \$2,666, for a total of \$10,395, into the Special Gas Tax Street Improvement Fund and establish procedures to ensure that the fund is charged only for street-related expenditures.

City's Response

In tracing back why the 1997 audit findings were not settled, the only thing we can find is that there were so much turnover in all the position levels in the City of Ridgecrest's Finance Department during that time the audit was conducted that the findings were not handed over to the new staff who take over the department and unfortunately none of those staff are currently employed by the City anymore. However, during the exit interview, we made sure that the findings were settled and have shown your auditor the adjusting journal entries we made for his verification.

SCO's Comment

The city made the required adjustment.

FINDING 2— Negative fund balance

On June 30, 2008, the city's Streets and Highways Code section 2107 funds had a negative fund balance of \$76,619. The negative balance resulted when the city inadvertently charged more street expenditures than available funds.

The practice of funding one fiscal year's activities with Highway Users Tax apportionments of the following fiscal year is in violation of Article 16, Section 18 of the California Constitution and contrary to established budgetary and accounting practice.

Recommendation

The city should transfer \$76,619 to the Special Gas Tax Street Improvement Fund, section 2107, to eliminate the negative balance. In the future, the city should ensure that expenditures of gas tax funds do not exceed available balances.

City's Response

As to the negative fund balance of \$75,619 for the fiscal year 2008 – this is the fiscal year when the State of California started the suspension of the HUT apportionments and with the slowing down of the economy which resulted in lower than expected projections of the City's general fund revenues which in turn adversely affected the ability of the general fund to cover this fund deficit for the year. However in fiscal year 2009, the City took all the necessary steps to avoid its recurrence and our financial statements for that year will show that.

SCO's Comment

The city implemented our recommendation in FY 2008-09.

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



CITY OF RIDGECREST

PHONE 760-499-5000
100 WEST CALIFORNIA AVENUE • RIDGECREST, CALIFORNIA 93555-4054

October 26, 2009

Steven Mar
Chief, Local Government Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Dear Mr. Mar:

We are in receipt of your letter regarding the audit of our Special Gas Tax Street Improvement Fund for the period of July 1, 2007 thru June 30, 2008.

In tracing back why the 1997 audit findings were not settled, the only thing we can find is that there were so much turnover in all the position levels in the City of Ridgecrest's Finance Department during that time the audit was conducted that the findings were not handed over to the new staff who take over the department and unfortunately none of those staff are currently employed by the City anymore. However, during the exit interview, we made sure that the findings were settled and have shown your auditor the adjusting journal entries we made for his verification.

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Yours truly,

W. Tyrell Staheli
Finance Director

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

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