

CITY OF HIDDEN HILLS

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2006



JOHN CHIANG
California State Controller

February 2008



JOHN CHIANG
California State Controller

February 6, 2008

Cherie Paglia
City Manager
City of Hidden Hills
6165 Spring Valley Road
Hidden Hills, CA 91302

Dear Ms. Paglia:

The State Controller's Office audited the City of Hidden Hills'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 (TCRF) allocations recorded in the Other Grant 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 and TCRF allocations recorded in the Other Grant Fund in compliance with requirements, except for our adjustment to the TCRF allocations. Our audit disclosed that the city understated the fund balance for its TCRF allocations recorded in the Other Grant Fund by a net adjustment of \$2,554 as of June 30, 2006. This overstatement resulted because the city did not record the October 14, 2005, TCRF allocations of \$2,527. Also, the city did not expend FY 2002-03 TCRF allocations of \$5,081 within the fiscal year following the fiscal year in which the allocations were received. In addition, we identified a procedural finding in this report.

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/sk

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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, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund allocations recorded in the Other Grant 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 and Traffic Congestion Relief Fund (TCRF) allocations recorded in the Other Grant Fund in compliance with requirements, except for our adjustment to the TCRF allocations. Our audit disclosed that the city understated the fund balance for its TCRF allocations recorded in the Other Grant Fund by a net adjustment of \$2,554 as of June 30, 2006. This overstatement resulted because the city did not record October 14, 2005, TCRF allocations of \$2,527. Also, the city did not expend FY 2002-03 TCRF allocations of \$5,081 within the fiscal year following the fiscal year in which the allocations were received. In addition, we identified a procedural finding in this report.

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 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 Other Grant Fund. We conducted our audit of the city's TCRF allocations under the authority of Streets and Highways Code sections 2182 and 2182.1 and 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 TCRF allocations recorded in the Other Grant 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 and the TCRF allocations recorded in the Other Grant Fund in accordance with the requirements of Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation 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. Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Other Grant 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, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required a net adjustment of \$2,554 to the city's accounting records. In addition, the city must return \$5,081 to the State Controller's Office.

**Follow-Up on Prior
Audit Findings**

Our prior audit report, issued on July 9, 1999, disclosed no findings.

**Views of
Responsible
Officials**

We issued a draft audit report on October 24, 2007. Randee Winberger, Bookkeeper, 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

February 6, 2008

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

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund Allocation ²
Beginning fund balance per city	\$ 63,011	\$ —
Revenues	42,139	4,007
Total funds available	105,150	4,007
Expenditures	(2,591)	—
Ending fund balance per city	102,559	4,007
Timing adjustment:		
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	4,591	2,552
SCO adjustments: ³		
Finding 1—Unrecorded TCRF allocations	—	2,527
Finding 2—TCRF expenditure requirement not met	—	(5,081)
Net SCO adjustments	—	(2,554)
Ending fund balance per audit	\$ 107,150	\$ 4,005

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 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 Other Grant Fund. The audit period for the TCRF allocations was July 1, 2000, through June 30, 2006.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unrecorded TCRF allocations

The city did not record the Traffic Congestion Relief Fund (TCRF) allocations for October 14, 2005, in the amount of \$2,527 in the general ledger report. Revenue and Taxation Code section 7104 requires that these funds be recorded in a city account that is designated for the receipt of state funds allocated for transportation purposes.

Recommendation

The city must record the TCRF allocations of \$2,527 in the general ledger report in a city account that is designated for the receipt of state funds allocated for transportation purposes.

City's Response

The city agreed with the finding and will return these funds in a city account that is designated for the receipt of state funds allocated for transportation purposes.

FINDING 2— TCRF expenditure requirement not met

The city did not expend its fiscal year (FY) 2002-03 TCRF allocations within the fiscal year following the fiscal year in which the allocations were made, as required by Streets and Highways Code section 2182. The unexpended allocations subject to the spending requirement total \$5,081 as of June 30, 2006.

Streets and Highways Code section 2182 further states, “. . . any funds not expended within that period shall be returned to the Controller.”

Recommendation

The city must refund the unexpended TCRF allocations, in the amount of \$5,081, 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 agreed with the finding and will return the funds to the SCO.

**FINDING 3—
Procedural finding**

The city records its TCRF allocations and expenditures in the Other Grant Fund, a non-transportation type fund not designated for state funds.

Revenue and Taxation Code section 7104 states that funds received under this section shall be deposited as follows to avoid commingling of those funds with other local funds:

- (1) In the case of a city, into the city account that is designated for the receipt of state funds allocated for transportation purposes.

Recommendation

The city should transfer the existing TCRF allocations balance from the Other Grant Fund and record future TCRF allocations into a fund designated for the receipt of state funds for transportation purposes, such as the city's Special Gas Tax Street Improvement Fund.

City's Response

The city agreed with the finding and will establish a fund designated for the receipt of state funds for transportation purposes. The city's existing TCRF allocation balance and future TCRF allocations will be recorded to this fund.

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

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