

# **CITY OF PARAMOUNT**

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 29, 2008

Peggy Lemons, Mayor  
City of Paramount  
16400 Colorado Avenue  
Paramount, CA 90723-5012

Dear Ms. Lemons:

The State Controller's Office audited the City of Paramount's Special Gas Tax Street Improvement 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 Grants 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 Grants Fund in compliance with requirements, and that no adjustments to the funds are required. However, we identified a procedural finding. The procedural finding resulted because the city recorded its TCRF allocations and expenditures in a non-transportation type fund (Other Grants Fund) not designated for state funds allocated for transportation purposes.

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

cc: Karina Lam  
Finance Director  
City of Paramount

# Contents

## Audit Report

<b>Summary</b> .....	1
<b>Background</b> .....	1
<b>Objective, Scope, and Methodology</b> .....	1
<b>Conclusion</b> .....	2
<b>Follow-Up on Prior Audit Findings</b> .....	2
<b>Views of Responsible Official</b> .....	2
<b>Restricted Use</b> .....	2
<b>Schedule 1—Reconciliation of Fund Balance</b> .....	3
<b>Finding and Recommendation</b> .....	4

# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Paramount'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 Grants 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 Grants Fund in compliance with requirements, and that no adjustments to the funds are required. However, we identified a procedural finding. The procedural finding resulted because the city recorded its TCRF allocations and expenditures in a non-transportation type fund (Other Grants Fund) not designated for state funds allocated for transportation purposes.

## 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 Grants 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 TCRF allocations recorded in the Other Grants 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 TCRF allocations recorded in the Other Grants 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 Paramount 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 Traffic Congestion Relief Fund allocations recorded in the Other Grants Fund in compliance with Article XIX of the California Constitution, Streets and Highways Code, and Revenue and Taxation Code for the period of July 1, 2000, through June 30, 2006, except as noted in the Finding and Recommendation section of this report.

## **Follow-Up on Prior Audit Findings**

Our prior audit report, issued on July 28, 1999, disclosed no findings.

## **Views of Responsible Official**

We issued a draft audit report on October 17, 2007. Karina Lam, Finance Director, 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 29, 2008

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

	Special Gas Tax Street Improvement Fund <sup>1</sup>	Traffic Congestion Relief Fund Allocations <sup>2</sup>
Beginning fund balance per city	\$ 255,872	\$ 1,930
Revenues	<u>1,046,529</u>	<u>259,188</u>
Total funds available	1,302,401	261,118
Expenditures	<u>(1,282,676)</u>	<u>(246,931)</u>
Ending fund balance per city	19,725	14,187
Total SCO adjustments	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 19,725</u>	<u>\$ 14,187</u>

<sup>1</sup> 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.

<sup>2</sup> 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 Other Grants Fund, and were audited for the period of July 1, 2000, through June 30, 2006.

# Finding and Recommendation

**FINDING—  
TCRF not recorded  
properly**

The city records its Traffic Congestion Relief Fund (TCRF) allocations and expenditures in the Other Grants Fund, a non-transportation type fund that is not specifically designated for the receipt of state funds allocated for transportation purposes.

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 stating, “(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 balance from the Other Grants Fund to, and record future TCRF allocations in, 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 agrees with the finding and will implement our recommendation.

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

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