

CITY OF SELMA

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006

AND TRAFFIC CONGESTION RELIEF FUND

July 1, 2000, through June 30, 2006



JOHN CHIANG
California State Controller

February 2008



JOHN CHIANG
California State Controller

February 27, 2008

Judy Bier
Finance Director
City of Selma
1710 Tucker Street
Selma, CA 93662

Dear Ms. Bier:

The State Controller's Office audited the City of Selma'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 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 in compliance with requirements, and that no adjustments to the fund is required. Our audit also disclosed that the city accounted for and expended its Traffic Congestion Relief Fund in compliance with requirements, except that the city overstated the fund balance by \$97,074 as of June 30, 2006. This overstatement occurred because the city did not meet its maintenance-of-effort expenditure requirements and the fund had a deficit fund balance.

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/jj:wm:vb

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Selma'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 for the period of July 1, 2000, through June 30, 2006.

Our audit also disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required. Also, our audit disclosed that the city overstated the fund balance in the Traffic Congestion Relief Fund by a net of \$97,074 as of June 30, 2006. This overstatement occurred because the city did not meet its maintenance-of-effort expenditure requirement by \$109,390 and the fund had a deficit fund balance of \$12,316.

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 the 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. The TCRF allocations were recorded 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, the 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 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 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 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, 2000, through June 30, 2006, except as noted in Schedule 1 and described in the findings and Recommendations section of this report. The findings require that the city return \$109,390 to the State Controller, and transfer \$12,316 to the Traffic Congestion Relief Fund to eliminate the deficit fund balance.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on January 2001, disclosed no findings.

Views of Responsible Official

We discussed the audit results with city representatives during an exit conference on June 12, 2007. Judy Bier, Finance Director, agreed with the audit results. Ms. Bier further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

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 27, 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 ²
Beginning fund balance per city	\$ —	\$ —
Revenues	<u>403,168</u>	<u>183,662</u>
Total funds available	403,168	183,662
Expenditures	<u>(402,916)</u>	<u>(115,300)</u>
Ending fund balance per city	<u>252</u>	<u>68,362</u>
Timing adjustment:		
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	<u>1,106</u>	<u>28,712</u>
SCO adjustments: ³		
Finding 1—TCRF maintenance-of-effort requirement not met	—	(109,390)
Finding 2—Deficit fund balance	<u>—</u>	<u>12,316</u>
Total SCO adjustments	<u>—</u>	<u>(97,074)</u>
Ending fund balance per audit	<u>\$ 1,358</u>	<u>\$ —</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 the 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, 2000, through June 30, 2006.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— TCRF maintenance- of-effort requirement not met

The city did not meet the Traffic Congestion Relief Fund (TCRF) maintenance-of-effort (MOE) requirement as described in Streets and Highways Code section 2182.1(b) in fiscal year (FY) 2001-02 and FY 2002-03. The city's MOE requirement was \$667,387. The actual city expenditures (discretionary) were \$476,681 in FY 2001-02 and \$584,224 in FY 2002-03, resulting in shortfalls of \$190,706 and \$83,163, respectively.

Streets and Highways Code section 2181.1(b) states, "In order to receive any allocation pursuant to Section 2182, the city or county shall annually expend from its general fund for street, road, and highway purposes an amount not less than the annual average of its expenditures from its general fund during the 1996-97, 1997-98, and 1998-99 fiscal years, as reported to the Controller pursuant to Section 2151."

Further, Streets and Highways Code section 2182.1(e) states, "Any city or county that has not complied with subdivision (b) shall reimburse the State for the funds it received during that fiscal year."

The city's TCRF allocations and related interest earned totaled \$109,390 (\$52,236 in FY 2001-02 and \$57,151 in FY 2002-03).

Recommendation

The city should return \$109,390 in total TCRF apportionments and related interest to the State Controller's Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

Additionally, the city should review all future Traffic Congestion Relief Fund expenditure levels to ensure compliances with program requirements.

City's Response

Judy Bier, Finance Director, agreed with the SCO audit finding and implemented our recommendation by returning \$109,390 to the State Controller's Office.

**FINDING 2—
Deficit fund balance**

The city's fund balance in the Traffic Congestion Relief Fund was a deficit \$12,316 as of June 30, 2006.

Pursuant to Government Code section 12440, warrants may only be drawn from an unexhausted specific appropriation provided by law. As the city's Traffic Congestion Relief Fund was exhausted, no funds were available in the fund to meet those warrants.

Recommendation

The city should eliminate the deficit fund balance in the Traffic Congestion Relief Fund by transferring \$12,316 into this fund. Also, the city should adopt a balanced budget that limits expenditures to the amount of funds available.

City's Response

The city agreed with our recommendation and eliminated the deficit fund balance. This was accomplished by transferring \$12,316 from the General Fund into the Traffic Congestion Relief Fund on June 6, 2007, through journal entry #427547.

**State Controller's Office
Division of Audits
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