

CITY OF HAWAIIAN GARDENS

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2007

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2007



JOHN CHIANG
California State Controller

February 2009



JOHN CHIANG
California State Controller

February 6, 2009

The Honorable Michael Gomez
Mayor of the City of Hawaiian Gardens
21815 Pioneer Boulevard
Hawaiian Gardens, CA 90716

Dear Mayor Gomez:

The State Controller's Office audited the City of Hawaiian Gardens' Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. 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, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that it understated the fund balance by \$104,355 as of June 30, 2007. The city understated the fund balance because:

- Gas tax expenditures exceeded the available fund balance by \$84,588;
- Ineligible gas tax expenditures totaled \$16,134; and
- Unsupported gas tax salaries and benefits totaled \$3,633.

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

cc: David Sung, Finance Director
City of Hawaiian Gardens

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Hawaiian Gardens' Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. 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, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city understated the fund balance by \$104,355 as of June 30, 2007. The city understated the fund balance because:

- Gas tax expenditures exceeded the available fund balance by \$84,588;
- Ineligible gas tax expenditures totaled \$16,134; and
- Unsupported gas tax salaries and benefits totaled \$3,633.

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 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.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended 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. 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;
- 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 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 Hawaiian Gardens 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, 2006, through June 30, 2007, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$104,355 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its 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, 2000, through June 30, 2007.

Follow-Up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report, issued on December 28, 2001.

**Views of
Responsible
Official**

We issued a draft audit report on October 20, 2008. David D. Sung, Finance Director, responded by letter dated December 3, 2008, agreeing with the audit results with the exception of Findings 1 and 2. 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 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, 2009

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2006, through June 30, 2007**

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation ¹	TCRF Allocation ²	Totals
Beginning fund balance per city	\$ —	\$ —	\$ —
Revenues	331,413	135,683	467,096
Total funds available	331,413	135,683	467,096
Expenditures	(465,001)	—	(465,001)
Ending fund balance per city	(133,588)	135,683	2,095
Timing adjustment:			
Accrual of June 2007 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	29,233	—	29,233
SCO adjustments: ³			
Finding 3—Gas Tax expenditures exceeding available balance	84,588	—	84,588
Finding 4—Ineligible Gas Tax expenditures	16,134	—	16,134
Finding 5—Unsupported Gas Tax salaries and benefits	3,633	—	3,633
Total SCO adjustments	104,355	—	104,355
Ending fund balance per audit	\$ —	\$ 135,683	\$ 135,683

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 Special Gas Tax Street Improvement Fund. The audit period was July 1, 2000, through June 30, 2007.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Maintenance-of-effort requirement not met

The city was not eligible to receive Traffic Congestion Relief Fund (TCRF) apportionments of \$108,378, \$38,037, and \$39,665 (a total of \$186,080), for fiscal year (FY) 2000-01, FY 2001-02, and FY 2002-03, respectively, because it did not meet the maintenance-of-effort (MOE) requirement set forth in Streets and Highways Code section 2182.1(b).

Streets and Highways Code Section 2182.1(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.

Recommendation

The city must return \$186,080 in unearned TCRF apportionments to the State Controller's Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

In addition, the city should review future discretionary expenditure levels to ensure compliance with program requirements.

City's Response

... we do not agree with the finding that the City was not eligible to receive TCRF apportionments totaling \$186,080. for fiscal year 2001-02 through FY 2002-03 because the City did not meet the maintenance-of-effort requirement. I have the following facts to prove that we have met the maintenance-of-effort requirement.

Our audited financial report shows that The Gas Tax Fund Revenue in 2001-02 is \$261,158, our annual Highway and Street expenditures are \$592,180. The audit report shows the excessive street expenditures are \$291,873. The City's General Fund transferred funds to cover the deficiency. Our audited financial report in 2002-03 shows that the Gas Tax Fund Revenue is \$284,845, our annual Highway and Street expenditures are \$384,599. The excessive street expenditures in 2002-03 are \$69,896. The City's General Fund transferred funds to cover the deficits too. The combined excessive street expenditure of the two years are \$354,741. The average excessive highway and street expenditures are \$177,370.50 per year. We definitely meet the maintenance-of-effort requirement. Please kindly remove the finding and waive the requirement to return the \$186,080 to SCO.

SCO's Comment

After reviewing the city's response to our draft report and additional documentation provided by the city, we concluded that Annual Street Report reporting errors were made by the city. The documentation provided by the city substantiates its claim that the city did meet the maintenance-of-effort requirement during these fiscal years. The city is in compliance with Streets and Highways Code sections 2182 and Revenue and Taxation Code section 7104. The finding is reversed.

**FINDING 2—
Unallowable
expenditures**

The city did not meet its maintenance-of-effort requirement in FY 2000-01 through FY 2002-03, as noted in Finding 1. Consequently, these funds, totaling \$186,080, were ineligible for expenditure.

Recommendation

The city must reimburse the TCRF allocations totaling \$186,080 to eliminate the ineligible expenditures.

City's Response

See the city's response to Finding 1.

SCO's Comment

The city's response to Finding 1 and the additional information provided makes the expenditures eligible. The finding is reversed.

**FINDING 3—
Gas tax expenditures
exceeding available
fund balance**

Adjusted gas tax fund expenditures for the period of July 1, 2006, through June 30, 2007, exceeded the balance of available gas tax funds, as adjusted for other audit findings, by \$84,588.

Allowing these expenditures would result in a deficit fund balance. By definition, each fund is a separate fiscal and accounting entity with a self-balancing set of accounts. A fund with a deficit fund balance would be insolvent. In addition, encumbering future highway apportionments to finance current and prior year expenditures is contrary to generally accepted accounting principles (GAAP).

Recommendation

The city must replenish the state gas tax fund's cash and fund balance accounts by \$84,588.

City's Response

The City agrees with the finding and will make the necessary adjustment.

**FINDING 4—
Ineligible gas tax
expenditures**

The city's recorded state gas tax fund expenditures for the period of July 1, 2006 through June 30, 2007, include \$16,134 in non-street-purpose materials and services. Disallowed costs are as summarized below:

<u>Description</u>	<u>Amount</u>
Industrial waste and sewer work	\$ 11,741
Landscaping off the right-of-way	1,442
Ambulance repairs	240
Services and supplies off the right-of-way	<u>2,711</u>
Total	<u>\$ 16,134</u>

Streets and Highways Code section 2151 restricts the use of highway users tax apportionments to street-purpose engineering, administration, construction, maintenance, and fixed-asset acquisitions. The repairs cited by the city do not represent street-purpose expenditures.

Recommendation

The city must replenish the state gas tax fund's cash and fund balance accounts by \$16,134.

City's Response

The City agrees with the finding and will make the necessary adjustment.

**FINDING 5—
Unsupported gas tax
salaries and benefits**

The city's recorded state gas tax fund expenditures for the period of July 1, 2006, through June 30, 2007, include \$3,633 in unsupported salaries and benefits. The gas tax fund portion of December 2006 vacation/comp time "cash-out" payments to four employees was not equitable. Employee hours are typically distributed among various departments, based upon predetermined percentages programmed in the payroll system; the "cash-out" payments were not distributed in this manner.

The city has assigned percentages for the distribution of payroll costs associated with the four employees in question. In the interest of equity, the vacation/ comp time "cash-out" payments should be distributed using the same method.

Recommendation

The city must replenish the state gas tax fund's cash and fund balance accounts by \$3,633.

City's Response

The City agrees with the finding and will make the necessary adjustment.

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



"Our Youth - Our Future"

CITY OF HAWAIIAN GARDENS

December 3, 2008

Steven Mar, Chief, Local Government Audits Bureau
State Controllers Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Mar:

I would like to comment on the audit findings of the Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007 and the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000 through June 30, 2007.

We accept the finding of the understated fund balance of \$104,355. We will transfer funds from General Fund to the Gas Tax Fund in 2009-10 fiscal year to cover the underfunded balance. However, we do not agree with the finding that the City was not eligible to receive TCRF apportionments totaling \$186,080. for fiscal year 2001-02 through FY 2002-03 because the City did not meet the maintenance-of-effort requirement. I have the following facts to prove that we have met the maintenance-of-effort requirement.

Our audited financial report shows that The Gas Tax Fund Revenue in 2001-02 is \$261,158, our annual Highway and Street expenditures are \$592,180. The audit report shows the excessive street expenditures are \$291,873. The City's General Fund transferred funds to cover the deficiency. Our audited financial report in 2002-03 shows that The Gas Tax Fund Revenue is \$284,845, our annual Highway and Street expenditures are \$384,599. The excessive street expenditures in 2002-03 are \$69,896. The City's General Fund transferred funds to cover the deficits too. The combined excessive street expenditure of the two years are \$354,741. The average excessive highway and street expenditures are \$177,370.50 per year. We definitely meet the maintenance-of-effort requirement. Please kindly remove the finding and waive the requirement to return the \$186,080 to SCO.

Regards,

David D. Sung, Finance Director

c.c. E. Marquez

C.c. Larry Alexander

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

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