

# **CITY OF VISALIA**

Audit Report

## **SPECIAL GAS TAX STREET IMPROVEMENT FUND**

*July 1, 2001, through June 30, 2012*

## **TRAFFIC CONGESTION RELIEF FUND**

*July 1, 2001, through June 30, 2012*

## **PROPOSITION 1B FUND**

*July 1, 2007, through June 30, 2012*



**JOHN CHIANG**  
California State Controller

February 2013



**JOHN CHIANG**  
**California State Controller**

February 13, 2013

The Honorable Amy Shuklian  
Mayor of the City of Visalia  
425 East Oak Avenue  
Visalia, CA 93291

Dear Mayor Shuklian:

The State Controller's Office audited the City of Visalia's Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program allocations—for the period of July 1, 2001, through June 30, 2012. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2001, through June 30, 2012, and the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2012.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program allocations—and Traffic Congestion Relief Fund and the Proposition 1B Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$182,020 as of June 30, 2012, because it made an ineligible transfer to the Measure R Fund to offset prior year 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/bf

cc: Eric Frost, Finance Director  
City of Visalia  
Steven Mar, Bureau Chief  
Division of Audits, State Controller's Office  
Mike Spalj, Audit Manager  
Division of Audits, State Controller's Office

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# Audit Report

## Summary

The State Controller's Office audited the City of Visalia's Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program—for the period of July 1, 2001, through June 30, 2012. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2001, through June 30, 2012, and the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2012.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program allocations—Traffic Congestion Relief Fund and the Proposition 1B Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$182,020 as of June 30, 2012, because it made an ineligible transfer to Measure R Fund to offset prior year 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.

The Surface Transportation Program is part of a federal program designed to increase flexibility in federal funding for transportation purposes by shifting the funding responsibility to state and local agencies. The funds are restricted to expenditures made in compliance with Article XIX of the California Constitution and the Streets and Highways Code. The California Department of Transportation (Caltrans) requested that we audit these expenditures to ensure the city's compliance.

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.

Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties shall be deposited into an account that is designated for the receipt of state funds allocated for streets and roads. The city recorded its Proposition 1B allocations in the Proposition 1B Fund. A city also is required to expend its allocations within three years following the end of the fiscal year in which the allocation was made and to expend the allocations in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B allocations under the authority of Government Code section 12410.

### **Objective, Scope, and Methodology**

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund, the Traffic Congestion Relief Fund, and the Proposition 1B 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;
- Expended Proposition 1B funds in compliance with Government Code section 8879.23; 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, the Traffic Congestion Relief Fund, and the Proposition 1B 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 found that the City of Visalia accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program allocations—in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2001, through June 30, 2012, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$182,020 to the city’s accounting records.

Our audit also found 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, 2012.

In addition, our audit disclosed that the city accounted for and expended its Proposition 1B Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2012.

**Follow-Up on Prior Audit Findings**

Our prior audit report, issued on September 30, 2002, disclosed no findings.

**Views of Responsible Officials**

We discussed the audit results with city representatives during an exit conference on December 20, 2012. Renee Nagel, Assistant Finance Director; Chris Tavarez, Analyst; Ruth Pena, Financial Analyst; and Adam Ennis, Public Works Director, agreed with the audit results. Mr. Nagel 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 the City of Visalia’s 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 13, 2013

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2011, through June 30, 2012**

	<u>Special Gas Tax Street Improvement Fund</u>			Traffic Congestion Relief Fund <sup>3</sup>	Proposition 1B Fund <sup>4</sup>
	Highway Users Tax Allocation <sup>1</sup>	Surface Transportation Program Allocation <sup>2</sup>	Totals		
Beginning fund balance per city	\$ 7,247,069	\$ —	\$ 7,247,069	\$ —	\$ —
Revenues	<u>3,649,829</u>	<u>1,117,625</u>	<u>4,767,454</u>	—	—
Total funds available	10,896,898	1,117,625	12,014,523	—	—
Expenditures	<u>( 1,210,461)</u>	<u>(1,117,625)</u>	<u>(2,328,086)</u>	—	—
Ending fund balance per city	<u>9,686,437</u>	—	<u>9,686,437</u>	—	—
SCO adjustment: <sup>5</sup>					
Finding 1—Ineligible Transfer	<u>182,020</u>	—	<u>182,020</u>	—	—
Ending fund balance per audit	<u>\$ 9,868,457</u>	<u>\$ —</u>	<u>\$ 9,868,457</u>	<u>\$ —</u>	<u>\$ —</u>

<sup>1</sup> The city receives apportionments from the State highway users tax account, pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments 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. The audit period was July 1, 2001, through June 30, 2012; however, this schedule includes only the period of July 1, 2011, through June 30, 2012.

<sup>2</sup> The city received Surface Transportation Program funds, pursuant to Streets and Highways Code section 182.6. These funds were apportioned to the city by the regional transportation planning agency to be used for transportation projects.

<sup>3</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 Special Gas Tax Street Improvement Fund. The audit period was July 1, 2001, through June 30, 2012.

<sup>4</sup> Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds for a variety of transportation priorities. The audit period was July 1, 2007, through June 30, 2012.

<sup>5</sup> See the Finding and Recommendation section.

# Finding and Recommendation

**FINDING—  
Unallowed prior year  
expenditures**

During fiscal year (FY) 2011-12, the city transferred \$182,020 from the Gas Tax Fund to the Measure R Fund for a construction project that was completed in FY 2007-08. These prior-period project costs transferred to the Gas Tax Fund are unallowable because the costs were not expended from the Gas Tax Fund during the current period.

Recommendation

The city should reimburse \$182,020 to the Gas Tax fund. In addition, the city should establish procedures to ensure that only current year expenditures are charged to the Gas tax Fund.

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