

# **CITY OF BEVERLY HILLS**

Audit Report

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

*July 1, 2007, through June 30, 2013*

## **TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS**

*July 1, 2007, through June 30, 2011*

## **PROPOSITION 1B ALLOCATIONS**

*July 1, 2007, through June 30, 2013*



**BETTY T. YEE**  
California State Controller

February 2015



**BETTY T. YEE**  
California State Controller

February 25, 2015

The Honorable Lili Bosse  
Mayor of the City of Beverly Hills  
455 North Rexford Drive  
Beverly Hills, CA 90210

Dear Mayor Bosse:

The State Controller's Office audited the City of Beverly Hills' Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2011, and the Proposition 1B allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013.

Our audit found 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 \$51,696 as of June 30, 2013. The city understated the fund balance because it inadvertently deposited the November 2007 Highway Users Tax apportionment totaling \$51,696 into the General Fund. Streets and Highways Code section 2113 states that all money in the Highway Users Tax account must be deposited into the Gas Tax Fund.

If you have any questions, please contact Mike Spalj, Chief, Local Government Audits Bureau, by phone at (916) 324-6984.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/kw

cc: Don Rhoads, Chief Financial Officer  
City of Beverly Hills

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# Audit Report

## Summary

The State Controller's Office audited the City of Beverly Hills' Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013. 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, 2007, through June 30, 2011, and the Proposition 1B allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013.

Our audit found 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 \$51,696 as of June 30, 2013. The city understated the fund balance because it inadvertently deposited the November 2007 Highway Users Tax apportionment totaling \$51,696 into the General Fund. Streets and Highways Code section 2113 states that all money in the Highway Users Tax account must be deposited into the Gas Tax Fund.

## 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.

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 street and roads. The city recorded its

Proposition 1B allocations in the Special Gas Tax Street Improvement Fund. A city also is required to expend its allocations within four years following the end of the fiscal year which the allocation was made and to be expended 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, Traffic Congestion Relief Fund allocations, and Proposition 1B allocations in compliance with Article XIX of the California Constitution Government Code section 8879.23 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;
- 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 found that the City of Beverly Hills accounted for and expended its Special Gas Tax Street Improvement Fund, TCRF allocations, and Proposition 1B allocations in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2007, through June 30, 2013, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$51,696 to the city's accounting records.

Our audit also found 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, 2007, through June 30, 2011.

Furthermore, the audit disclosed that the city accounted for and expended its Proposition 1B allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Government Code section 8879.23 for the period off July 1, 2007 through June 30, 2013.

**Follow-Up on Prior  
Audit Findings**

Our prior audit report, issued on October 17, 2008, disclosed no findings.

**Views of  
Responsible  
Officials**

We issued a draft audit report on October 28, 2014, Don Rhoads, CPA, Chief Financial Officer, responded by letter dated November 14, 2014, agreeing with the audit results. 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 the City of Beverly Hills' 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, CPA  
Chief, Division of Audits

February 25, 2015

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2012, through June 30, 2013**

	Special Gas Tax Street Improvement Fund <u>Highway Users Tax Allocations<sup>1, 2, 3</sup></u>
Beginning fund balance per city	\$ 2,176,560
Revenues	<u>640,196</u>
Total funds available	2,816,756
Expenditures	<u>(428,756)</u>
Ending fund balance per city	<u>2,388,00</u>
Timing adjustment:	
Accrual of June 2013 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	<u>72,676</u>
SCO adjustment: <sup>4</sup>	
Finding 1—HUT apportionment	<u>51,696</u>
Total SCO adjustment	<u>51,696</u>
Ending fund balance per audit	<u>\$ 2,512,372</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, 2007, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

<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 Special Gas Tax Street Improvement Fund. The audit period was July 1, 2007, through June 30, 2011. The TCRF allocations were all spent by fiscal year 2010-11.

<sup>3</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, 2013. The Proposition 1B allocations were all spent by fiscal year 2010/11.

<sup>4</sup> See the Finding and Recommendation section.

# Finding and Recommendation

**FINDING 1—  
Highway Users Tax  
Apportionment**

The city inadvertently deposited the November 2007 Highway Users Tax apportionment totaling \$51,696 into the General Fund.

Streets and Highways Code section 2113 states that all money in the Highway Users Tax account must be deposited into the Gas Tax Fund.

Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund \$51,696.

City's Response

We agree with the audit finding and in order to correct it, we reimbursed the Special Gas Tax Street Improvement Fund by transferring the \$51,696 to the Fund from General Fund in Fiscal Year End June 30, 2014.

SCO's Comment

City agreed with the SCO's finding and recommendation.

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

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Don Rhoads, Director  
Administrative Services

November 14, 2014

Mr. Mike Spalj, Acting Chief  
Local Government Audits Bureau  
State Controller's Office, Division of Audits  
P.O. Box 942850  
Sacramento, California 95816

Re: City of Beverly Hills' Special Gas Tax Street Improvement Fund

Dear Mr. Spalj:

Please accept this letter as a reply to your audit finding on our Special Gas Tax Street Improvement Fund for inadvertently depositing the November 2007 Highway Users Tax apportionment totaling \$51,696 into the General Fund.

We agree with the audit finding and in order to correct it, we reimbursed the Special Gas Tax Street Improvement Fund by transferring the \$51,696 to the Fund from General Fund in Fiscal Year End June 30, 2014.

If you need further detail or have any questions, please let me know.

Best Regards,

Don Rhoads, CPA  
Chief Financial Officer

CC: Jeff Kolin, City Manager

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

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