

CITY OF SHAFTER

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2008, through June 30, 2009

TRAFFIC CONGESTION RELIEF FUND

July 1, 2002, through June 30, 2009



JOHN CHIANG
California State Controller

March 2011



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California State Controller

March 4, 2011

The Honorable Garry Nelson
Mayor of the City of Shafter
336 Pacific Avenue
Shafter, CA 93263

Dear Mayor Nelson:

The State Controller's Office audited the City of Shafter's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2009. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2002, through June 30, 2009.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, except the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$499,690 as of June 30, 2009 (cumulative). The city incurred expenditures in excess of available funds in each of the following fiscal years: fiscal year (FY) 2004-05 by \$230,003; FY 2005-06 by \$23,663; and FY 2006-07 by \$246,024.

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

cc: Jo Barrick, Administrative Services Director
City of Shafter
John D. Guinn, City Manager
City of Shafter
Michael James, Public Works Director
City of Shafter

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Audit Report

Summary

The State Controller's Office audited the City of Shafter's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2009. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2002, through June 30, 2009.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$499,690 as of June 30, 2009 (cumulative). The city incurred expenditures in excess of available funds in each of the following fiscal years: fiscal year (FY) 2004-05 by \$230,003; FY 2005-06 by \$23,663; and FY 2006-07 by \$246,024.

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 (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.

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 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; 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 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 of Shafter 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, 2008, through June 30, 2009, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$499,690 to the city's accounting records.

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, 2002, through June 30, 2009.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on September 24, 2003, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on August 25, 2010. On September 22, 2010, Sylvia Granillo, Accounting Manager, informed us by telephone that the city did not plan to respond.

Restricted Use

This report is intended for the information and use the City of Shafter 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

March 4, 2011

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2008, through June 30, 2009**

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ 331,830	\$ —
Revenues	728,525	132,480
Total funds available	1,060,355	132,480
Expenditures	(440,734)	(132,480)
Ending fund balance per city	619,621	—
SCO adjustment: ³		
Finding—Gas tax deficit fund balance	499,690	—
Ending fund balance per audit	\$ 1,119,311	\$ —

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 Traffic Congestion Relief Fund. The audit period was July 1, 2002, through June 30, 2009.

³ See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Gas tax fund balance

As of June 30, 2009, the city understated the fund balance in the State Gasoline Tax Fund by \$499,690. This total is a cumulative effect from the city incurring expenditures in excess of available funds in each of the following fiscal years: (FY) 2004-05 by \$230,003; FY 2005-06 by \$23,663; and FY 2006-07 by \$246,024. 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-year and prior-year expenditures is contrary to generally accepted accounting principles.

Recommendation

The city should reimburse the gas tax fund by \$499,690. In the future, the city should adopt a balanced budget that limits expenditures to the amount of funds available.

City's Response

The city did not respond to our draft audit report.

**State Controller's Office
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