

# **CITY OF TWENTYNINE PALMS**

Audit Report

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

*July 1, 2005, through June 30, 2014*

## **TRAFFIC CONGESTION RELIEF FUND**

*July 1, 2005, through June 30, 2014*

## **PROPOSITION 1B FUND ALLOCATIONS**

*July 1, 2007, through June 30, 2014*



**BETTY T. YEE**  
California State Controller

March 2016



**BETTY T. YEE**  
California State Controller

March 14, 2016

The Honorable Daniel Mintz  
Mayor of the City of Twentynine Palms  
City of Twentynine Palms  
6136 Adobe Road  
Twentynine Palms, CA 92277

Dear Mayor Mintz:

The State Controller's Office audited the City of Twentynine Palms' Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2014. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2005, through June 30, 2014, and the Proposition 1B Fund allocations recorded in the Traffic Congestion Relief Fund, for the period of July 1, 2007, through June 30, 2014.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B Fund allocations recorded in the Traffic Congestion Relief Fund, in compliance with requirements, except that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$5,924 as of June 30, 2014, because it failed to return the unexpended TCRF allocations to the State Controller's Office.

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits Bureau, by telephone at (916) 284-0120.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/ljs

Attachment

cc. Frank Luckino, City Manager  
City of Twentynine Palms

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Twentynine Palms':

- Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2014;
- Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2005, through June 30, 2014; and
- Proposition 1B Fund allocations recorded in the Traffic Congestion Relief Fund for the period of July 1, 2007, through June 30, 2014.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B Fund allocations recorded in the Traffic Congestion Relief Fund, in compliance with requirements, except that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$5,924 as of June 30, 2014 because it failed to return the unexpended TCRF allocations to the State Controller's Office.

## 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.

Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 636, Statutes of 2000, (Senate Bill 1662) and 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 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 Fund allocations in the Traffic Congestion Relief Fund. A city also is required to expend its allocations within four years following the end of the fiscal year in which the allocation was made and to expend the funds in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B Fund 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 its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B Fund allocations recorded in the Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23.

To meet the audit objective, we performed the following procedures:

### ***Special Gas Tax Street Improvement Fund***

- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule to determine whether Highway Users Tax Account (HUTA) funds received by the city were completely accounted for.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine whether HUTA funds were expended in accordance with the criteria above.
- Analyzed and tested sample transactions to determine whether recoveries of prior HUTA fund expenditures were identified and credited to the Special Gas Tax Street Improvement Fund.
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures.
- Interviewed city employees and reviewed policies and procedures to gain an understanding of the city's internal controls and accounting systems related to this audit.

### ***Traffic Congestion Relief Fund (TCRF)***

- Reconciled the TCRF revenue recorded in the city ledger to confirm that the TCRF allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.

- Reconciled the city’s “Schedule of Expenditures as Reported in the Streets and Roads Annual Report” with the SCO’s “Average Annual Expenditures Computation of Discretionary Funds” to determine compliance with the maintenance-of-effort (MOE) requirement.

#### ***Proposition 1B Fund Allocations***

- Reconciled the Proposition 1B revenue recorded in the city ledger to confirm that the Proposition 1B Fund allocations received by the city agreed with the SCO’s apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city’s compliance with the criteria above.

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 its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B Fund allocations recorded in the Traffic Congestion Relief Fund in accordance with the requirements of the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street-related 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 Twentynine Palms 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, 2014.
- 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, 2005, through June 30, 2014, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$5,924 to the city’s accounting records.
- Proposition 1B Fund allocations recorded in the Traffic Congestion Relief Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2014.

**Follow-Up on Prior Audit Findings**

The city did not satisfactorily resolve the findings noted in our prior audit report, issued on October 27, 2006.

**Views of Responsible Officials**

We issued a draft audit report on December 23, 2015. Frank J. Luckino, City Manager, responded by letter dated January 14, 2016, disagreeing 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 Twentynine Palms 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

March 14, 2016

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2013, through June 30, 2014**

	Special Gas Tax Street Improvement Fund	Traffic Congestion Relief Fund <sup>2</sup>
	Highway Users Tax Allocations <sup>1, 3</sup>	
Beginning fund balance per city	\$ 239,698	\$ 5,924
Revenues	<u>965,245</u>	<u>—</u>
Total funds available	1,204,943	5,924
Expenditures	<u>(803,188)</u>	<u>—</u>
Ending fund balance per city	<u>401,755</u>	<u>5,924</u>
SCO adjustment: <sup>4</sup>		
Finding—TCRF Prior Audit finding not corrected	<u>—</u>	<u>(5,924)</u>
Ending fund balance per audit	<u>\$ 401,755</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, 2005, through June 30, 2014; however, this schedule includes only the period of July 1, 2013, through June 30, 2014.

<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 audit period was July 1, 2005, through June 30, 2014; however, this schedule includes only the period of July 1, 2013, through June 30, 2014.

<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, 2014. The city did not receive any Proposition 1B revenues and did not incur any Proposition 1B expenditures during FY 2013-14; therefore, it is not included in this schedule.

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

# Finding and Recommendation

**FINDING—  
TCRF prior audit  
finding not corrected**

The prior SCO audit report, issued on October 27, 2006, required the city to return the unexpended TCRF allocations to the State Controller’s Office as required by Streets and Highways Code section 2182.1(g). However, the city failed to return unexpended TCRF allocations to the State Controller’s Office. As a result, the Traffic Congestion Relief Fund balance is overstated by \$5,924 as of June 30, 2011.

Recommendation

The city must return the unexpended TCRF allocations of \$5,924 to the State Controller’s Office, Attention: Rhodora Bravo, P.O. Box 942850, Sacramento, CA 94250.

City’s Response

The City is a small disadvantage community with limited staff. The City, as the enclosed documents show, the City spent the \$5,924 from the general fund, albeit in the following year, but it was spent. With that, the City is requesting a waiver of the \$5,924, since it was spent in the Fiscal 04/05 year.

SCO’s Comment

The \$5,924 finding is from the previous SCO audit. The original finding was included in a draft report issued on July 25, 2006. Ronald Peck, Finance Director, responded by telephone on August 30, 2006, agreeing with this finding. In addition, Frank Luckino, City Manager, agrees in the response letter to this draft audit report that the TCRF funds were not spent by June 30, 2005. The city does not challenge the merit of this finding but asks for a waiver. Unfortunately, the SCO does not have the authority to grant a waiver for the \$5,924 finding. Streets and Highways Code section 2182.1 states that any city that has not complied with subdivision (g) shall reimburse the State the funds it received during that year. In addition, this code section does not provide any exemptions regarding hardship. Therefore, the finding stands.

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

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**CITY OFFICES:**  
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**COUNCIL MEMBERS**  
Daniel L. Mintz Sr., Mayor  
John Cole, Mayor Pro Tem  
Cora J. Heiser  
Joel Klink  
M<sup>c</sup>Arthur Wright

**CITY MANAGER**  
Frank J. Luckino, MPA

January 14, 2016

Mr. Mike Spalj, Chief  
Local Government Audits Bureau  
**STATE CONTROLLER'S OFFICE**  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 942850

Mr. Spalj,

Thank you for the positive audit results for the ten year period from July 1, 2005 through June 30, 2014. The City is dedicated to complying with all the statutory requirements for all funding sources.

With the Holidays and your letter dated December 23, 2015, the City had a tough time completing this letter within your fifteen day limit on comments, so I hope you take that in consideration.

The City is a small disadvantage community with limited staff. The City, as the enclosed documents show, the City spent the \$5,924 from the general fund, albeit in the following year, but it was spent. With that, the City is requesting a waiver of the \$5,924, since it was spent in the Fiscal 04/05 year.

Thank you for your consideration.

Sincerely

Frank J. Luckino  
City Manager

Enclosures

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

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