

CITY OF SOLVANG

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

April 2011



JOHN CHIANG
California State Controller

April 15, 2011

The Honorable Jim Richardson
Mayor of the City of Solvang
1644 Oak Street
Solvang, CA 93463

Dear Mr. Richardson:

The State Controller's Office audited the City of Solvang's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2009, and Surface Transportation Program allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2008. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2002, through June 30, 2009.

In addition, our audit disclosed that the city understated the fund balance in the TCRF by \$33,632 as of June 30, 2009. The city understated the fund balance because the city did not meet the TCRF expenditure requirement for allocations received in fiscal year (FY) 2001-02, FY 2004-05, and FY 2005-06, as required by Streets and Highways Code section 2182.1(g). Therefore, the city must return \$33,632 to the SCO.

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: Bard Vidro, City Manager
City of Solvang
Julie Glendinning, Acting Finance Director
City of Solvang

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Follow-Up on Prior Audit Findings	3
Views of Responsible Official	3
Restricted Use	3
Schedule 1—Reconciliation of Fund Balance	4
Findings and Recommendations	5

Audit Report

Summary

The State Controller's Office audited the City of Solvang's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2009, and Surface Transportation Program allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2008. We also audited the Traffic Congestion Relief Fund (TCRF) 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—highway users tax and Surface Transportation Program allocations—and TCRF in compliance with requirements, except that the city understated the fund balance in the TCRF by \$33,632 as of June 30, 2009. The city understated the fund balance because the city did not meet the TCRF expenditure requirement for allocations received in fiscal year (FY) 2001-02, FY 2004-05, and FY 2005-06, as required by Streets and Highways Code section 2182.1(g). Therefore, the city must return \$33,632 to the SCO.

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 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 Solvang accounted for and expended its Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2009, and Surface Transportation Program allocations recorded in the Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2008, in compliance with Article XIX of the California Constitution and the Streets and Highways Code.

Our audit also disclosed that the city accounted for and expended its TCRF 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, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding require an adjustment of \$33,632 to the city's accounting records. Therefore, the city must return \$33,632 to the SCO.

Follow-Up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report, issued on February 28, 2003.

Views of Responsible Official

We issued a draft audit report on October 25, 2010. Brad Vidro, City Manager, responded by letter dated November 9, 2010, 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 Solvang 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

April 15, 2011

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

	Special Gas Tax Street Improvement Fund			Traffic Congestion Relief Fund ³
	Highway Users Tax Allocation ¹	Surface Transportation Program Allocation ²	Totals	
Beginning fund balance per city	\$ 13,679	\$ —	\$ 13,679	\$ —
Revenues	92,596	—	92,596	47,258
Total funds available	106,275	—	106,275	47,258
Expenditures	(106,275)	—	(106,275)	(23,776)
Ending fund balance per city	—	—	—	23,482
SCO adjustment: ⁴				
Finding 1—TCRF expenditure requirement not met	—	—	—	(33,632)
Finding 2—Ineligible TCRF expenditure	—	—	—	33,632
Ending fund balance per audit	\$ —	\$ —	\$ —	\$ 23,482

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 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. Refer to schedule of Surface Transportation Program allocations for street projects.

³ 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.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— TCRF expenditure requirement not met

The city did not meet the Traffic Congestion Relief Fund (TCRF) expenditure requirement for allocations received in fiscal year (FY) 2001-02, FY 2004-05, and FY 2005-06 as required by Streets and Highways Code section 2182.1(g). This code section requires a city to expend its TCRF allocations within the fiscal year following the fiscal year in which the allocations were made. In addition, the code indicates that funds not expended within that period shall be returned to the Controller. Our audit found that the city did not expend the TCRF allocations within the required time periods.

The allocations not expended within the required time periods total \$38,513 (\$13,699 for FY 2001-02, \$233 for FY 2004-05, and \$24,581 for FY 2005-06).

Recommendation

The city must return the TCRF allocations, in the amount of \$38,513, to the State Controller's Office, ATTN: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

City's Response

We expended funds in compliance with the requirements but did not expend the allocations in the mandated time periods. In reviewing our records we feel we have approximately \$5,000 in expenses that were expended on eligible items, but were expended from a general fund account. We hope this will reduce our liability to the state. I am attaching a listing of the expenses and a brief description for your review.

SCO's Comment

In its response, the city acknowledges it did not meet the TCRF expenditure requirements for allocations received in FY 2001-02, FY 2004-05, and FY 2005-06 as required by Streets and Highways Code section 2182.1(g). The city indicates it found \$5,352 (\$3,606 in FY 2002-03, \$703 in FY 2004-05, and \$1,043 in FY 2005-06) of eligible TCRF costs recorded in the General Fund. Subsequently, the SCO auditor returned to the city and reviewed the documents made available by city staff. The SCO review only validates \$4,881 of eligible costs (\$3,606 in FY 2002-03, \$232 in FY 2004-05, and \$1,043 in FY 2005-06). The result is that the original finding of \$38,513 is reduced by \$4,881 to \$33,632. The revised amount that the city must reimburse the State Controller's Office is \$33,632.

**FINDING 2—
Ineligible TCRF
expenditure**

The city did not meet its expenditure requirement for FY 2001-02, FY 2004-05, FY 2005-06 as noted in Finding 1. Consequently, the expenditures of these funds, totaling \$38,513, were not eligible to be made with TCRF allocations.

Recommendation

The city must reimburse the TCRF by \$38,513 to eliminate the ineligible expenditures.

City's Response

As stated in Response 2 we feel we expended funds in compliance with the requirements but did not expend the allocations in the mandated time periods. We feel we have expenses that were expended on eligible items, but were expended from a general fund account that can be eligible expenses to meet our expense requirements.

SCO's Comment

Please see SCO's Comment under Finding 1. As a result of additional documentation provided by the city, this finding has also been reduced from \$38,513 to \$33,632. The city should reimburse the TCRF for ineligible expenditures.

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



November 9, 2010

Steven Mar, Chief
Local Government Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Regarding: Audit of Special gas tax street improvement fund (7/2008-6/2009) and Traffic congestion relief fund (7/200-6/2009)

Dear Mr. Mar,

In response to the draft aforementioned audit report:

FINDING 1 – TCRF expenditure requirement not met

The city did not meet the Traffic Congestion Relief Fund (TCRF) expenditure requirement for allocations received in fiscal year (FY) 2001-02, FY 2004-05, and FY 2005-06 as mandated by Streets and Highways Code section 2182.1(g). This code section requires a city to expend its TCRF allocations within the fiscal year following the fiscal year in which the allocations were made. In addition, the code indicates that funds not expended within that period shall be returned to the Controller. Our audit found that the city expended the aforementioned allocations after the mandated time periods.

RESPONSE 1-

We expended funds in compliance with the requirements but did not expend the allocations in the mandated time periods. In reviewing our records we feel we have approximately \$5,000 in expenses that were expended on eligible items, but were expended from a general fund account. We hope this will reduce our liability to the state. I am attaching a listing of the expenses and a brief description for your review.

FINDING 2 – Ineligible TCRF expenditure

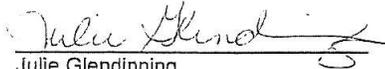
The city did not meet its expenditure requirement for FY2001-02, FY 2004-05, FY 2005-06 as noted in Finding 1. Consequently, the expenditures of these funds, totaling \$38,513, were not eligible to be made with TCRF allocations.

RESPONSE 2-

As stated in Response 2 we feel we expended funds in compliance with the requirements but did not expend the allocations in the mandated time periods. We feel we have expenses that were expended on eligible items, but were expended from a general fund account that can be eligible expenses to meet our expense requirements.

Pursuant to a telephone conversation with the State Controller's office it is my understanding that payment is not due at this time. Upon your review of our responses you will either audit our additional expenses and/or issue the final audit report. If you agree that these expenses may be eligible expenses to meet our expense requirements please let us know how you would like to proceed.

Thank you and very best regards,



Julie Glendinning
Finance Supervisor
Acting Finance Director



Brad Vidro
City Manager

City of Solvang

Expenses that can be used for traffic control

2002/2003

4/8/2003	Buellflat	Sand	17.37
5/5/2003	Zumar	Shipping-signs	19.93
5/5/2003	Zumar	Road Signs	23.20
5/5/2003	Zumar	Road Signs	60.00
5/5/2003	Zumar	Road Signs	87.00
5/5/2003	Zumar	Road Signs	87.00
6/3/2003	Santa Barb Cnty	Asphalt to Lndfl	133.44
6/23/2003	Nielsen Bldg	Paint - roads	12.37
6/30/2003	Pervo Paint	Curb & Street	1,213.16
2/28/2003	Buellflat	Concrete sand	9.31
3/3/2003	Todd Pipe	Sign Supplies	76.36
5/2/2003	Todd Pipe	Concrete supplies	14.45
5/5/2003	Solvang Bldg	Redicrete	6.90
5/6/2003	Buellflat	Cold Mix	38.08
5/6/2003	Nielsen Bldg	Supplies	83.48
5/6/2003	Solvang Transit Mix	Concrete	210.98
5/20/2010	Nielsen Bldg	Supplies	26.06
5/20/2010	Solvang Bldg	Concrete	10.02
5/20/2010	Todd Pipe	Galv. Pipe	112.42
5/27/2010	Dispensing Tech	linelazor, swtch tip	55.00
5/27/2010	Dispensing Tech	linelazor, swtch tip	8.51
6/3/2003	Zumar	U brackets	185.30
6/23/2003	Buellflat	Cold Mix/Concrete	106.05
6/23/2003	Zumar	Street signs	600.76
6/23/2003	Zumar	SCUB Brackets	184.93
6/23/2003	Dispensing Tech	Paint hoses	224.38
			<u>3,606.46</u>

2004/2005

8/23/2004	Zumar	signs/supplies	119.23
9/27/2004	Union Asphalt	Redi Crete	20.04
1/24/2005	Buellflat	Cold Mix	17.78
1/24/2005	Zumar	signs/supplies	87.96
2/14/2005	Zumar	signs/supplies	458.46
			<u>703.47</u>

2005/2006

7/25/2005	Todd Pipe	Sign supplies	34.01	01-1600-230-0050
8/22/2005	Todd Pipe	Sign supplies	17.27	01-1600-230-0050
9/26/2005	Dispensing Tech	Supplies	158.76	01-1600-230-0050
10/24/2005	Union Asphalt	Redi Crete	13.58	01-1600-230-0050
10/24/2005	Direct Image	Supplies	72.95	01-1600-230-0050
12/12/2005	Todd Pipe	Supplies	5.00	01-1600-230-0050
12/12/2005	Zumar	Sign supplies	438.76	01-1600-230-0050
12/26/2005	Todd Pipe	Supplies	(1.07)	01-1600-230-0050
12/26/2005	Todd Pipe	Supplies	57.54	01-1600-230-0050
12/26/2005	Underground	Dig Alert	12.40	01-1600-230-0050
1/23/2006	Buellflat	Fill Sand	50.86	01-1600-230-0050
1/23/2006	Underground	4 new tickets	6.20	01-1600-230-0050
1/23/2006	Underground	4 new tickets	6.20	01-1600-230-0050
2/27/2006	Buellflat	Concete sand	145.68	01-1600-230-0050
5/8/2006	Union Asphalt	Supplies	7.54	01-1600-230-0050
6/30/2006	Union Asphalt		16.81	01-1600-230-0050
			<u>1,042.49</u>	

Total \$ 5,352.42

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

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