

CITY OF ARTESIA

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2008, through June 30, 2012

TRAFFIC CONGESTION RELIEF FUND

July 1, 2008, through June 30, 2012



JOHN CHIANG
California State Controller

April 2013



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California State Controller

April 18, 2013

The Honorable Sally Zuniga Flowers
Mayor of the City of Artesia
18747 Clarkdale Avenue
Artesia, CA 90701

Dear Mayor Zuniga Flowers:

The State Controller's Office audited the City of Artesia's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2012. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2008, through June 30, 2012.

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 Traffic Congestion Relief Fund by \$40,000 as of June 30, 2012. The city understated the fund balance primarily because it charged ineligible corridor study expenditures to the Traffic Congestion Relief Fund.

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, CPA
Chief, Division of Audits

JVB/vb

cc: Justine Menzel, Deputy City Manager/Finance Officer
City of Artesia

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Audit Report

Summary

The State Controller's Office audited the City of Artesia's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2012. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2008, through June 30, 2012.

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 Traffic Congestion Relief Fund by \$40,000 as of June 30, 2012. The city understated the fund balance primarily because it charged ineligible corridor study expenditures to the Traffic Congestion Relief 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 (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 Artesia 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, 2012.

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, 2008, through June 30, 2012, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on March 27, 2009, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on January 17, 2013. Justine Menzel, Deputy City Manager/Finance Officer, responded by email on April 2, 2013, agreeing with the audit results.

Restricted Use

This report is intended for the information and use of the City of Artesia'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, CPA
Chief, Division of Audits

April 18, 2013

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

	Special Gas Tax Street Improvement Fund	Traffic Congestion Relief Fund ^{2,4}
	Highway Users Tax Allocation ¹	
Beginning fund balance per city	\$ 285,183	\$ —
Revenues	<u>676,152</u>	<u>—</u>
Total funds available	961,335	—
Expenditures	<u>(285,849)</u>	<u>—</u>
Ending fund balance per city	675,486	—
Timing adjustment:		
Accrual of June 2012 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	—	—
SCO adjustment: ³		
Finding—Ineligible TCRF expenditure	—	—
SCO adjustment	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 675,486</u>	<u>\$ —</u>

¹ 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, 2008, through June 30, 2012; however, this schedule includes only the period of July 1, 2011, through June 30, 2012.

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, 2008, through June 30, 2012.

³ See the Finding and Recommendation section.

⁴ Assembly Bill 105, approved by the governor on March 24, 2011, ended the Traffic Congestion Relief Fund Program.

Finding and Recommendation

**FINDING—
Ineligible expenditure**

During fiscal year 2009-10, the city charged \$40,000 to its Traffic Congestion Relief Fund for a highway corridor study. A special engineering study is not an eligible expenditure under Streets and Highways Code section 2182.

Assembly Bill 105, approved by the governor on March 24, 2011, ended the Traffic Congestion Relief Fund Program.

Recommendation

The city must return \$40,000 to the State Controller’s Office: C/O Rhodora Bravo, Associate Accounting Analyst, P.O. Box 942850, Sacramento, CA 94250.

City’s Response

The city agreed with the finding and recommendation.

SCO’s Comment

The city agreed with the finding and recommendation.

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

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