

CITY OF KING CITY

Audit Report

GAS TAX FUND AND TRAFFIC CONGESTION RELIEF FUND

July 1, 2005, through June 30, 2006



JOHN CHIANG
California State Controller

May 2007



JOHN CHIANG
California State Controller

May 25, 2007

Jim Larson
Finance Director
City of King City
212 S. Vanderhurst Avenue
King City, CA 93930

Dear Mr. Larson:

The State Controller's Office audited the City of King City's Gas Tax Fund and Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2005, through June 30, 2006.

The city accounted for and expended its Gas Tax Fund and TCRF in compliance with Article XIX of the California Constitution and the *Streets and Highways Code*, except for our adjustment to the Gas Tax Fund. Our audit disclosed that the city understated the fund balance in the Gas Tax Fund by \$1,380 as of June 30, 2006. This understatement occurred primarily because the city charged ineligible non-street related expenditures (removal of a trash separator, disposal of a refrigerator, and cash donations).

If you have any questions, please contact Paul R. Criss, Chief, Financial-Related Audits Bureau, at (916) 322-4941.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of King City's Gas Tax Fund for the period of July 1, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, through June 30, 2006. The last day of fieldwork was February 28, 2007.

Our audit disclosed that the city understated the fund balance in the Gas Tax Fund by \$1,380 as of June 30, 2006. This understatement occurred primarily because the city charged ineligible non-street related expenditures (removal of a trash separator, disposal of a refrigerator, and cash donations).

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 are derived from state taxes on the sale of motor vehicle fuels. In accordance with *Streets and Highways Code* Section 2101 and Article XIX of the California Constitution, a city must deposit all apportionments of highway users taxes in its Gas Tax Fund (also known as the 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 Gas Tax Fund under the authority of *Government Code* Section 12410.

Chapter 91, Statutes of 2000 (Assembly Bill 2928), as amended by Chapter 656, Statutes of 2000 (Senate Bill 1662), established 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 *Streets and Highways Code* Sections 2182 and 2182.1.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Gas Tax Fund and the TCRF 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 Gas Tax Fund;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted our audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Gas Tax Fund and the TCRF in accordance with the requirements of the *Streets and Highways Code*. 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 accounted for and expended its Gas Tax 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, 2006, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$1,380 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its TCRF in compliance with Article XIX of the California Constitution and the *Streets and Highways Code* for the period of July 1, 2000, through June 30, 2006.

Follow-Up on Prior Audit Findings

Our prior audit report, issued in November 1998, disclosed no findings.

Views of Responsible Official

We discussed the audit results with city representatives during an exit conference on February 28, 2007. Jim Larson, Finance Director, agreed with the audit results. Mr. Larson further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This report is intended for the information and use of city 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
Chief, Division of Audits

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2005, through June 30, 2006**

	Gas Tax Fund ¹	TCRF ²
Beginning fund balance per city	\$ 1,442,238	\$ —
Revenues	<u>219,690</u>	<u>51,682</u>
Total funds available	1,661,928	51,682
Expenditures	<u>(243,900)</u>	<u>—</u>
Ending fund balance per city	1,418,028	51,682
Timing adjustment:		
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	20,350	—
SCO adjustment: ³		
Finding—Ineligible expense	<u>1,380</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 1,439,758</u>	<u>\$ 51,682</u>

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 apportionments are restricted 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 Chapter 91, Statutes of 2000 (Assembly Bill 2928), as amended by Chapter 656, Statutes of 2000 (Senate Bill 1662), established the State Traffic Congestion Relief Fund (TCRF), which allocates funds to cities and counties for street or road maintenance and reconstruction from FY 2000-01 through FY 2005-06.

³ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Ineligible expenditures**

In fiscal year 2005-06, the city improperly charged \$1,380 to the Gas Tax Fund for non-street related expenditures (removal of a trash separator, disposal of a refrigerator, and cash donations).

Streets and Highways Code Section 2101 specifies that Gas Tax moneys may only be expended for construction, maintenance, and operation of public streets and roads and related administrative costs.

Since the removal of trash separator, disposal of refrigerator, and cash donations are not considered necessary for the operation of the city's streets, these expenditures totaling \$1,380 are disallowed.

Recommendation

The city should reimburse the Gas Tax Fund \$1,380. In the future, the city should ensure that all costs charged to the Gas Tax Fund are eligible street-related costs.

City's Response

The city agreed with our finding and reimbursed the Gas Tax Fund in the amount of \$1,380 by journal entry dated February 26, 2007.

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