

CITY OF FORTUNA

Audit Report

GAS TAX FUND AND TRAFFIC CONGESTION RELIEF FUND

July 1, 2005, through June 30, 2006



JOHN CHIANG
California State Controller

June 2007



JOHN CHIANG
California State Controller

June 27, 2007

Paul Rodrigues
Finance Director
City of Fortuna
621 11th Street
Fortuna, CA 95540

Dear Mr. Rodrigues:

The State Controller's Office audited the City of Fortuna's Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program (STP) allocations—for the period of July 1, 2005, through June 30, 2006. We also audited Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, 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 adjustments to the Gas Tax Fund. Our audit disclosed that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$96,934 as of June 30, 2006. This understatement occurred because the city's fund balance in the Special Gas Tax Street Improvement Fund was a deficit \$96,416 for the year ended June 30, 2006 and the city erroneously recorded \$518 of non-street related expenditures to the Gas Tax 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
Chief, Division of Audits

JVB/vb

cc: Grace Kong, Chief
Local Program Accounting
Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Fortuna's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. In addition, we audited Surface Transportation Program (STP) exchange funds in the Gas Tax Fund for the period of July 1, 2004, 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 April 12, 2007.

Our audit disclosed that the city accounted for and expended its Gas Tax Fund in compliance with requirements, except that the city understated the fund balance by \$96,934 as of June 30, 2006. This understatement occurred because the city's fund balance in the Special Gas Tax Street Improvement Fund was a deficit \$96,416 for the year ended June 30, 2006, and the city erroneously recorded \$518 of non-street related expenditures to the Gas Tax 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 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.

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.

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, STP, 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;
- 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 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, STP, 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—highway users tax and STP allocations—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 Findings and Recommendations section of this report. The findings required an adjustment of \$96,934 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**

The city satisfactorily resolved the findings noted in our prior audit report, issued in January 2000.

**Views of
Responsible
Official**

We discussed the audit results with city representatives during an exit conference on April 12, 2007. Paul Rodrigues, Finance Director, agreed with the audit results. Mr. Rodrigues 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**

	<u>Special Gas Tax Street Improvement Fund</u>			<u>TCRF Fund³</u>
	<u>Highway Users Tax Allocation¹</u>	<u>STP Allocation²</u>	<u>Totals</u>	
Beginning fund balance per city	\$ 269,299	\$ 96	\$ 269,395	\$ —
Revenues	<u>226,460</u>	<u>72,895</u>	<u>299,355</u>	<u>50,237</u>
Total funds available	495,759	72,991	568,750	50,237
Expenditures	<u>(592,693)</u>	<u>—</u>	<u>(592,693)</u>	<u>—</u>
Ending fund balance per city	<u>(96,934)</u>	<u>72,991</u>	<u>(23,943)</u>	<u>50,237</u>
SCO adjustments: ⁴				
Finding 1—Deficit fund balance	96,416	—	96,416	—
Finding 2—Recording error	<u>518</u>	<u>—</u>	<u>518</u>	<u>—</u>
Total SCO adjustments	<u>96,934</u>	<u>—</u>	<u>96,934</u>	<u>—</u>
Ending fund balance per audit	<u>\$ —</u>	<u>\$ 72,991</u>	<u>\$ 72,991</u>	<u>\$ 50,237</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 The city received Surface Transportation Program (STP) 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.

³ 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. The TCRF allocations were recorded in the Traffic Congestion Relief Fund.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Deficit fund balance

The city's fund balance in the Special Gas Tax Street Improvement Fund was a deficit \$96,416 for year ended June 30, 2006.

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 and prior-year expenditures is contrary to generally accepted accounting principles.

Recommendation

The city must replenish the Special Gas Tax Street Improvement Fund immediately in order to eliminate the deficit fund balance. In the future, the city should adopt a balanced budget that limits expenditures to the amount of funds available.

City's Response

The city agreed with our recommendation and replenished the Special Gas Tax Street Improvement Fund to eliminate the deficit fund balance. This was accomplished by transferring \$96,416 from the General Fund in to the Special Gas Tax Street Improvement Fund on April 10, 2007, through Journal Entry #64-02.

FINDING 2— Recording error

During the fiscal year 2005-06, the city erroneously recorded \$518 of non-street related expenditures to Fund 280 (Gas Tax) instead of Fund 100 (General Fund).

Per *Streets and Highways Code* Section 2101, Gas Tax funds must be deposited in designated Special Gas Tax Street Improvement Fund and expended for streets or street-related activities.

Recommendation

The city should transfer \$518 from its General Fund to the Special Gas Tax Street Improvement Fund.

Additionally, the city should establish procedures to ensure that such recording errors do not arise.

City's Response

The city agreed with our finding and implemented our recommendation with Journal Entry #64-00, dated April 10, 2007.

**State Controller's Office
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