CITY OF INDUSTRY

Audit Report

GAS TAX FUND AND TRAFFIC CONGESTION RELIEF FUNDS

July 1, 2005, through June 30, 2006

JOHN CHIANG
California State Controller

June 2007

JOHN CHIANG
California State Controller

June 8, 2007

Victoria Gallo
Chief Financial Officer
City of Industry
P.O. Box 3366
Industry, CA 91744

Dear Ms. Gallo:

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

Our audit disclosed that the city accounted for and expended its Gas Tax Fund and TCRF allocations recorded in the General Fund in compliance with Article XIX of the California Constitution and the *Streets and Highways Code*, except for our adjustments to the funds. Our audit disclosed that the city understated the fund balance in the Gas Tax Fund by $12,580 as of June 30, 2006. This understatement occurred because the city did not allocate equitable interest income to the Gas Tax Fund. Also, our audit disclosed that the city overstated the TCRF fund balance by $1,702 as of June 30, 2006. This overstatement occurred because the city made an error in recording the TCRF apportionment. In addition, we identified a procedural finding in this report.

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/jj:vb

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Industry's Gas Tax Fund for the period of July 1, 2005, through June 30, 2006. We also audited Traffic Congestion Relief Fund (TCRF) allocations recorded in the General Fund for the period of July 1, 2000, through June 30, 2006. The last day of fieldwork was December 14, 2006.

Our audit disclosed that the city understated the fund balance in the Gas Tax Fund by $12,580 as of June 30, 2006. This understatement occurred because the city did not allocate equitable income. Also, our audit disclosed that the city overstated the TCRF fund balance recorded in the General Fund by $1,702 as of June 30, 2006. This overstatement occurred because the city made an error in recording the TCRF apportionment. In addition, we identified a procedural finding.

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 the TCRF allocations in the General 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 recorded in the General 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 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 and the TCRF recorded in the General Fund 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 Findings and Recommendations section of this report. The finding required an adjustment of $12,580 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its Traffic Congestion Relief Fund allocations recorded in the General Fund 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, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding required an adjustment of $1,702 to the accounting records.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on December 22, 1999, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on April 6, 2007. Victoria Gallo, Chief Financial Officer, responded by telephone on May 14, 2007, agreeing with the audit results.

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 Allocation [2]
Beginning fund balance per city	$ 93,808	$ —
Revenues	15,187	5,287
Total funds available	108,995	5,287
Expenditures	—	—
Ending fund balance per city	108,995	5,287
Timing adjustment:		
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	2,229	—
SCO adjustments: [3]		
Finding 1—Interest income	12,580	—
Finding 2—Recording error	—	(1,702)
Total SCO adjustments	12,580	(1,702)
Ending fund balance per audit	$ 123,804	$ 3,585

[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. The TCRF was recorded in the General Fund Account #01.400.4011.

[3] See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1—
Interest income

The city did not allocate interest income to the Gas Tax Fund.

Streets and Highways Code Section 2113 states, "Interest received by a city from the investment of money in its special gas tax improvement fund shall be deposited in the fund and shall be used for street purposes."

Recommendation

We recommend that the city allocate $12,580 of interest income to the Gas Tax Fund.

City's Response

The city agreed with the finding and has made the correction.

FINDING 2—
Recording error

The city overstated the Traffic Congestion Relief Fund (TCRF) apportionment by $1,702.

Recommendation

We recommend that the city adjust the TCRF apportionment to correct the error.

City's Response

The city agreed with the finding and has made the correction.

FINDING 3—
Procedural finding

The city recorded the TCRF revenue in the General Fund.

Streets and Highways Code Section 2182.2(b) states that funds received under this section shall be deposited into a local account that is designated for the receipt of state funds allocated for transportation purposes.

Recommendation

We recommend that the city record TCRF revenue in a separate fund or in a transportation fund designated for street purposes only.

City's Response

The city agreed with the finding and will implement our recommendation.

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C07-GTA-009