

CITY OF PASADENA

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

Stephen C. Stark
Director of Finance
City of Pasadena
P.O. Box 7115
Pasadena, CA 91109-7215

Dear Mr. Stark:

The State Controller's Office audited the City of Pasadena'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.

Our audit disclosed that the city accounted for and expended its Gas Tax Fund and TCRF in compliance with requirements, and that no adjustments to the fund are required.

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 Pasadena'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 21, 2007.

Our audit disclosed that no adjustment to the Gas Tax Fund or the TCRF is required.

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 TCRF. We conducted our audit of the city's TCRF 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;
- 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 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.

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 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 on November 23, 1998, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on April 20, 2007. Stephen C. Stark, Director of Finance, responded by letter dated May 2, 2007, stating that an accounting error was made in booking the funding sources for one of their capital projects and that a correcting entry would be made.

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>Gas Tax Fund¹</u>	<u>TCRF²</u>
Beginning fund balance per city	\$ 1,375,766	\$ 99,951
Revenues	<u>2,656,011</u>	<u>1,720,523</u>
Total funds available	4,031,777	1,820,474
Expenditures	<u>(2,147,969)</u>	<u>(232,598)</u>
Ending fund balance per city	1,883,808	1,587,876
Timing adjustment:		
Accrual of June 2006 highway users tax apportionment and over-accrual of TCRF (Governmental Accounting Standards Board Statement No. 34)	239,268	(1,059,741)
SCO adjustment	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 2,123,076</u>	<u>\$ 528,135</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. The TCRF allocations were recorded in the Traffic Congestion Relief Fund.

Finding and Recommendation

**FINDING—
TCRF expenditure
requirements not met**

The city did not meet the Traffic Congestion Relief Fund expenditure requirement for fiscal year (FY) 2001-02 and FY 2002-03 as required by *Streets and Highways Code* Section 2182(g). This section states that apportionments “Shall be expended not later than the end of the fiscal year following the fiscal year in which the allocation was made, and any funds not expended within that period shall be returned to the Controller.”

The unexpended allocations subject to the spending requirement have accumulated to total \$91,453 as of June 30, 2006.

Recommendation

The city must refund the unexpended TCRF allocations to the State Controller as required by *Streets and Highways Code* Section 2182(g).

City’s Response

On further review the City realizes that an accounting error was made in booking the funding sources for one of our capital projects. This project had budgeted funding from multiple sources including Gas Tax, Traffic Congestion Relief and City discretionary funds. We inadvertently used discretionary funds instead of Traffic Congestion Relief funds. The necessary adjusting entry will be made during the current fiscal year. We believe that this will satisfy the finding of your auditors and clear up this matter.

SCO’s Comment

An accounting error may be corrected at any time after the error is discovered. The city’s correction of the accounting error renders it in compliance with *Streets and Highways Code* Section 2182(g). The finding is withdrawn.

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



OFFICE OF DIRECTOR OF FINANCE

May 2, 2007

Mr. Paul R. Criss, Chief
Financial-Related Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874

Dear Mr. Criss:

We are in receipt of your letter dated April 20, 2007 related to the State Controller's audit of City of Pasadena's Gas Tax Fund and Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2005 through June 30, 2006.

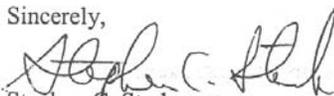
Your report has indicated that the City has overstated the fund balance for TCRF by \$91,453 at June 30, 2006. It is the City's policy to appropriate and spend all TCRF monies on a timely basis. The SCO auditors indicated to our staff that the amount you are seeking is the result of a timing difference and is correctable.

On further review the City realizes that an accounting error was made in booking the funding sources for one of our capital projects. This project had budgeted funding from multiple sources including Gas Tax, Traffic Congestion Relief and City discretionary funds. We inadvertently used discretionary funds instead of Traffic Congestion Relief funds. The necessary adjusting entry will be made during the current fiscal year. We believe that this will satisfy the finding of your auditors and clear up this matter.

Consequently, we would appreciate your making the appropriate changes on the auditors' report eliminating the overstatement of the fund balance by \$91,453.

Thank you for your attention to this matter.

Sincerely,


Stephen C. Stark
Director of Finance

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

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