

# **CITY OF ROSEMEAD**

Revised Audit Report

## **SPECIAL GAS TAX STREET IMPROVEMENT FUND**

*July 1, 2005, through June 30, 2006*

## **TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS**

*July 1, 2000, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

June 2008



**JOHN CHIANG**  
**California State Controller**

June 18, 2008

The Honorable John Tran  
Mayor of the City of Rosemead  
8838 East Valley Boulevard  
Rosemead, CA 91770

Dear Mayor Tran:

The State Controller's Office audited the City of Rosemead's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the General Fund for the period of July 1, 2000, through June 30, 2006.

We issued an audit report dated April 16, 2008. Subsequently, the city provided additional information related to our audit findings. Consequently, we are revising our findings to reflect additional information provided and issuing a revised audit report.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and its TCRF allocations recorded in the General Fund in compliance with requirements, except for a procedural finding related to the TCRF allocations.

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: Lisa Podote  
Finance Director  
City of Rosemead

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## Revised Audit Report

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# Revised Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Rosemead's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. We also audited its Traffic Congestion Relief Fund (TCRF) allocations recorded in the General Fund for the period of July 1, 2000, through June 30, 2006.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the funds is required; however, we identified a procedural finding related to the TCRF allocations.

## 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 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 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 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 General 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 allocations recorded in the General Fund in compliance with Article XIX of the California Constitution, Streets and Highways Code, and Revenue and Taxation Code section 7104. 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 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 Special Gas Tax Street Improvement Fund and the TCRF allocations recorded in the General Fund in accordance with Article XIX of the California Constitution, the Streets and Highways Code, and the 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 Rosemead 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 2005, through June 30, 2006.

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, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2000, through June 30, 2006.

## **Follow-Up on Prior Audit Findings**

Our prior audit report, issued on March 31, 1999, disclosed no findings.

## **Views of Responsible Official**

We issued an audit report dated April 16, 2008. Subsequently, the city provided additional information related to our audit findings. Consequently, we are revising our findings to reflect additional information provided and issuing a revised audit report. The city's responses are included in this revised final audit report.

**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

June 18, 2008

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

	Special Gas Tax Street Improvement Fund <sup>1</sup>	TCRF Allocations <sup>2</sup>
Beginning fund balance per city	\$ 856,001	\$ 546,434
Revenues	<u>1,069,533</u>	<u>254,969</u>
Total funds available	1,925,534	801,403
Expenditures	<u>(1,524,844)</u>	<u>—</u>
Ending fund balance per city	400,690	801,403
Timing adjustment:		
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	97,447	—
SCO adjustments	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 498,137</u>	<u>\$ 801,403</u>

<sup>1</sup> 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 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.

<sup>2</sup> 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 General Fund. Our audit of the TCRF allocations was for the period of July 1, 2000, through June 30, 2006.

# Revised Findings and Recommendations

## **FINDING 1— Maintenance-of-effort not met**

The city did not meet the maintenance-of-effort requirement for Traffic Congestion Relief Fund (TCRF) allocations during fiscal year (FY) 2000-01 and FY 2001-02.

Revenue and Taxation Code section 7104(f), states:

. . . the city or county shall annually expend from its general fund for street, road, and highway purposes an amount not less than the annual average of its expenditures from its general fund during the 1996-97, 1997-98, and 1998-99 fiscal years. . . .

The city's average annual maintenance-of-effort amount is \$273,280, which is the amount required to be expended annually from discretionary funding sources. The city expended discretionary funds of \$256,233 during FY 2000-01 and \$149,636 during FY 2001-02. Consequently, the city failed to meet its maintenance-of-effort requirement for these two fiscal years.

The city received TCRF apportionments totaling \$546,434—\$408,623 during FY 2000-01 and \$137,811 during FY 2001-02—which is to be returned to the State.

Revenue and Taxation Code, section 7104 further states that the city “. . . shall reimburse the state for the funds it received during the fiscal year.”

### Recommendation

The city must return the unearned TCRF allocations in the amount of \$546,434 to the State Controller's Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250. Additionally, the city should review its TCRF requirements to ensure compliance with the program.

### City's Response

We prepared a prior period adjustment in which the City's General Fund reimburses the Rosemead Community Development Commission's ("RCDC") Capital Projects Fund for street maintenance costs that should have been charged to the City's General Fund. The purpose for the prior period adjustment is to correctly charge the City's General Fund for street maintenance work that was incorrectly charged to the RCDC Capital Projects Fund.

### SCO's Comment

The prior-period adjustment corrects an accounting error. The city's correction allows it to meet its maintenance-of-effort requirements for FY 2000-01 and FY 2001-02; the city does not need to return the TCRF allocations to the State.

**FINDING 2—  
Ineligible  
expenditures**

The city did not meet its maintenance-of-effort requirement during FY 2001-02 as noted in Finding 1. Consequently, the expenditure of these funds, totaling \$149,636, was not eligible.

Recommendation

The city must reimburse the TCRF allocations recorded in the General Fund by \$149,636 to eliminate the ineligible expenditures.

City's Response

We prepared a prior period adjustment in which the City's General Fund reimburses the Rosemead Community Development Commission's ("RCDC") Capital Projects Fund for street maintenance costs that should have been charged to the City's General Fund. The purpose for the prior period adjustment is to correctly charge the City's General Fund for street maintenance work that was incorrectly charged to the RCDC Capital Projects Fund.

SCO's Comment

The prior-period adjustment corrects an accounting error. The city's correction allows it to meet its maintenance-of-effort requirements for FY 2000-01 and FY 2001-02; the city does not need to reimburse the TCRF allocations recorded in the General Fund.

**FINDING 3—  
TCRF accounted for in  
a non-transportation  
fund**

The city has been recording TCRF transactions (allocations and expenditures) in the city's General Fund, a non-transportation type fund.

Pursuant to Streets and Highways Code section 2182(b)(1):

... funds received under this section shall be deposited as follows in order to avoid the commingling of those funds with other local funds:  
(1) In the case of a city, into the city account that is designated for the receipt of state funds allocated for transportation purposes.

Recommendation

The city should transfer the existing TCRF balance from the city's General Fund into a separate fund designated for street transportation purposes such as the city's Special Gas Tax Street Improvement Fund. Additionally, the city should record all future TCRF transactions (allocations and expenditures) in this account.

City's Response

To correct the past accounting error and in accordance with Revenue and Taxation Code §7104, effective July 1, 2007 I will move any balance of TCRF funds to the City's Special Gas Tax Improvement Fund and all current and future year expenditures will be accounted for in that fund.

SCO's Comment

We have noted the city's concurrence with the recommendation.

**Attachment A—  
City's Response to Draft Audit Report,  
dated January 18, 2008**

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MAYOR:  
JOHN TRAN

MAYOR PRO TEM:  
JOHN NUÑEZ

COUNCILMEMBERS:  
MARGARET CLARK  
POLLY LOW  
GARY A. TAYLOR



## City of Rosemead

8838 E. VALLEY BOULEVARD • P.O. BOX 399  
ROSEMEAD, CALIFORNIA 91770  
TELEPHONE (626) 569-2100  
FAX (626) 307-9218

January 18, 2008

Steven Mar, Chief  
Local Government Audits Bureau  
State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Mar:

On October 18, 2007 I responded (copy attached) to Mr. Jeffrey V. Brownfield's letter (copy attached) regarding preliminary audit findings of the City's Traffic Congestion Relief Fund (TCRF) allocations for the period July 1, 2000 through June 30, 2006. In my letter I requested additional time to research the findings of the audit. I have not received a response back from your office yet. Nevertheless, I researched the matter and I am sending you my findings and comments herewith.

The auditor looked for maintenance of effort expenditures in the General Fund but not in the Redevelopment Agency funds. He reported that the City did not meet its Maintenance of Effort for FY 2000-01 and FY 2001-02. My research revealed that in FY 2000-01 the City expended \$177,188 in the Redevelopment Agency Capital Projects Fund for qualified TCR projects, along with \$256,233 reported by the auditor, \$160,141 more than needed to meet the minimum annual maintenance of effort of \$273,448. Similarly, in FY 2001-02, \$130,979 was expended using Redevelopment Agency funds in addition to \$149,636 reported by the auditor, \$7,335 more than what was required to meet the minimum annual maintenance of effort amount. See below:

	FY 2000-01	FY 2001-02
Maintenance of Effort Deficit per Audit findings	\$ (17,047)	\$ (123,644)
<b>Redevelopment Agency Expenditures:</b>		
Walnut Grove Bridge/Alhambra Wash	1,455	66,699
Garvey Ave. Bridge/Rio Hondo Wash	7,015	2,117
Hellman Ave. Bridge/Alhambra Wash	5,132	21,365
Street Resurfacing	102,082	
Slurry Seal	61,504	
Engineering oversight of bridge work		40,798
	<hr/>	<hr/>
Excess Maintenance of Effort	\$ 160,141	\$ 7,335

Inasmuch as my findings reveal that the City actually did meet its maintenance of effort in both fiscal years in question, using City Redevelopment Agency funds, that the audit findings be amended to reflect the additional findings and that all recommendations for reimbursement be reversed.

To correct the past accounting error and in accordance with Health & Safety Code §7104, effective July 1, 2007 I will move any balance of TCRF funds to the City's Special Gas Tax Improvement Fund and all current and future year expenditures will be accounted for in that fund.

If there is anything I can do to assist you with this matter please contact me directly at (626) 569-2121 or by email at [sbrisco@cityofrosemead.org](mailto:sbrisco@cityofrosemead.org).

Respectfully yours,



Steven Brisco  
Finance Director

Encl.

C. Larry Alexander

**Attachment B—  
City's Response to Final Audit Report,  
dated May 15, 2008**

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MAYOR:  
JOHN TRAN

MAYOR PRO TEM:  
JOHN NUÑEZ

COUNCIL MEMBERS:  
MARGARET CLARK  
POLLY LOW  
GARY A. TAYLOR



## City of Rosemead

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8838 E. VALLEY BOULEVARD • P.O. BOX 389  
ROSEMEAD, CALIFORNIA 91770  
TELEPHONE (626) 569-2100  
FAX (626) 307-9218

May 15, 2008

Mr. Steven Mar, Chief  
Local Government Audits Bureau  
State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Mar:

Thank you for speaking with me about the City of Rosemead's Special Gas Tax Street Improvement Fund/Traffic Congestion Relief Fund ("TCRF") Allocations audit report dated April 2008.

As we discussed, I prepared a prior period adjustment in which the City's General Fund reimburses the Rosemead Community Development Commission's ("RCDC") Capital Projects Fund for street maintenance costs that should have been charged to the City's General Fund. As you requested, I am enclosing a copy of the journal entry for your review as well as a memo from the City's auditor approving the accounting treatment for the entry. As you may recall, the purpose for the prior period adjustment is to correctly charge the City's General Fund for street maintenance work that was incorrectly charged to the RCDC Capital Projects Fund. It is my understanding that by making the prior period adjustment the City will have met its maintenance of effort requirement for FY 2000-01 and FY 2001-02 and the TCRF allocations will no longer need to be returned to the State.

Thank you for your help in this matter. If I may be of any further assistance please feel free to call me directly at (626) 569-2121 or email me at [sbrisco@cityofrosemead.org](mailto:sbrisco@cityofrosemead.org).

Sincerely,

Steven Brisco  
Finance Director

Encl.



**Mayer Hoffman McCann P.C.**

An Independent CPA Firm

2301 Dupont Drive, Suite 200

Irvine, California 92612

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949-263-5520 fx

[www.mhm-pc.com](http://www.mhm-pc.com)

May 16, 2008

Steve Brisco  
City of Rosemead  
8838 E Valley Boulevard  
Rosemead, California 91770

Dear Steve,

We have reviewed the attached prior period adjustment journal entry related to an error in recording Traffic Congestion Relief allocations in fiscal years ending June 30, 2001 and 2002. We concur that the accounting to correct the error is accurate. The adjustment will be reflected in the upcoming June 30, 2008 financial statements of the Redevelopment Agency and the City of Rosemead.

Feel free to contact me at 949-474-2020 x.301 if you have any further questions.

Sincerely,

A handwritten signature in cursive script that reads 'Jennifer Christian'.

Jennifer Christian  
Shareholder

MAYOR:  
JOHN TRAN  
  
MAYOR PRO TEM:  
JOHN NUÑEZ  
  
COUNCILMEMBERS:  
MARGARET CLARK  
POLLY LOW  
BARY A. TAYLOR



# City of Rosemead

9838 E. VALLEY BOULEVARD • P.O. BOX 399  
ROSEMEAD, CALIFORNIA 91770  
TELEPHONE (626) 569-2100  
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## Prior Period Adjustment April 30, 2008

Account No.	Description	Dr.	Cr.
2990-01	Fund Balance/General Fund	149,636	
1000-01	Cash/General Fund		149,636
1042-45	Cash/RCDC Capital Projects Fund	149,636	
2980-45	Fund Balance/RCDC Capital Projects Fund		149,636

General Fund reimbursement of street construction costs charged to the Redevelopment Agency in error. FY 2000-01: \$17,047; FY 2001-02: \$123,644

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

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