CITY OF ROCKLIN

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2015

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2007, through June 30, 2015

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2015

BETTY T. YEE

California State Controller

June 2016

BETTY T. YEE
California State Controller

June 13, 2016

The Honorable George Magnuson
Mayor of the City of Rocklin
3970 Rocklin Road
Rocklin, CA 95677

Dear Mayor Magnuson:

The State Controller's Office audited the City of Rocklin's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2015. We also audited the Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund for the period of July 1, 2007, through June 30, 2015; and the Proposition 1B Fund allocations recorded in its Proposition 1B Fund for the period of July 1, 2007, through June 30, 2015.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with requirements, except that, as of June 30, 2015, the city overstated the fund balance for its Traffic Congestion Relief Fund allocations by $102,466. The city overstated the fund balance because it did not expend all of its fiscal year 2007-08 Traffic Congestion Relief Fund allocations as required. The city agreed with the finding and reclassified other eligible expenditures to eliminate the unexpended amount.

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits Bureau, by telephone at (916) 284-0120.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Kim Sarkovich, Chief Financial Officer
City of Rocklin

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Rocklin's:

- Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2015;
- Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund for the period of July 1, 2007, through June 30, 2015; and
- Proposition 1B Fund allocations recorded in its Proposition 1B Fund for the period of July 1, 2007, through June 30, 2015.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with requirements, except that, as of June 30, 2015, the city overstated the fund balance for its Traffic Congestion Relief Fund allocations by $102,466. The city overstated the fund balance because it did not expend all of its fiscal year 2007-08 allocations as required. The city agreed with the finding and reclassified other eligible expenditures to eliminate the unexpended amount.

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 Article XIX of the California Constitution and Streets and Highways Code section 2101, 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.

Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 636, Statutes of 2000, (Senate Bill 1662) and 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 Traffic Congestion Relief Fund allocations in its Traffic Congestion Relief Fund. We conducted our audit of the city's Traffic Congestion Relief Fund allocations under the authority of Revenue and Taxation Code section 7104.

Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of

transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties must be deposited into an account that is designated for the receipt of State funds allocated for streets and roads. The city recorded its Proposition 1B Fund allocations in its Proposition 1B Fund. A city also must expend its allocations within four years following the end of the fiscal year in which the allocation was made and to expend the funds in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B Fund allocations under the authority of Government Code section 12410.

Objectives, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with Article XIX of the California Constitution, the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23.

To meet the audit objective, we performed the following procedures:

Special Gas Tax Street Improvement Fund

- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule to determine whether Highway Users Tax Account (HUTA) funds received by the city were completely accounted for.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine whether HUTA funds were expended in accordance with the criteria above.
- Analyzed and tested sample transactions to determine whether recoveries of prior HUTA fund expenditures were identified and credited to the Special Gas Tax Street Improvement Fund.
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures.
- Interviewed city employees and reviewed policies and procedures to gain an understanding of the city's internal controls and accounting systems related to this audit.

Traffic Congestion Relief Fund Allocations

- Reconciled the Traffic Congestion Relief Fund allocations recorded in the city ledger to confirm that the allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.

- Reconciled the city's "Schedule of Expenditures as Reported in the Streets and Roads Annual Report" with the SCO's "Average Annual Expenditures Computation of Discretionary Funds" to determine compliance with the maintenance-of-effort requirement.

Proposition 1B Fund Allocations

- Reconciled the Proposition 1B Fund allocations recorded in the city ledger to confirm that the allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in accordance with the requirements of the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street-related purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit found that the City of Rocklin 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, 2007, through June 30, 2015.

- Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief 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, 2007, through June 30, 2015, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of $102,466 to the city's accounting records.

- Proposition 1B Fund allocations recorded in its Proposition 1B Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2015.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on December 13, 1999, disclosed no findings.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on February 18, 2016. Kim Sarkovich, Chief Financial Officer; Justin Nartker, Deputy Director of Public Services; Matt McClure, Assistant to the Public Services Director; Mary Rister, Finance Officer; Angela Doyle, Accountant II; and Andy Shultz, Accountant, agreed with the audit results. Ms. Sarkovich 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 the City of Rocklin 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, CPA
Chief, Division of Audits

June 13, 2016

Schedule 1—
Reconciliation of Fund Balance
July 1, 2014, through June 30, 2015

	Special Gas Tax Street Improvement Fund [1, 3]	Traffic Congestion Relief Fund Allocations [2]
Beginning fund balance per city	$2,806,577	$ 102,466
Revenues	1,693,014	–
Total funds available	4,499,591	102,466
Expenditures	(2,404,565)	–
Ending fund balance per city	2,095,026	102,466
SCO adjustment: [4]		
Finding—Expenditure requirement not met	–	(102,466)
Ending fund balance per audit	$2,095,026	$ –

[1] The city receives apportionments from the State Highway Users Tax Account (HUTA), pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments 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. The city must deposit its HUTA apportionment in its Special Gas Tax Street Improvement Fund. The audit period was July 1, 2007, through June 30, 2015; however, this schedule includes only the period of July 1, 2014, through June 30, 2015.

[2] 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 and road maintenance, reconstruction, and storm damage repair. The city recorded its Traffic Congestion Relief Fund allocations in its Traffic Congestion Relief Fund. The audit period was July 1, 2007, through June 30, 2015; however, this schedule includes only the period of July 1, 2014, through June 30, 2015.

[3] Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds for a variety of transportation priorities. The city recorded its Proposition 1B Fund allocations in its Proposition 1B Fund. The audit period was July 1, 2007, through June 30, 2015. The city did not receive any Proposition 1B revenues and did not incur any Proposition 1B expenditures during FY 2014-15; therefore, it is not included in this schedule.

[4] See the Finding and Recommendation section.

Finding and Recommendation

FINDING—Expenditure requirement not met

The city did not expend all of its $344,027 in Traffic Congestion Relief Fund allocations received during fiscal year 2006-07 within the following fiscal year as required by Streets and Highways Code section 2182.1 (g). The unexpended allocation is $102,466.

Streets and Highways Code section 2182.1 (g) requires a city to expend its Traffic Congestion Relief Fund allocation within the fiscal year following the fiscal year in which the allocation was made. In addition, the code indicates that funds not expended within that period shall be returned to the State Controller's Office.

The city provided additional information for street-related expenditures recorded in its SB325 Fund to be considered for reclassification to eliminate the unexpended Traffic Congestion Relief Fund allocation. We reviewed the additional documents and determined that the expenditures were an eligible use of Traffic Congestion Relief Fund allocations and, therefore, could be reclassified to eliminate the unexpended allocation.

The city reclassified these expenditures through Journal Entry #238, dated February 18, 2016.

Recommendation

The city should establish procedures to ensure that funding requirements are met.

State Controller's Office
Division of Audits
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