

CITY OF SIMI VALLEY

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2009, through June 30, 2010

TRAFFIC CONGESTION RELIEF FUND

July 1, 2006, through June 30, 2010



JOHN CHIANG
California State Controller

July 2011



JOHN CHIANG
California State Controller

July 29, 2011

The Honorable Bob Huber
Mayor of the City of Simi Valley
2929 Tapo Canyon Road
Simi Valley, CA 93063

Dear Mayor Huber:

The State Controller's Office audited the City of Simi Valley's Special Gas Tax Street Improvement Fund for the period of July 1, 2009, through June 30, 2010. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2006, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, and that no adjustment to the funds is 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/vb

cc: Mike Sedell, City Manager
City of Simi Valley
James Purtee, Director of Administrative Services
City of Simi Valley
Jody Kershberg, Deputy Director, Fiscal Services
City of Simi Valley

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Audit Report

Summary

The State Controller's Office audited the City of Simi Valley's Special Gas Tax Street Improvement Fund for the period of July 1, 2009, through June 30, 2010. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2006, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, and that no adjustment to the funds 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 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.

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 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 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 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 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 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 the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund in accordance with the requirements of the Streets and Highways Code and 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 Simi Valley 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, 2009, through June 30, 2010.

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, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2006, through June 30, 2010.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on August 22, 2008, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on April 12, 2011. Mike Sedell, City Manager, responded by letter dated April 27, 2011, disagreeing with the audit results. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is intended for the information and use of the City of Simi Valley's 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

July 29, 2011

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2009, through June 30, 2010**

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ —	\$ 1,060,643
Revenues	<u>2,048,260</u>	<u>1,163,641</u>
Total funds available	2,048,260	2,224,284
Expenditures	<u>(2,048,260)</u>	<u>(1,060,642)</u>
Ending fund balance per city	—	1,163,642
Timing adjustment:		
Accrual of June 2010 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	190,834	—
SCO adjustment ³	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 190,834</u>	<u>\$ 1,163,642</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 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.

² 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 Traffic Congestion Relief Fund. The audit period was July 1, 2006, through June 30, 2010.

³ See the Finding and Recommendation section.

Finding and Recommendation

FINDING— TCRF expenditure requirement not met

The city did not meet the Traffic Congestion Relief Fund (TCRF) expenditure requirement for allocations received in fiscal year (FY) 2006-07 and FY 2008-09, as required by Streets and Highways Code section 2182.1(g). This code section requires a city to expend its TCRF allocations within the fiscal year following the fiscal year in which allocations were made. In addition, the code indicates that funds not expended within that period shall be returned to the Controller.

The allocations not expended within the required periods totaled \$262,607 (\$13,066 in FY 2006-07 and \$249,541 in FY 2008-09).

Recommendation

The city must return the TCRF allocations, in the amount of \$262,607, to the State Controller's Office, ATTN: Bill Byall, P.O. Box 942850, Sacramento, CA 94250-5872.

City's Response

The State Controller's Office (SCO) recently audited the City of Simi Valley's Special Gas Tax Street Improvement Fund for the period July 1, 2009 through June 30, 2010, and the Traffic Congestion Relief Fund (TCRF) allocations for the period July 1, 2006 through June 30, 2010. The City agrees with the accuracy of the audit findings. However, the City requests a waiver from the Finding: TCRF expenditure requirement not met.

The City's Erringer Road Widening, Madera/Olsen Road Improvements, and Street Rehab/Overlay projects, where TCRF allocations were applied, had total eligible expenditures from July 1, 2006 through June 30, 2010, in excess of \$4,361,724. During this same period, transfers of \$2,128,692 from the Congestion Mitigation Fund (where the TCRF allocations are accounted) partially covered the expenditures. Because of an error in accounting procedures, General Fund and Enterprise Fund transfers were used to cover the eligible expenditures, instead of transferring additional eligible amounts from the Congestion Mitigation Fund.

The City requests that it be allowed to correct this accounting error by applying the unspent TCRF allocations totaling \$262,607 to the streets and roads projects referenced above. Said expenditures occurred within the required two-year roll over period, and this action will resolve the audit Finding.

As is the case with most cities in California, our current budget is particularly tight, and it will cause a severe hardship for the City to return funds, which were expended in a prior year.

SCO's Comment

After reviewing the response to our draft report and additional documentation provided by the city, we conclude that the city made accounting errors. Correction of an accounting error may be made after the error is discovered. Our subsequent review confirms that the city did have sufficient expenditures to apply against the TCRF allocations for FY 2006-07 and FY 2008-09. The expenditures are attributed to the Erringer Road Widening Project, the Madera/Olsen Road Improvement Project, and the Street Rehab/Overlay Projects. The city's correction of the accounting errors render it in compliance with Streets and Highways Code section 2182.1(g). The finding is withdrawn.

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



CITY OF SIMI VALLEY

Home of The Ronald Reagan Presidential Library

April 27, 2011

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

RE: STATE CONTROLLER'S OFFICE DRAFT AUDIT REPORT OF GAS TAX
AND TRAFFIC CONGESTION RELIEF FUNDS, DATED APRIL 12, 2011

Dear Mr. Mar:

The State Controller's Office (SCO) recently audited the City of Simi Valley's Special Gas Tax Street Improvement Fund for the period July 1, 2009 through June 30, 2010, and the Traffic Congestion Relief Fund (TCRF) allocations for the period July 1, 2006 through June 30, 2010. The City agrees with the accuracy of the audit findings. However, the City requests a waiver from the Finding: TCRF expenditure requirement not met.

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As is the case with most cities in California, our current budget is particularly tight, and it will cause a severe hardship for the City to return funds, which were expended in a prior year.

State Controller's Office Draft Audit Report
April 27, 2011

Thank you for your consideration of this request.

Sincerely,


Mike Sedell
City Manager

cc: James Purtee, Director of Administrative Services
Ron Fuchiwaki, Director of Public Works
Kamran Panah, Principal Engineer/Capital Projects
Laurie Vollmer, Administrative Officer
Jody Kershberg, Deputy Director/Fiscal Services
Yvette Moore, Senior Management Analyst

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

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