

CITY OF VILLA PARK

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2008, through June 30, 2011

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2008, through June 30, 2010



JOHN CHIANG
California State Controller

July 2012



JOHN CHIANG
California State Controller

July 11, 2012

The Honorable Brad Reese
Mayor of the City of Villa Park
17855 Santiago Boulevard
Villa Park, CA 92861

Dear Mayor Reese:

The State Controller's Office audited the City of Villa Park's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2011. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Aid to Cities Fund for the period of July 1, 2008, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and TCRF allocations recorded in the Aid to Cities Fund in compliance with requirements, except the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$47,692 as of June 30, 2011, because it recorded its fiscal year 2010-11 Section 2103 allocations in the Aid to Cities Fund.

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/bf

cc: Michelle Danaher, Finance Director
City of Villa Park
Lori Sassoon, City Manager
City of Villa Park

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Villa Park's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2011. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Aid to Cities Fund for the period of July 1, 2008, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and TCRF allocations recorded in the Aid to Cities Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$47,692 as of June 30, 2011, because it recorded Section 2103 allocations in the Aid to Cities Fund.

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 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 Aid to Cities 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 TCRF allocations recorded in the Aid to Cities 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 TCRF allocations recorded in the Aid to Cities 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 Villa Park 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, 2008, through June 30, 2011, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$47,692 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Aid to Cities 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, 2008, through June 30, 2010.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on April 24, 2009, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on May 16, 2012. Michelle Danaher, Finance Director, responded by e-mail dated June 4, 2012, agreeing with the audit results.

Restricted Use

This report is intended for the information and use of the City of Villa Park'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 11, 2012

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2010, through June 30, 2011**

	<u>Special Gas Tax Street Improvement Fund¹</u>
Beginning fund balance per city	\$ 79,702
Revenues	<u>105,891</u>
Total funds available	185,593
Expenditures	<u>(36,844)</u>
Ending fund balance per city	<u>148,749</u>
Timing adjustment:	
Accrual of June 2011 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	9,124
SCO adjustments: ²	
Finding—Streets and Highways Code section 2103 apportionments incorrectly recorded in the Aid to Cities Fund	<u>47,692</u>
Total SCO adjustments	<u>56,816</u>
Ending fund balance per audit	<u>\$ 205,565</u>

¹ The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2103, 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. The audit period was July 1, 2008, through June 30, 2011; however, this schedule includes only the period of July 1, 2010, through June 30, 2011.

² See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Streets and Highways
Code section 2103
apportionments
incorrectly recorded**

During fiscal year 2010-11, the city incorrectly recorded Streets and Highway Code section 2103 apportionments in the Aid to Cities Fund. As of June 30, 2011, \$47,692 of these moneys remained in the Aid to Cities Fund.

Streets and Highways Code section 2103 requires that all state gas tax apportionments be deposited into the Special Gas Tax Street Improvement Fund.

Recommendation

The city must transfer the remaining \$47,692 of Streets and Highways Code section 2103 moneys from the Aid to Cities Fund to the Special Gas Tax Street Improvement Fund. Additionally, the city should ensure that future state gas tax apportionments are recorded in the Special Gas Tax Street Improvement Fund.

City's Response

The city informed us that it had transferred the \$47,692 of Streets and Highway Code section 2103 moneys from the Aid to Cities Fund to the Special Gas Tax Street Improvement Fund.

SCO's Comment

The city agreed with the finding and recommendation.

**State Controller's Office
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