

# **CITY OF ARCADIA**

Audit Report

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

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



**JOHN CHIANG**  
California State Controller

August 2007



**JOHN CHI ANG**  
**California State Controller**

August 31, 2007

Tracey Hause  
Director of Administrative Services  
City of Arcadia  
240 West Huntington Drive  
P.O. Box 60021  
Arcadia, CA 91066-6021

Dear Ms. Hause:

The State Controller's Office audited the City of Arcadia'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 Special Gas Tax Street Improvement 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, except that the city understated the fund balance by \$60,103 as of June 30, 2006. This understatement occurred because the city transferred money from the Special Gas Tax Street Improvement Fund to the General Fund to reimburse general street maintenance expenditures that were based on the budgeted amount, which exceeded actual costs incurred. Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with requirements.

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/wm

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Arcadia'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 Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2006. The last day of fieldwork was April 23, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city understated the fund balance by \$60,103 as of June 30, 2006. This understatement occurred because the city transferred money from the Special Gas Tax Street Improvement Fund to the General Fund to reimburse general street maintenance expenditures that were based on the budgeted amount, which exceeded actual costs incurred. Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with requirements.

## 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 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 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 its TCRF allocations in the Special Gas Tax Street Improvement Fund. We conducted our audit of the city's TCRF allocations 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 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 Special Gas Tax Street Improvement Fund 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 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, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$60,103 to the city's accounting records. Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with requirements for the period of July 1, 2000, through June 30, 2006.

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

The city satisfactorily resolved the findings noted in our prior audit report, issued in August 2001.

## **Views of Responsible Official**

We issued a draft audit report on May 25, 2007. Shannon Huang, Finance Services Manager/City Treasurer, responded by telephone on July 2, 2007, agreeing with the audit results. The city's response is included in this 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

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

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation <sup>1</sup>	TCRF Allocation <sup>2</sup>	Totals
Beginning fund balance per city	\$ 1,566,469	\$ —	\$ 1,566,469
Revenues	<u>1,127,655</u>	<u>251,095</u>	<u>1,378,750</u>
Total funds available	2,694,124	251,095	2,945,219
Expenditures	<u>(1,303,247)</u>	<u>(251,095)</u>	<u>(1,554,342)</u>
Ending fund balance per city	1,390,877	—	1,390,877
SCO adjustment: <sup>3</sup>			
Finding—Transfer in excess of actual expenditures	<u>60,103</u>	<u>—</u>	<u>60,103</u>
Ending fund balance per audit	<u>\$ 1,450,980</u>	<u>\$ —</u>	<u>\$ 1,450,980</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 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.

<sup>2</sup> 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.

<sup>3</sup> See the Finding and Recommendation section.

# Finding and Recommendation

**FINDING—  
Transfer in excess of  
actual expenditures**

The city transferred money from the Special Gas Tax Street Improvement Fund to the General Fund to reimburse general street maintenance expenditures based upon its budgeted amount. The budgeted amount exceeded the actual amount by \$60,103.

Streets and Highways Code section 2101 requires that gas tax funds be spent on allowable and verifiable expenditures.

The city should transfer back to the Special Gas Tax Street Improvement Fund \$60,103 for expenditures that the city did not incur.

Recommendation

We recommend that the city ensure that funds being transferred out of the Special Gas Tax Street Improvement Fund are for actual costs incurred in accordance with the Streets and Highways Code section 2101.

City's Response

The city responded by telephone on July 2, 2007, and agreed with our finding and recommendation. Upon receipt of this final audit report, the city will transfer \$60,103 to the Special Gas Tax Street Improvement Fund for expenditures that were not incurred.

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