

CITY OF COMPTON

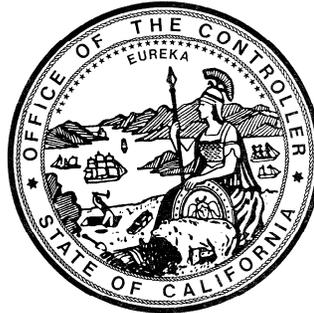
Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2007

TRAFFIC CONGESTION RELIEF FUND

July 1, 2000, through June 30, 2007



JOHN CHIANG
California State Controller

August 2008



JOHN CHIANG
California State Controller

August 22, 2008

The Honorable Eric Perrodin
Mayor of the City of Compton
205 South Willowbrook Avenue
Compton, CA 90220

Dear Mayor Perrodin:

The State Controller's Office audited the City of Compton's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2000, through June 30, 2007.

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, except the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$406,760 as of June 30, 2007, because it:

- Did not include the gas tax expenditure error adjustment of \$214,450 as noted in our previous audit report dated April 5, 1999; and
- Did not adjust the gas tax deficit fund balance of \$192,310 for the fiscal year ended June 30, 2005.

In addition, our audit disclosed that the city understated the fund balance in its Traffic Congestion Relief Fund by \$85,074 as of June 30, 2007, because it:

- Had a deficit fund balance of \$43,869 for the fiscal year ended June 30, 2004; and
- Incurred ineligible street expenditures totaling \$41,205 for the fiscal year ended June 30, 2001.

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/sk:vb

cc: Willie Norfleet, City Controller
City of Compton
Stephen Ajobiente, Internal Auditor
City of Compton

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Follow-Up on Prior Audit Findings	3
Views of Responsible Official	3
Restricted Use	3
Schedule 1—Reconciliation of Fund Balance	4
Findings and Recommendations	5
Attachment—City’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office audited the City of Compton's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2000, through June 30, 2007.

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, except for our adjustments to the funds.

The city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$406,760 as of June 30, 2007, because it:

- Did not include the gas tax expenditure error adjustment of \$214,450 as noted in our previous audit report dated April 5, 1999; and
- Did not adjust the gas tax deficit fund balance of \$192,310 for the fiscal year ended June 30, 2005.

In addition, our audit disclosed that the city understated the fund balance in its Traffic Congestion Relief Fund by \$85,074 as of June 30, 2007, because it:

- Had a deficit fund balance of \$43,869 for the fiscal year ended June 30, 2004; and
- Incurred ineligible street expenditures totaling \$41,205 for the fiscal year ended June 30, 2001.

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 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 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 Compton 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, 2006, through June 30, 2007, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of \$406,760 to the city's accounting records.

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, 2000, through June 30, 2007, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of \$85,074 to the city's accounting records.

**Follow-Up on Prior
Audit Findings**

The city did not satisfactorily resolve the findings noted in our prior audit report, issued on April 5, 1999. The city did not include the gas tax expenditure error adjustment for fiscal year 1996-97 in the amount of \$216,450. This adjustment is included in Finding 1 of the Findings and Recommendations section.

**Views of
Responsible
Official**

We issued a draft report on June 27, 2008. Willie Norfleet, City Controller, responded by letter dated July 8, 2008, agreeing 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 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

August 22, 2008

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2006, through June 30, 2007**

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ 66,816	\$ 311,573
Revenues	<u>1,771,245</u>	<u>845,567</u>
Total funds available	1,838,061	1,157,140
Expenditures	<u>(1,607,428)</u>	<u>(859,354)</u>
Ending fund balance per city	<u>230,633</u>	<u>297,786</u>
Timing adjustment:		
Accrual of June 2007 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	<u>163,009</u>	<u>—</u>
SCO adjustments: ³		
Finding 1—Expenditure error adjustment-Gas Tax	214,450	—
Finding 2—Deficit fund balance-Gas Tax	192,310	—
Finding 3—Deficit fund balance-TCRF	—	43,869
Finding 4—Ineligible street expenditures-TCRF	<u>—</u>	<u>41,205</u>
Total SCO adjustments	<u>406,760</u>	<u>85,074</u>
Ending fund balance per audit	<u>\$ 800,402</u>	<u>\$ 382,860</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, 2000, through June 30, 2007.

³ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Expenditure error
adjustment-Gas tax**

The city did not include the fiscal year (FY) 1996-97 expenditure error adjustment of \$214,450 in the gas tax fund balance for FY 1997-98. The prior State Controller's Office gas tax audit report for FY 1996-97 required the city to adjust the gas tax fund balance due to an expenditure error of \$214,450.

Recommendation

The city should transfer \$214,450 into the gas tax fund balance for fiscal year ended June 30, 2007 to incorporate the FY 1996-97 expenditure error adjustment.

Additionally, city officials should review the gas tax adjustments to ensure that they are included in the gas tax general ledger report. The city should also review the requirements of the gas tax fund to ensure compliance with program requirements.

City's Response

Adjustments have been made in the books to correct the expenditure error. We are continuing the review and strengthening of controls to ensure compliance with the program requirements.

SCO's Comment

The city concurred with our findings.

**FINDING 2—
Deficit fund balance-
Gas tax**

As of June 30, 2005, the recorded fund balance in the gas tax fund was a deficit \$192,310. By definition, each fund is a separate fiscal and accounting entity with a self-balancing set of accounts. A fund with a deficit fund balance would be insolvent. In addition, encumbering future highway apportionments to finance current-year and prior-year expenditures is contrary to generally accepted accounting principles.

Recommendation

The city should replenish the gas tax fund by \$192,310 to eliminate the deficit fund balance. In the future, the city should adopt a balanced budget that limits expenditures to the amount of funds available.

City's Response

Necessary adjustments have been made to eliminate the deficit fund balance.

SCO's Comment

The city concurred with our findings.

**FINDING 3—
Deficit fund balance-
TCRF**

As of June 30, 2004, the recorded balance in the Traffic Congestion Relief Fund was a deficit \$43,869. By definition, each fund is a separate fiscal and accounting entity with a self-balancing set of accounts. A fund with a deficit fund balance would be insolvent. In addition, encumbering future TCRF allocations to finance current-year and prior-year expenditures is contrary to generally accepted accounting principles.

Recommendation

The city should replenish the Traffic Congestion Relief Fund by \$43,869 to eliminate the deficit fund balance. In the future, the city should adopt a balanced budget that limits expenditures to the amount of funds available.

City's Response

The Traffic Congestion Relief Fund has been replenished to eliminate the deficit fund balance.

SCO's Comment

The city concurred with our findings.

**FINDING 4—
Ineligible street
expenditures-TCRF**

The city recorded ineligible street-sweeping expenditures of \$41,205 in the Traffic Congestion Relief Fund for FY 2006-07. Revenue and Taxation Code section 7104(e)(c) states:

Funds allocated to the city shall be used only for street and highway maintenance, rehabilitation, reconstruction and storm damage repair. For the purpose of this section, "Maintenance" means, Patching, Overlay and Sealing; "Reconstruction" includes any overlay, sealing or widening of the road.

Recommendation

The city should replenish the Traffic Congestion Relief Fund by \$41,205 for the ineligible street sweeping expenditures for the FY 2006-07.

City's Response

The Traffic Congestion Relief Fund has been reimbursed for the ineligible street sweeping expenditures.

SCO's Comment

The city concurred with our findings.

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



City of Compton
OFFICE OF THE CITY CONTROLLER

(310) 605-5576
Fax: (310) 764-5897

July 8, 2008

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

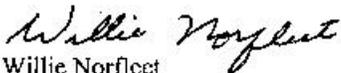
Dear Mr. Mar:

Response to Audit Report of the City of Compton – Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund

We enclosed the response to the audit report regarding the State audit of the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund of the City of Compton for the periods of July 1, 2006 through June 30, 2007 and July 1, 2000 through June 30, 2007 respectively.

If you require any clarification or explanation, please do not hesitate to contact us.

Sincerely,


Willie Norfleet
City Controller

WN/ssa

Attachment



COMPTON CITY HALL
205 South Willowbrook Avenue Compton, California 90220

Findings and Recommendations

**FINDING 1 –
Expenditure error
adjustment-Gas tax**

Response

Adjustments have been made in the books to correct the expenditure error. We are continuing the review and strengthening of controls to ensure compliance with the program requirements.

**FINDING 2 –
Deficit fund balance-
Gas tax**

Response

Necessary adjustments have been made to eliminate the deficit fund balance.

**FINDING 3 –
Deficit fund balance-
TCRF**

Response

The Traffic Congestion Relief Fund has been replenished to eliminate the deficit fund balance.

**FINDING 4 –
Ineligible street
expenditures-TCRF**

Response

The Traffic Congestion Relief Fund has been reimbursed for the ineligible street sweeping expenditures.

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

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