

CITY OF SIMI VALLEY

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2006



JOHN CHIANG
California State Controller

August 2008



JOHN CHIANG
California State Controller

August 22, 2008

The Honorable Paul Miller
Mayor of the City of Simi Valley
2929 Tapo Canyon Road
Simi Valley, CA 93063-2199

Dear Mayor Miller:

The State Controller's Office audited the City of Simi Valley'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 Congestion Mitigation 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 and TCRF allocations recorded in the Congestion Mitigation 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/sk:vb

cc: Lika Garg
Deputy Director of Fiscal Services
City of Simi Valley

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Audit Report

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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, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Congestion Mitigation 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. Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Congestion Mitigation 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 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 Congestion Mitigation 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 Congestion Mitigation 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 TCRF allocations recorded in the Congestion Mitigation 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, 2005, through June 30, 2006.

Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Congestion Mitigation 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, 2006.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on July 16, 1999, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on June 20, 2008. James Purtee, Director of Administrative Services, responded by letter dated July 9, 2008, agreeing with the audit results with an explanation. 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, 2005, through June 30, 2006**

| | Special Gas Tax Street Improvement Fund ¹ | Traffic Congestion Relief Fund Allocation ² |
|---------------------------------|---|---|
| Beginning fund balance per city | \$ — | \$ 2,517 |
| Revenues | <u>2,235,627</u> | <u>548,767</u> |
| Total funds available | 2,235,627 | 551,284 |
| Expenditures | <u>(2,235,627)</u> | <u>(120,500)</u> |
| Ending fund balance per city | — | 430,784 |
| SCO adjustment ³ | <u>—</u> | <u>—</u> |
| Ending fund balance per audit | <u><u>\$ —</u></u> | <u><u>\$ 430,784</u></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 Congestion Mitigation Fund. The audit period was July 1, 2000, through June 30, 2006.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— TCRF expenditure requirement not met

The city did not expend all of the fiscal year (FY) 2001-02 Traffic Congestion Relief Fund (TCRF) allocations received by June 30, 2003. The unexpended balance totaled \$34,732. As a result, the city did not meet the TCRF's expenditure requirement for FY 2001-02 as required by Streets and Highways Code section 2182(g) which states that apportionments:

Shall be expended not later than the end of the fiscal year following the fiscal year in which the allocation was made, and any funds not expended within that period shall be returned to the Controller.

Recommendation

The city must return all unexpended Traffic Congestion Relief Program funds received in FY 2001-02 and not expended by June 30, 2003. The amount of unexpended TCRF allocations total \$34,732. Therefore, this amount must be returned to: State Controller's Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

Additionally, the city should review its TCRF requirements to ensure future compliance with the program.

City's Response

The Minor Street Overlay project where the TCRF allocations were applied had total expenditures in FY 2002-03 of \$354,731.53. A transfer of \$185,400 from the Congestion Mitigation Fund (where the TCRF allocations are accounted) partially covered the expenditures. An accounting error occurred when a transfer from the General Fund was utilized to cover the balance of the expenditures instead of transferring an additional \$34,732 from the Congestion Mitigation Fund.

SCO's Comment

After reviewing the city's response to our draft report, we have concluded that accounting errors were made by the city. Correction of an accounting error may be made after the error is discovered. The city's correction of the accounting error brings the city in compliance with Streets and Highways Code sections 2182 and 2182.5 and Revenue and Taxation Code section 7104. The finding is reversed.

**FINDING 2—
Ineligible TCRF
expenditure**

The city did not meet its expenditure requirement during FY 2001-02, as noted in Finding 1. Consequently, the expenditure of these funds totaling \$32,732 was not eligible.

Recommendation

The city must reimburse the TCRF allocations by \$32,215 to eliminate the ineligible expenditures.

City's Response

The correction for finding 1 will also correct finding 2.

SCO's Comment

The city's correction of the accounting error referred to in Finding 1 makes Finding 2 unnecessary. The finding is reversed.

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



CITY OF SIMI VALLEY

Home of The Ronald Reagan Presidential Library

July 9, 2008

Mr. Steven Mar
Chief, Division of Audits
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 JUNE 20, 2008

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, 2005 through June 30, 2006, and the Traffic Congestion Relief Fund (TCRF) allocations for the period July 1, 2000 through June 30, 2006. The City agrees with the accuracy of the audit findings. However, the City requests a waiver from Finding 1 - TCRF expenditure requirement not met.

The Minor Street Overlay project where the TCRF allocations were applied had total expenditures in FY 2002-03 of \$354,731.53. A transfer of \$185,400 from the Congestion Mitigation Fund (where the TCRF allocations are accounted) partially covered the expenditures. An accounting error occurred when a transfer from the General Fund was utilized to cover the balance of the expenditures instead of transferring an additional \$34,732 from the Congestion Mitigation Fund.

The City requests that it be allowed to correct this accounting error and apply the FY 2001-02 unspent amount of \$34,732 TCRF allocations to the FY 2002-03 Minor Street Overlay project which would be within the required expenditure deadline.

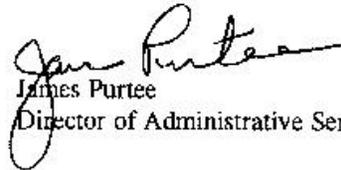
If the SCO grants the City's request to correct the accounting error as requested above, Finding 2 - Ineligible TCRF expenditure will also be resolved.

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

State Controller's Office draft audit report
July 9, 2008

Thank you for your consideration of our request.

Sincerely,


James Purtee
Director of Administrative Services

cc: Ron Fuchiwaki, Director of Public Works
Kamran Panah, Principal Engineer/Capital Projects
Laurie Vollmer, Administrative Officer
Lika Garg, Deputy Director/Fiscal Services
Yvette Moore, Management Analyst

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

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