

# **CITY OF CERES**

Audit Report

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

*July 1, 2000, through June 30, 2010*

## **TRAFFIC CONGESTION RELIEF FUND**

*July 1, 2000, through June 30, 2010*

## **PROPOSITION 1B FUND**

*July 1, 2007, through June 30, 2010*



**JOHN CHIANG**  
California State Controller

August 2013



**JOHN CHIANG**  
**California State Controller**

August 7, 2013

The Honorable Chris Vierra  
Mayor of the City of Ceres  
2720 Second Street  
Ceres, CA 95307

Dear Mayor Vierra:

The State Controller's Office audited the City of Ceres' Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2010. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2000, through June 30, 2010, and reviewed the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2010.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Proposition 1B Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$11,463 as of June 30, 2010, because it charged ineligible expenditures against the fund.

In addition, our audit found that the city overstated the fund balance in its Traffic Congestion Relief Fund by \$1,616,171 as of June 30, 2010. The city overstated the fund balance because it failed to meet its maintenance of effort requirements. The city was aware that it would not be able to meet its maintenance of effort amount early on, when Traffic Congestion Relief Funds were first allocated, so it set aside that money knowing that it would have to be returned to the State Controller's Office.

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, CPA**  
Chief, Division of Audits

JVB/vb

cc: Suzanne Dean, Budget and Accounting Manager  
City of Ceres  
Steven Mar, Bureau Chief  
Division of Audits, State Controller's Office  
Mike Spalj, Audit Manager  
Division of Audits, State Controller's Office

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# Audit Report

## Summary

The State Controller's Office audited the City of Ceres' Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2010. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2000, through June 30, 2010, and reviewed the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2010.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Proposition 1B Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$11,463 as of June 30, 2010, because it charged ineligible expenditures against the fund.

Our audit also found that the city overstated the fund balance in its Traffic Congestion Relief Fund by \$1,616,171 as of June 30, 2010. The city overstated the fund balance because it failed to meet its maintenance of effort requirements. The city was aware that it would not be able to meet its maintenance of effort amount early on, when Traffic Congestion Relief Funds were first allocated, so it set aside that money knowing that it would have to be returned to the State Controller's Office.

## 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 Traffic Congestion Relief Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties shall be deposited into an account that is designated for the receipt of state funds allocated for streets and roads. The city recorded its

Proposition 1B allocations in the Proposition 1B Fund. A city also is required to expend its allocations within three years following the end of the fiscal year in which the allocation was made and to expend the allocation in compliance with Government Code section 8879.23. We conducted our review of the city's Proposition 1B allocations under the authority of Government Code section 12410.

## **Objective, Scope, and Methodology**

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and the Proposition 1B Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Government Code section 8879.23. 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, the Traffic Congestion Relief Fund, and the Proposition 1B Fund in accordance with the requirements of the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23. 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 found that the City of Ceres accounted for but did not expend 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, 2000, through June 30, 2010, as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of \$11,463 to the city's accounting records.

Our audit also found 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, 2010, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings requires an adjustment of \$1,616,171 to the city's accounting records.

In addition, our review found that the city accounted for and expended its Proposition 1B Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2010.

**Follow-Up on Prior Audit Findings**

Our prior audit report, issued in December 2001, disclosed no findings.

**Views of Responsible Officials**

We discussed the audit results with city representatives by telephone on July 15, 2013. Suzanne Dean, Budget and Accounting Manager and Leticia Dias, Accountant, agreed with the audit results. Ms. Dean and Ms. Dias further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

**Restricted Use**

This report is intended for the information and use of the City of Ceres' 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, CPA  
Chief, Division of Audits

August 7, 2013

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

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation <sup>1</sup>	Traffic Congestion Relief Fund <sup>2</sup>	Proposition 1B Fund <sup>3</sup>
Beginning fund balance per city	\$ 104,764	\$ 1,140,133	\$ 690,174
Revenues	<u>1,209,649</u>	<u>367,804</u>	<u>629,478</u>
Total funds available	1,314,413	1,507,937	1,319,652
Expenditures	<u>(1,208,320)</u>	<u>—</u>	<u>(6,843)</u>
Ending fund balance per city	106,093	1,507,937	1,312,809
Timing adjustment:			
Accrual of June 2009 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	8,657	108,234	—
SCO adjustments: <sup>4</sup>			
Finding 1—MOE not met	—	(1,616,171)	—
Finding 2—Ineligible gas tax expenditures	<u>11,463</u>	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 126,213</u>	<u>\$ —</u>	<u>\$ 1,312,809</u>

<sup>1</sup> 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 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, 2000, through June 30, 2010; however, this schedule includes only the period of July 1, 2009, through June 30, 2010.

<sup>2</sup> 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, 2010.

<sup>3</sup> Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds for a variety of transportation priorities. The audit period was July 1, 2007, through June 30, 2010.

<sup>4</sup> See the Findings and Recommendations section.

# Findings and Recommendations

**FINDING 1—  
Maintenance-of-effort  
requirement not met**

During fiscal year (FY) 2009-10, the city’s Traffic Congestion Relief Fund (TCRF) balance was overstated by \$1,616,171. The overstatement occurred because the city failed to meet its maintenance-of-effort (MOE) requirements.

The city’s expenditures of discretionary funds for street maintenance, rehabilitation, reconstruction, and storm damage repair did not meet the MOE requirements of the Streets and Highways Code section 2182.1(b) in FY 2000-01 through FY 2009-10. The city’s MOE requirement of \$325,338 was not met for all the periods under audit.

Streets and Highways Code section 2182.1(b) states:

In order to receive any allocation pursuant to section 2182, the city or county shall annually expend from its general fund or street, road, and highway purposes an amount not less than the annual average of its expenditures from its general fund during the 1996-97, 1997-98, and 1998-99 fiscal years, as reported to the Controller pursuant to section 2151.

If a city or county fails to comply with the Three-Year Average requirement, it may elect the Two-Year Option, which requires it to expend in the following fiscal year an amount that is not less than twice the Three-Year Average, less the previous year’s expenditures combined, to meet the MOE requirement. However, the city did not expend enough discretionary funds for street activities to meet this option either.

Streets and Highways Code section 2182.1(e) states:

Any city or county that has not complied with subdivision (b) shall reimburse the state for the funds it received during that fiscal year.

During the fiscal years under audit, the city received the following TCRF allocations:

Year	Amount
FY 2000-01	\$ 234,704
FY 2001-02	80,318
FY 2002-03	75,512
FY 2003-04	24,705
FY 2004-05	-
FY 2005-06	124,443
FY 2006-07	324,477
FY 2007-08	-
FY 2008-09	275,974
FY 2009-10	476,038
	\$ 1,616,171

Recommendation

The city was aware that it would not be able to meet its maintenance of effort amount early on, when Traffic Congestion Relief Funds were first allocated, so it set aside that money knowing that it would have to be returned to the State Controller's Office.

The city must return \$1,616,171 to the State Controller's Office, Attention Rhodora Bravo, P.O. Box 942850, Sacramento, CA 94250.

**FINDING 2—  
Ineligible  
expenditures**

During FY 2009-10, the city improperly charged \$11,463 to its Gas Tax Fund for various non-street-related expenditures, including repairs to a downtown clock, refreshments for a maintenance crew, and Christmas decorations.

Streets and Highways Code section 2101 specifies that Gas Tax funds shall be expended only for street-related purposes. It states:

All moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for all of the following:

- (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for non-motorized traffic)...
- (b) The research and planning for exclusive public mass transit guideways (and their related fixed facilities)...
- (c) The construction and improvement of exclusive public mass transit guideways (and their related fixed facilities)...

Recommendation

The city should reimburse \$11,463 to the Gas Tax Fund and establish procedures to ensure that only street-related expenditures are charged to the fund.

**State Controller's Office  
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