

CITY OF DEL REY OAKS

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2003, through June 30, 2015

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2003, through June 30, 2015

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2015



BETTY T. YEE
California State Controller

August 2016



BETTY T. YEE
California State Controller

August 2, 2016

The Honorable Jerry B. Edelen
Mayor of the City of Del Rey Oaks
650 Canyon Del Rey Road
Del Rey Oaks, CA 93940

Dear Mayor Edelen:

The State Controller's Office audited the City of Del Rey Oaks' Special Gas Tax Street Improvement Fund for the period of July 1, 2003, through June 30, 2015. We also audited the Traffic Congestion Relief Fund allocations recorded in its Special Gas Tax Street Improvement Fund, for the period of July 1, 2003, through June 30, 2015; and the Proposition 1B Fund allocations recorded in its Special Gas Tax Street Improvement Fund, for the period of July 1, 2007, through June 30, 2015.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with requirements, and that no adjustment to the funds is required.

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits Bureau, by telephone at (916) 284-0120.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Daniel Dawson, City Manager
City of Del Rey Oaks

Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	4
Follow-Up on Prior Audit Findings	4
Views of Responsible Officials.....	4
Restricted Use	5
Schedule 1—Reconciliation of Fund Balance	6

Audit Report

Summary

The State Controller's Office (SCO) audited the City of Del Rey Oaks':

- Special Gas Tax Street Improvement Fund for the period of July 1, 2003, through June 30, 2015;
- Traffic Congestion Relief Fund allocations recorded in its Special Gas Tax Street Improvement Fund for the period of July 1, 2003, through June 30, 2015; and
- Proposition 1B Fund allocations recorded in its Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2015.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with requirements, and that no adjustment to the funds is required.

Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) 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.

Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 636, Statutes of 2000, (Senate Bill 1662) and 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 Traffic Congestion Relief Fund allocations in its Special Gas Tax Street Improvement Fund. We conducted our audit of the city's Traffic Congestion Relief Fund 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 must 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 Fund allocations in its Special Gas Tax Street Improvement Fund. A city also must expend its allocations within four years following the end of the fiscal year in which the allocation was made and to expend the funds in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B Fund allocations under the authority of Government Code section 12410.

Objectives, Scope, and Methodology

Our audit objectives were to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with Article XIX of the California Constitution, the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23.

We audited the city's Special Gas Tax Street Improvement Fund for the period of July 1, 2003, through June 30, 2015. We also audited its Traffic Congestion Relief Fund allocations for the period of July 1, 2003, through June 30, 2015; and its Proposition 1B Fund allocations for the period of July 1, 2007, through June 30, 2015.

To meet the objectives, we performed the following:

- Gained a limited understanding of internal controls that would have an effect on the reliability of the accounting records of the Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations, by interviewing key personnel, completing the internal control questionnaire, reviewing the city's organization chart, and assessing the reliability of computer-processed data;
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing;
- Performed analytical procedures to determine and explain the existence of unusual or unexpected account balances;
- Verified the accuracy of the fund balances by recalculating the trial balances of the Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations;
- Verified whether the components of and changes to the fund balances were properly computed, described, classified, and disclosed by scheduling and analyzing the Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations fund balances;
- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule to determine whether HUTA apportionments, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations received by the city were completely accounted for;

- Reviewed city accruals and adjustments for validity and eligibility;
- Analyzed the system used to allocate interest and determined whether the interest revenue allocated to the Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations was fair and equitable, by interviewing key personnel and recalculating a sample of interest allocations;
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures and protected from impairment; and
- Verified whether the expenditures were supported by proper documentation and eligible in accordance with the criteria above by testing 100% of the expenditure transactions equal to or greater than the significant item amount (calculated based on materiality threshold), and selecting samples of other transactions for the following categories based on our judgment (for the selected sample, errors found will not be projected to the intended population):

Special Gas Tax Street Improvement Fund

- Services and Supplies – We vouched, tested, reviewed, and recalculated \$61,706 of \$ 80,170 in total services and supplies expenditures.
- Labor – We vouched, tested, reviewed, and recalculated \$43,444 of \$52,847 in total labor costs.

Traffic Congestion Relief Fund Allocations

- Services and Supplies – We vouched, tested, reviewed, and recalculated \$3,004 of \$48,190 in total services and supplies expenditures.

Proposition 1B Fund Allocations

- Services and Supplies – We vouched, tested, reviewed, and recalculated \$183,375 of \$400,000 in total services and supplies expenditures.
- Verified whether the city expended the Traffic Congestion Relief Fund revenues within the required time limit by analyzing and scheduling the city’s Traffic Congestion Relief Fund expenditures;
- Verified the city’s compliance with the maintenance-of-effort requirement of the Traffic Congestion Relief Fund by computing the city’s annual expenditures of its discretionary funds for street purposes; and
- Verified whether the city expended the Proposition 1B revenues within the required time limit by analyzing and scheduling the city’s Proposition 1B expenditures.

We did not audit the city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in accordance with the criteria above. We considered the city's internal controls only to the extent necessary to plan the audit.

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.

Conclusion

Our audit found that the City of Del Rey Oaks 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, 2003, through June 30, 2015.
- Traffic Congestion Relief Fund allocations recorded in its Special Gas Tax Street Improvement 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, 2003, through June 30, 2015.
- Proposition 1B Fund allocations recorded in its Special Gas Tax Street Improvement Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2015.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on January 7, 2005, disclosed no findings.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on June 22, 2016. Daniel Dawson, City Manager; Ron Langford, Operations Supervisor; Kimberly Carvalho, Assistant to the City Manager; Karen Minami, Deputy City Clerk; and Roberto Moreno, Consultant, agreed with the audit results. Mr. Dawson 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 Del Rey Oaks 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 2, 2016

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2014, through June 30, 2015**

	Special Gas Tax Street Improvement Fund ^{1, 2, 3}
Beginning fund balance per city	\$ 238,285
Revenues	<u>45,118</u>
Total funds available	283,403
Expenditures	<u>(133,017)</u>
Ending fund balance per city	<u>150,386</u>
Ending fund balance per audit	<u>\$ 150,386</u>

¹ The city receives apportionments from the State HUTA, 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-related 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 city must record its HUTA apportionments in its Special Gas Tax Street Improvement Fund. The audit period was July 1, 2003, through June 30, 2015; however, this schedule includes only the period of July 1, 2014, through June 30, 2015.

² 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 and road maintenance, reconstruction, and storm damage repair. The city recorded its Traffic Congestion Relief Fund allocations in its Special Gas Tax Street Improvement Fund. The audit period was July 1, 2003, through June 30, 2015. The city did not receive any Traffic Congestion Relief Fund revenues and did not incur any Traffic Congestion Relief Fund expenditures during FY 2014-15; therefore, it is not included in this schedule.

³ 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 city recorded its Proposition 1B Fund allocations in its Special Gas Tax Street Improvement Fund. The audit period was July 1, 2007, through June 30, 2015. The city did not receive any Proposition 1B revenues and did not incur any Proposition 1B expenditures during FY 2014-15; therefore, it is not included in this schedule.

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