

CITY OF CALIMESA

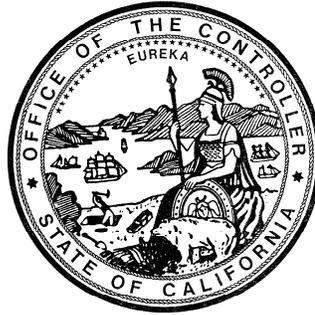
Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006

TRAFFIC CONGESTION RELIEF FUND

July 1, 2000, through June 30, 2006



JOHN CHIANG
California State Controller

September 2007



JOHN CHIANG
California State Controller

September 26, 2007

Debbie Cain
Finance Director
City of Calimesa
908 Park Avenue
Calimesa, CA 92320

Dear Ms. Cain:

The State Controller's Office audited the City of Calimesa'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 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 Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code, except for our adjustments to the funds. Our audit disclosed that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$15,102 as of June 30, 2006. This understatement occurred because the city's expenditures exceeded available funds. Also, our audit disclosed that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$4,681 (net adjustment) as of June 30, 2006. The net adjustment resulted from \$26,200 of unrecorded Traffic Congestion Relief Fund allocations; \$61,229 of unsupported Traffic Congestion Relief Fund expenditures; and \$92,110 of unexpended Traffic Congestion Relief Fund allocations.

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 Calimesa'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 for the period of July 1, 2000, through June 30, 2006. The last day of fieldwork was February 7, 2007.

Our audit disclosed that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$15,102 as of June 30, 2006. This understatement occurred because the city's expenditures exceeded available funds. Also, our audit disclosed that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$4,681 (net adjustment) as of June 30, 2006. The net adjustment resulted from \$26,200 of unrecorded Traffic Congestion Relief Fund allocations; \$61,229 of unsupported Traffic Congestion Relief Fund expenditures; and \$92,110 of unexpended Traffic Congestion Relief Fund allocations.

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.

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 the Traffic Congestion Relief Fund allocations in its Traffic Congestion Relief Fund. We conducted our audit of the city's Traffic Congestion Relief Fund 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 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 Traffic Congestion Relief Fund 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 in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation 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 the California Constitution, the Streets and Highways Code, and the Revenue and Taxation Code for the period of July 1, 2005, through June 30, 2006, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of \$15,102 to the Special Gas Tax Street Improvement Fund.

Our audit also disclosed that the city accounted for and expended its Traffic Congestion Relief Fund in compliance with the California Constitution, the Streets and Highways Code, and the Revenue and Taxation Code for the period of July 1, 2000, through June 30, 2006, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require that the city record Traffic Congestion Relief Fund allocations of \$26,200, reimburse the Traffic Congestion Relief Fund by \$61,229, and return \$92,110 to the SCO.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on June 11, 1999, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on April 27, 2007. Debbie Cain, Finance Director, responded by letter dated June 12, 2007, agreeing with the audit results with the exception of Findings 3 and 4. 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

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

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ 46,027	\$ 5,941
Revenues	<u>144,253</u>	<u>88,044</u>
Total funds available	190,280	93,985
Expenditures	<u>(205,382)</u>	<u>(946)</u>
Ending fund balance per city	<u>(15,102)</u>	<u>93,039</u>
Timing adjustment:		
Accrual of FY 2006-07 TCRF apportionment (Governmental Accounting Standards Board Statement No. 34)	<u>—</u>	<u>(54,336)</u>
SCO adjustments: ³		
Finding 1—Deficit fund balance	15,102	—
Finding 2—Unrecorded Traffic Congestion Relief Fund allocations	—	26,200
Finding 3—Unsupported expenditures	—	61,229
Finding 4—Unexpended Traffic Congestion Relief Fund allocations	<u>—</u>	<u>(92,110)</u>
Net SCO adjustments	<u>15,102</u>	<u>(4,681)</u>
Ending fund balance per audit	<u>\$ —</u>	<u>\$ 34,022</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 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.

² Government Code section 14556.5 created a Traffic Congestion Relief Fund in the Stat Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The Traffic Congestion Relief Fund allocations were recorded in the Traffic Congestion Relief Fund. The audit period was July 1, 2000, through June 30, 2006.

³ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Deficit fund balance**

The city’s Special Gas Tax Street Improvement Fund incurred a deficit fund balance of \$15,102 as of June 30, 2006. During the fiscal year the city’s Special Gas Tax Street Improvement Fund expenditures exceeded the available funds.

By definition, a 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 users tax apportionments to finance current and prior year expenditures is contrary to generally accepted accounting principles.

Recommendation

The city must reimburse \$15,102 to eliminate the deficit fund balance of the Special Gas Tax Street Improvement Fund. Also, in the future, the city should adopt a balanced budget policy that limits gas tax expenditures to the amount of available funds.

City’s Response

... the City’s General Fund has reimbursed the Gas Tax fund the deficit of \$15,102.

SCO’s Comment

We agree with the city’s resolution.

**FINDING 2—
Unrecorded Traffic
Congestion Relief
Fund allocations**

The city did not record the Traffic Congestion Relief Fund allocations for the fiscal years as follows.

<u>Fiscal Year</u>	<u>Amount</u>
2001-02	\$ 18,080
2002-03	8,120
Total	<u>\$ 26,200</u>

Streets and Highways Code section 2182(b) states that funds received under this section shall be deposited into a local account designated for the receipt of state funds allocated for transportation purposes.

Recommendation

The city must record receipt of \$26,200 of Traffic Congestion Relief Fund allocations remitted by the State.

City’s Response

Finding No. 2 will also be corrected through a journal entry to reverse the TCRF revenue received in August 2006.

SCO’s Comment

We agree with the city’s resolution.

**FINDING 3—
Unsupported
expenditures**

The city claimed that the Traffic Congestion Relief Fund has funded street maintenance projects during the following fiscal years.

<u>Fiscal Year</u>	<u>Amount</u>
2000-01	\$ 55,226
2003-04	1,407
2004-05	3,650
2005-06	946
Total	<u>\$ 61,229</u>

The above claimed expenditures have no documentation supporting that these expenditures were eligible street maintenance that were incurred during the specified period as specified in the Street and Highways Code sections 2102(c) and 2182.1(g).

Recommendation

We recommend that the city reimburse the Traffic Congestion Relief Fund, a total of \$61,229.

City’s Response

The city did not respond directly to this finding; however, the city’s response and SCO’s comment to Finding 4 also address this finding.

**FINDING 4—
Unexpended TCRF
allocation**

The city did not spend the TCRF allocations from FY 2000-01 through FY 2002-03, totaling \$92,110. According to Streets and Highways Code section 2182.1(G), allocations made under this section shall be expended not later than the end of the fiscal year following the fiscal year in which the allocation was made. Any funds not expended within that period shall be returned to the State Controller.

Recommendation

The city must return \$92,110 of unexpended Traffic Congestion Relief Fund allocations to the SCO as required by Streets and Highways Code.

City’s Response

The City is currently investigating the expenditures during this period for the \$92,110. Unfortunately documents have been lost in storage due to water damage and misplacement. We have contacted our contract city engineer, Willdan & Associates, and they are viewing their files for any documentation for work performed during this period. Our Public Works Director has indicated that work was performed however, the documentation is not available. If the City must repay this amount, we would like to discuss the options available.

SCO’s Comment

Without adequate documentation to support claimed expenditures, the SCO must stand by its recommendation. If and when the city locates supporting documentation, the SCO will revisit this finding. Until such documentation is provided, the finding and recommendation remain unchanged.

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



City Of Calimesa

June 12, 2007

Mr. Larry Alexander
Office of the State Controller
600 Corporate Point, Suite 1000
Culver City, CA 90230

RE: City of Calimesa
Gas Tax/TCRF Audit Finding Response

Dear Mr. Alexander:

In response to Finding No. 1, the City's General Fund has reimbursed the Gas Tax fund the deficit of \$15,102. Finding No. 2 will also be corrected through a journal entry to reverse the TCRF revenue received in August 2006.

The City is currently investigating the expenditures during this period for the \$92,110. Unfortunately documents have been lost in storage due to water damage and misplacement. We have contacted our contract city engineer, Willdan & Associates, and they are reviewing their files for any documentation for work performed during this period. Our Public Works Director has indicated that work was performed however, the documentation is not available. If the City must repay this amount, we would like to discuss the options available.

Thank you very much for your patience and consideration. If you have any questions, please contact me at 909-795-9801 x 230.

Sincerely,

Debbie Cain
Finance Director

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

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