

CITY OF TEHACHAPI

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2007

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2007



JOHN CHIANG
California State Controller

September 2008



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California State Controller

September 30, 2008

The Honorable Debbie Hand
Mayor of the City of Tehachapi
115 South Robinson Street
Tehachapi, CA 93561-1722

Dear Mayor Hand:

The State Controller's Office audited the City of Tehachapi'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 (TCRF) allocations recorded in the Streets and Roads 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 TCRF allocations recorded in the Streets and Roads Fund in compliance with requirements, except for our adjustment to the Special Gas Tax Street Improvement Fund. The city understated the fund balance by \$125,058 as of June 30, 2007, because the city incurred expenditures in excess of available funds.

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/vb

cc: Hannah Chung, Finance Director
City of Tehachapi

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Audit Report

Summary

The State Controller's Office audited the City of Tehachapi'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 allocations recorded in the Streets and Roads 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 allocations recorded in the Streets and Roads Fund in compliance with requirements, except for our adjustment to the Special Gas Tax Street Improvement Fund. The city understated the fund balance by \$125,058 as of June 30, 2007, because the city incurred expenditures in excess of available funds.

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 Streets and Roads 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 Streets and Roads 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 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 and the TCRF allocations recorded in the Streets and Roads 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 Tehachapi 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 Finding and Recommendation section of this report. The finding required an adjustment of \$125,058 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Streets and Roads 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, 2001, through June 30, 2007.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on October 26, 1999, disclosed no findings.

Views of Responsible Official

We issued a draft report on June 20, 2008. Hannah Chung, Finance Director, responded by telephone on September 2, 2008, agreeing with the audit results.

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

September 30, 2008

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

	Special Gas Tax Street Improvement Fund ¹	TCRF Allocation ²
Beginning fund balance per city	\$ (125,058)	\$ —
Revenues	<u>971,992</u>	<u>85,720</u>
Total funds available	846,934	85,720
Expenditures	<u>(744,078)</u>	<u>(85,720)</u>
Ending fund balance per city	102,856	—
Timing adjustment:		
Accrual of June 2007 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	22,461	—
SCO adjustment: ³		
Finding—Deficit fund balance	<u>125,058</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 250,375</u>	<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 Streets and Roads Fund. The audit period was July 1, 2000, through June 30, 2007.

³ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Deficit fund balance**

During fiscal year ended June 30, 2006, the city incurred expenditures in excess of available resources. The expenditures exceeded available funding by \$125,058, resulting in a deficit fund balance.

Government Code section 12440 states, “. . . a warrant shall not be drawn unless authorized by law, and unless, except for refunds authorized by Section 13144, unexhausted specific appropriations provided by law are available to meet it.”

Recommendation

The city should eliminate the deficit fund balance by transferring \$125,058 into the Special Gas Tax Street Improvement Fund. The city also should monitor the expenditures of the Special Gas Tax Street Improvement Fund to prevent deficit fund balances.

City's Response

Hannah Chung, Finance Director, responded by telephone on September 2, 2008, agreeing with the audit finding and stating the correction has been refunded.

**State Controller's Office
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