

CITY OF CLOVIS

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2000, through June 30, 2011

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2011

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2011



JOHN CHIANG
California State Controller

September 2014



JOHN CHIANG
California State Controller

September 9, 2014

The Honorable Lynne Ashbeck
Mayor of the City of Clovis
1033 Fifth Street
Clovis, CA 93612

Dear Mayor Ashbeck:

The State Controller's Office audited the City of Clovis' Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2011. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2011, and reviewed the Proposition 1B Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2011.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that it understated the fund balance by \$80,000 as of June 30, 2011. The city understated the fund balance because it deferred \$80,000 of Gas Tax Fund revenues recorded in the General Fund, which understated the Gas Tax balance.

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/sk

cc: Jamie Hughson, Finance Director
City of Clovis
Steve Mar, Bureau Chief
Division of Audits, State Controller's Office
Mike Spalj, Audits Manager
Division of Audits, State Controller's Office

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Follow-Up on Prior Audit Findings	3
Views of Responsible Officials.....	3
Restricted Use	3
Schedule 1—Reconciliation of Fund Balance	4
Finding and Recommendation	5
Attachment—City’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office audited the City of Clovis' Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2011. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2011, and reviewed the Proposition 1B Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2011.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city understated the fund balance by \$80,000 as of June 30, 2011. The city understated the fund balance because it deferred \$80,000 of the Gas Tax Fund revenues recorded in the General Fund, which understated the Gas Tax Fund balance.

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 Special Gas Tax Street Improvement 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 Special Gas Tax Street Improvement 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 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. 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;
- 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 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 disclosed that the City of Clovis 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, 2000, through June 30, 2011, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report.

Our audit also found that the city accounted for and expended its TCRF allocations recorded in the 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, 2000, through June 30, 2011.

In addition, our review found that the city accounted for and expended its Proposition 1B Fund recorded in the Special Gas Tax Street Improvement Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2011.

**Follow-Up on Prior
Audit Findings**

The city satisfactorily resolved the finding noted in our prior audit report, issued in February 2002.

**Views of
Responsible
Officials**

We issued a draft audit report on February 12, 2014. Jamie Hughson, Finance Director, responded by letter dated February 26, 2014, disagreeing with the audit results. The city's response is included as an attachment in this final audit report.

Restricted Use

This report is intended for the information and use of the City of Clovis' 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

September 9, 2014

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2010, through June 30, 2011**

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation ^{1, 2}	Proposition 1B Allocation ³	Totals
Beginning fund balance per city	\$ 3,427,509	\$ 1,371,703	\$ 4,799,212
Revenues	<u>9,884,889</u>	<u>—</u>	<u>9,884,889</u>
Total funds available	13,312,398	1,371,703	14,684,101
Expenditures	<u>(8,574,506)</u>	<u>(1,371,703)</u>	<u>(9,946,209)</u>
Ending fund balance per city	4,737,892	—	4,737,892
Timing adjustment:			
Accrual of June 2011/reversal of July 2010 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	140,953	—	140,953
SCO adjustment: ⁴			
Finding—Highway user's tax apportionment deposited in the General Fund	<u>80,000</u>	<u>—</u>	<u>80,000</u>
Ending fund balance per audit	<u>\$ 4,958,845</u>	<u>\$ —</u>	<u>\$ 4,958,845</u>

¹ 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, 2011; however, this schedule includes only the period of July 1, 2010, through June 30, 2011.

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 Special Gas Tax Street Improvement Fund. The audit period was July 1, 2000, through June 30, 2011. The city did not receive any TCRF revenues and did not incur any TCRF expenditures during FY 2010-11, 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 audit period was July 1, 2007, through June 30, 2011.

⁴ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Highway users tax
apportionments
deposited in the
General Fund**

During fiscal year (FY) 2000-01 through FY 2010-11, the city deposited its highway users tax apportionments into its General Fund.

Streets and Highways Code section 2113 states that all highway users tax apportionments must be deposited into the city's Special Gas Tax Street Improvement Fund.

As the city uses these revenues within the same fiscal year received, no adjustment is needed to the fund balance, except for FY 2010-11, when the city deferred \$80,000 of the Gas Tax revenues.

Recommendation

The city should transfer \$80,000 into the Gas Tax Fund. In the future, the city should ensure that all highway users tax apportionments are deposited into the Special Gas Tax Street Improvement Fund, as required by statute.

City's Response

We have been able to account for and expend the Gas Tax funds compliantly because we meet the intent of the law by segregating these funds into an account that is to be used exclusively for authorized street-related purposes. The accounting system we use allows these funds to be easily separated, identified, and tracked by use of a specific section and specific account. To address your recommendation, we not deposit gas tax funds in into the account called "Gas Tax Fund."

As for the deferral of \$80,000 of Gas Tax revenues on June 30, 2011, we had not incurred the budgeted expenditures for street-related purposes by fiscal year end, and thus, needed to carryover these funds into the next fiscal year, where the funds were readily spent. The unexpended funds were placed in the Gas Tax Fund account to be spent on future street-related expenditures as met by your audit objective noted on Page 2 of the audit report.

To conclude, we are confident that we are meeting the intent of California Streets and Highways Code section 2113 by segregating the Highway Users Tax Funds as non-discretionary revenues in our accounting system to be used exclusively for street-related purposes.

SCO's Comments

The City provided additional city documents for our review and we determined that the deferred amount has been recognized and expended as of current date. No further action required.

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



CITY OF CLOVIS

CITY HALL • 1033 FIFTH STREET • CLOVIS, CA 93612

February 26, 2014

Steve Mar, Chief
Local Government Audits Bureau
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Mar:

This letter serves as a response to the February 12, 2014 draft audit report issued from your office for the City of Clovis' Special Gas Tax Street Improvement Fund from July 1, 2000 through June 30, 2011, Traffic Congestion Relief Fund (TCRF) from July 1, 2000 through June 30, 2011, and the Proposition 1B fund allocations from July 1, 2007 through June 30, 2011, and specifically addresses the finding that the City deposited its highway users tax apportionments into its General Fund and recommends the City transfer \$80,000 into the Gas Tax Fund as a result of a June 30, 2011 deferral of this amount. The report concludes that the City accounted for and expended all of these sources of revenues (Gas Tax, TCRF, and Proposition 1B) in compliance with its statutory requirements for all years audited.

We have been able to account for and expend the Gas Tax funds compliantly because we meet the intent of the law by segregating these funds into an account that is to be used exclusively for authorized street-related purposes. The accounting system we use allows these funds to be easily separated, identified, and tracked by use of a specific section and specific account. To address your recommendation, we now deposit gas tax funds into the account called "Gas Tax Fund."

As for the deferral of \$80,000 of Gas Tax revenues on June 30, 2011, we had not incurred the budgeted expenditures for street-related purposes by fiscal year end, and thus, needed to carryover these funds into the next fiscal year, where the funds were readily spent. The unexpended funds were placed in the Gas Tax Fund account to be spent on future street-related expenditures as met by your audit objective noted on page 2 of the audit report.

To conclude, we are confident that we are meeting the intent of California Streets and Highways Code Section 2113 by segregating the Highway Users Tax Funds as non-discretionary revenues in our accounting system to be used exclusively for street-related purposes. Thank you for your consideration of our comments to the draft report. If you have any further questions, feel free to contact me at (559) 324-2106.

Sincerely,


Jamie G. Hughson
City of Clovis, Finance Director

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

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