

CITY OF SAN PABLO

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2000, through June 30, 2011

TRAFFIC CONGESTION RELIEF FUND

July 1, 2000, through June 30, 2011

PROPOSITION 1B ALLOCATIONS

July 1, 2007, through June 30, 2011



JOHN CHIANG
California State Controller

September 2014



JOHN CHIANG
California State Controller

September 17, 2014

The Honorable Cecilia Valdez
Mayor of the City of San Pablo
13831 San Pablo Avenue
San Pablo, CA 94806

Dear Mayor Valdez:

The State Controller's Office audited the City of San Pablo's Special Gas Tax Street Improvement Fund—highway users tax—for the period of July 1, 2000, through June 30, 2011. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, through June 30, 2011, as well as the Proposition 1B allocations, recorded in the Public Works Projects Fund for the period of July 1, 2007, through June 30, 2011.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax—and Traffic Congestion Relief Fund as well as the Proposition 1B Fund in compliance with requirements, except that the city overstated the fund balance in the Special Gas Tax Street Improvement Fund by \$41,083 as of June 30, 2011, because it recorded excess revenue.

In addition, our audit found that the city overstated the fund balance in its TCRF by \$143,569 as of June 30, 2011. The city overstated the fund balance because it failed to spend its TCRF revenue from FY 2002-03, FY 2005-06, and FY 2009-10 within the two-year requirement.

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: Bradley Ward, Finance Director
City of San Pablo

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Audit Report

Summary

The State Controller's Office audited the City of San Pablo's Special Gas Tax Street Improvement Fund—highway users tax—for the period of July 1, 2000, through June 30, 2011. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, through June 30, 2011, as well as the Proposition 1B allocations, recorded in the Public Works Projects Fund for the period of July 1, 2007, through June 30, 2011.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax—and Traffic Congestion Relief Fund as well as the Proposition 1B allocations in compliance with requirements, except that the city overstated the fund balance in the Special Gas Tax Street Improvement Fund by \$41,083 as of June 30, 2011, because it recorded excess revenue.

Our audit also found that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$143,569 as of June 30, 2011. The city overstated the fund balance because it failed to spend its TCRF revenue from FY 2002-03, FY 2005-06, and FY 2009-10 within the two-year requirement.

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 Public Works Projects 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 be expended in compliance with Government Code section 8879.23. We conducted our audit 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 and the Traffic Congestion Relief Fund as well as 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 and the Traffic Congestion Relief Fund as well as 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 San Pablo accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax—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 Findings and Recommendations section of this report. The findings required an adjustment of \$41,083 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, 2011, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$143,569 to the city’s accounting records.

Furthermore, the audit also found that the city accounted for and expended its Proposition 1B allocations recorded in the Public Works Projects 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 findings noted in our prior audit report, issued on June 6, 2001.

**Views of
Responsible
Officials**

We discussed the audit results with city representatives during an exit conference on November 6, 2013. Pam Spero, Finance Supervisor, agreed with the audit results. Ms. Spero 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 San Pablo’s 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 17, 2014

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

	Special Gas Tax Street Improvement Fund	Traffic Congestion Relief Fund ²	Proposition 1B Allocations ³
	Highway Users Tax Allocations ¹		
Beginning fund balance per city	\$ 68	\$ 81,258	\$ 460,336
Revenues	<u>1,177,182</u>	<u>421</u>	<u>—</u>
Total funds available	1,177,250	81,679	460,336
Expenditures	<u>(1,136,600)</u>	<u>—</u>	<u>—</u>
Ending fund balance per city	<u>40,650</u>	<u>81,679</u>	<u>460,336</u>
SCO adjustments: ⁴			
Finding 1—Unexpended TCRF Allocations	—	(143,569)	—
Finding 2—Excess Revenue-Posting Error	<u>(41,083)</u>	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ (433)</u>	<u>\$ (61,890)</u>	<u>\$ 460,336</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 Traffic Congestion Relief Fund. The audit period was July 1, 2000, through June 30, 2011.

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.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Unexpended TCRF
allocations**

The City of San Pablo did not spend \$143,569 of TCRF allocations from FY 2002-03, FY 2005-06, and FY 2009-10 within the two-year spending requirement.

Streets and Highways Code section 2182.1 states:

. . .the allocation made under section 2182 shall be expended not later than the end of the fiscal year following the fiscal year in which the allocation was made, and any funds not expended within that period shall be returned to the Controller and shall be reallocated to the other cities and counties pursuant to the allocation formulas set forth in Section 2182.

Recommendation

The city should return \$143,569 (unexpended portion) to the State Controller's Office because it did not completely expend its TCRF allocations within the two-year requirement. Returned funds should be mailed to: State Controller's Office, Attention: Rhodora Bravo, P.O. Box 942850, Sacramento, CA 94250

**FINDING 2—
Excess revenue
posting error**

The City of San Pablo recorded excess revenue of \$41,083 because of a posting error that affected its Special Gas Tax Street Improvement balance for FY 2000-01, FY 2002-03, and FY 2008-09.

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

Recommendation

The city should reduce the Special Gas Tax Street Improvement balance by \$41,083 to correct the posting error. In the future, the city should implement procedures to ensure that the Special Gas Tax Street Improvement Fund revenues match the Highway Users Tax apportionment letter.

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

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