

CITY OF CALABASAS

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006



JOHN CHIANG
California State Controller

October 2007



JOHN CHIANG
California State Controller

October 31, 2007

Gary J. Lysik
Chief Financial Officer
City of Calabasas
26135 Mureau Road
Calabasas, CA 91302

Dear Dr. Lysik:

The State Controller's Office audited the City of Calabasas' 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 allocations recorded in the Special Gas Tax Street Improvement 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 in compliance with requirements, except that the city understated the fund balance in the fund by \$4,200 as of June 30, 2006. This understatement occurred because the city expended gas tax funds for non-street-related purposes.

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/sk

cc: Robert Yalda
Public Works Director
City of Calabasas
Grace Kong, Chief
Local Program Accounting
Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Calabasas' 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 (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2006. The last day of fieldwork was May 10, 2007.

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 in the Special Gas Tax Street Improvement Fund by \$4,200 as of June 30, 2006. This understatement occurred because the city expended gas tax funds for non-street-related purposes.

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 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.

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, Streets and Highways Code, Revenue and Taxation Code 7104. 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 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 in accordance with Article XIX of the California Constitution, 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 Article XIX of the California Constitution, Streets and Highways Code, and 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 Finding and Recommendation section of this report. The finding will require an adjustment of \$4,200 to the city's accounting records.

Our audit also disclosed 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 and the Streets and Highways Code for the period of July 1, 2000, through June 30, 2006.

Conclusion

The city satisfactorily resolved the findings noted in our prior audit report, issued on June 11, 1999.

Views of Responsible Official

We issued a draft audit report on August 31, 2007. Lesley Pelka, Financial Analyst, responded by letter dated October 4, 2007, agreeing with the audit results. 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		
	Highway Users Tax Allocation ¹	TCRF Allocation ²	Totals
Beginning fund balance per city	\$ 827,240	\$ —	\$ 827,240
Revenues	<u>452,825</u>	<u>103,421</u>	<u>556,246</u>
Total funds available	1,280,065	103,421	1,383,486
Expenditures	<u>(50,288)</u>	<u>(103,421)</u>	<u>(153,709)</u>
Ending fund balance per city	1,229,777	—	1,229,777
SCO adjustment: ³			
Finding—Unallowable expenditures	<u>4,200</u>	<u>—</u>	<u>4,200</u>
Ending fund balance per audit	<u>\$ 1,233,977</u>	<u>\$ —</u>	<u>\$ 1,233,977</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 Chapter 91, Statutes of 2000 (Assembly Bill 2928), as amended by Chapter 656, Statutes of 2000 (Senate Bill 1662), established the State Traffic Congestion Relief Fund (TCRF), which allocates funds to cities and counties for street or road maintenance and reconstruction. The TCRF allocations were recorded in the Special Gas Tax Improvement Fund and were audited for the period of July 1, 2000, through June 30, 2006.

³ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Unallowable
expenditures**

The city expended \$4,200 in gas tax funds to pay for the swim center parking lot repairs. Streets and Highways Code section 2101 specifies that all moneys in the Highway User Tax Account be spent on public streets and highways. As a result, the city’s Special Gas Tax Street Improvement Fund was understated.

Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund \$4,200 for expenditures that were not street-related. We also recommend that the city ensure that funds expended/transferred out of the Special Gas Tax Street Improvement Fund are for costs specified in the Streets and Highways Code.

City’s Response

The city agrees that the Tennis and Swim Center Parking Lot repairs expense should not have been paid for with Gas Tax funds. A correcting entry was made to the General Ledger – Gas Tax Fund. The entry was in the amount of \$4,200 and was dated 4/30/2007. It transfers the cost from the Gas Tax Fund to the Tennis and Swim Center Capital Replacement Fund. In the future, the Finance department will ensure that funds expended/transferred out of the Gas Tax Fund are for costs specified in the Streets and Highways Code.

SCO’s Comments

We agree with the city’s resolution.

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

Alexander, Larry

From: Lesley Pelka [lpelka@cityofcalabasas.com]
Sent: Thursday, October 04, 2007 02:18 PM
To: Alexander, Larry; Mederos, Rosalia
Cc: Gary Lysik
Subject: Response to Audit Finding - Report dated 8/29/07

Dear Mr. Alexander and Ms. Mederos,

We would like to provide the following response to your audit finding "Unallowable Expenditures":

"The City agrees that the Tennis and Swim Center Parking Lot repairs expense should not have been paid for with Gas Tax funds. A correcting entry was made to the General Ledger - Gas Tax Fund. The entry was in the amount of \$4,200 and was dated 4/30/2007. It transfers the cost from the Gas Tax Fund to the Tennis and Swim Center Capital Replacement Fund. In the future, the Finance department will ensure that funds expended/transferred out of the Gas Tax Fund are for costs specified in the Streets and Highways Code."

We would appreciate you including this response in the Audit Report when it is issued. If you need further information, please let me know.

Lesley Pelka

Financial Analyst
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