

# **CITY OF SUTTER CREEK**

Audit Report

## **SPECIAL GAS TAX STREET IMPROVEMENT FUND**

*July 1, 2005, through June 30, 2011*

## **TRAFFIC CONGESTION RELIEF FUND**

*July 1, 2005, through June 30, 2011*

## **PROPOSITION 1B FUND**

*July 1, 2007, through June 30, 2011*



**JOHN CHIANG**  
California State Controller

October 2014



**JOHN CHIANG**  
**California State Controller**

October 13, 2014

The Honorable Sandy Anderson  
Mayor of the City of Sutter Creek  
18 Main Street  
Sutter Creek, CA 95685

Dear Mayor Anderson:

The State Controller's Office audited the City of Sutter Creek's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2011. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2005, through June 30, 2011; and the Proposition 1B 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, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with requirements, except that the city overstated the fund balance in its Traffic Congestion Relief Fund by \$6,903 as of June 30, 2011. The city overstated the fund balance because it did not spend it within the two-year time limit.

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: Joe Aguilar, Finance Director  
City of Sutter Creek

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# Audit Report

## Summary

The State Controller's Office audited the City of Sutter Creek's Special Gas Tax Street Improvement Fund—highway users tax—for the period of July 1, 2005, through June 30, 2011. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2005, through June 30, 2011; and the Proposition 1B 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, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with requirements, except that the city overstated the fund balance in the Traffic Congestion Relief Fund by \$6,903 as of June 30, 2011. The city overstated the fund balance because it did not spend it within the two-year time limit.

## 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 Fund allocations in the Proposition 1B Fund. A city also is required to expend its allocations within four 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, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with Article XIX of the California Constitution, Revenue and Taxation Code section 7104, Government Code section 8879.23, 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;
- Expended Proposition 1B Fund in compliance with Government Code section 8879.23; 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, Traffic Congestion Relief Fund, and Proposition 1B Fund in accordance with the requirements of the Streets and Highways Code, Government Code section 8879.23, 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 found that the City of Sutter Creek 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, 2005, through June 30, 2011.

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, 2005, through June 30, 2011, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$6,903 to the city's accounting records.

In addition, our audit found that the city accounted for and expended its Proposition 1B Fund allocations recorded in the Proposition 1B 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**

Our prior audit report, issued in October 2002 disclosed no findings.

**Views of Responsible Official**

We discussed the audit results with city representatives during an exit conference on December 2, 2013. Joe Aguilar, Finance Director, agreed with the audit results. Mr. Aguilar 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 Sutter Creek'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

October 13, 2014

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

	Special Gas Tax Street Improvement Fund		Proposition 1B Fund <sup>3</sup>
	Highway Users Tax Allocations <sup>1</sup>	TCRF <sup>2</sup>	
Beginning fund balance per city	\$ 36,384	\$ 24,282	\$ 19,802
Revenues	<u>82,903</u>	—	<u>—</u>
Total funds available	119,287	24,282	19,802
Expenditures	<u>(47,963)</u>	(24,273)	<u>(2,093)</u>
Ending fund balance per city	<u>71,324</u>	9	<u>17,709</u>
SCO adjustment: <sup>4</sup>			
Finding 1—Unspent TCRF revenue	<u>—</u>	<u>6,903</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 71,324</u>	<u>\$ (6,894)</u>	<u>\$ 17,709</u>

<sup>1</sup> 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, 2005, through June 30, 2011; however, this schedule includes only the period of July 1, 2010, through June 30, 2011.

<sup>2</sup> 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, 2005, through June 30, 2011.

<sup>3</sup> 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.

<sup>4</sup> See the Finding and Recommendation section.

# Finding and Recommendation

**FINDING 1—  
Unspent TCRF  
revenue**

During FY 2010-11, the city overstated the Traffic Congestion Relief Fund (TCRF) balance by \$6,903 because it did not expend its FY 2005-06 and FY 2009-10 allocations in a timely manner.

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.”

The city agreed with the finding.

Recommendation

The city should return the unexpended TCRF allocation of \$6,903 to the State Controller’s Office, Attn: Rhodora Bravo, P.O. Box 942850, Sacramento, CA 94250.

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

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