

CITY OF BUELLTON

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2008

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2008



JOHN CHIANG
California State Controller

November 2010



JOHN CHIANG
California State Controller

November 3, 2010

The Honorable Victoria Pointer
Mayor of the City of Buellton
P.O. Box 1819
Buellton, CA 93427

Dear Mayor Pointer:

The State Controller's Office audited the City of Buellton's Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program allocations—for the period of July 1, 2007, through June 30, 2008. 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, 2008.

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 \$101,102 as of June 30, 2008. The city understated the fund balance primarily because it did not satisfy the TCRF program maintenance-of-effort expenditure requirement in fiscal year (FY) 2000-01 through FY 2002-03, FY 2005-06, and FY 2006-07.

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: Annette Muñoz, Finance Director
City of Buellton
John Kunkel, City Manager
City of Buellton
Gilbert Petrissans, Chief
Local Program Accounting
Department of Transportation

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Audit Report

Summary

The State Controller's Office audited the City of Buellton's Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program—for the period of July 1, 2007, through June 30, 2008. 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, 2008.

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 \$101,102 as of June 30, 2008. The city understated the fund balance primarily because it did not satisfy the TCRF program maintenance-of-effort expenditure requirement in fiscal year (FY) 2000-01 through FY 2002-03, FY 2005-06, and FY 2006-07.

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.

The Surface Transportation Program is part of a federal program designed to increase flexibility in federal funding for transportation purposes by shifting the funding responsibility to state and local agencies. The funds are restricted to expenditures made in compliance with Article XIX of the California Constitution and the Streets and Highways Code. The California Department of Transportation (Caltrans) requested that we audit these expenditures to ensure the city's compliance.

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, the Streets and Highways Code, and Revenue and Taxation Code section 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;
- 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 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 Buellton accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program—in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2007, through June 30, 2008, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report.

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, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2000, through June 30, 2008, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report.

The findings require an adjustment of \$101,102 to the city's accounting records.

**Follow-Up on Prior
Audit Findings**

Our prior audit report, issued on February 28, 2003, disclosed no findings.

**Views of
Responsible
Official**

We issued a draft audit report on September 9, 2010. Annette Muñoz, Finance Director, responded by telephone on October 5, 2010, agreeing with the audit results.

Restricted Use

This report is intended for the information and use of the City of Buellton 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

November 3, 2010

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2007, through June 30, 2008**

	Special Gas Tax Street Improvement Fund			Totals
	Highway Users Tax Allocation ¹	STP Allocation ²	TCRF Allocation ³	
Beginning fund balance per city	\$ 801,232	\$ —	\$ 6,573	\$ 807,805
Revenues	264,030	588,470	—	852,500
Total funds available	1,065,262	588,470	6,573	1,660,305
Expenditures	(69,926)	(588,470)	(6,573)	(664,969)
Ending fund balance per city	995,336	—	—	995,336
SCO adjustments: ⁴				
Finding 1—Maintenance-of-effort requirement not met	—	—	(101,102)	(101,102)
Finding 2—Unallowable expenditures	—	—	101,102	101,102
Total SCO adjustments	—	—	—	—
Ending fund balance per audit	<u>\$ 995,336</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 995,336</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 The city received Surface Transportation Program funds, pursuant to Streets and Highways Code section 182.6. These funds were apportioned to the city by the regional transportation planning agency to be used for transportation projects.

³ 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, 2008.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Maintenance-of-effort
requirement not met**

The city did not meet the maintenance-of-effort (MOE) expenditure requirement for Traffic Congestion Relief Fund (TCRF) allocations during fiscal year (FY) 2000-01, FY 2001-02, FY 2002-03, FY 2005-06, and FY 2006-07. As a consequence it was not eligible to receive the TCRF apportionments totaling \$101,102 for those five fiscal years.

Streets and Highways Code section 2182.1(b) states:

In order to receive any allocation pursuant to Section 2182, the city or county shall annually expend from its general fund for street, road, and highway purposes an amount not less than the annual average of its expenditures from its general fund during the 1996-97, 1997-98, and 1998-99 fiscal years, as reported to the Controller pursuant to Section 2151.

The city’s average annual MOE amount is \$87,187, which is the amount required to be expended annually from discretionary funding sources. The city expended discretionary funds as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2000-01	\$ 56,915
2001-02	59,108
2002-03	59,987
2005-06	56,385
2006-07	56,042

Consequently, the city did not meet its MOE expenditure requirement for the five fiscal years. Apportionments were suspended for FY 2003-04 and FY 2004-05; therefore the MOE expenditure requirement did not apply.

The city received TCRF apportionments totaling \$101,102 as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2000-01	\$ 27,841
2001-02	9,869
2002-03	10,434
2005-06	20,294
2006-07	32,664
Total	<u>\$ 101,102</u>

Streets and Highways Code section 2182.1(e) states that any city that does not meet the MOE expenditure requirement shall reimburse the State for the funds it received.

Recommendation

The city must return the unearned TCRF allocations, in the amount of \$101,102, to the State Controller’s Office: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

City’s Response

The city agreed with the finding.

**FINDING 2—
Unallowable
expenditures**

The city did not meet its MOE expenditure requirement during the five fiscal years as noted in Finding 1. Consequently, the expenditures of these funds, totaling \$101,102, are not eligible to be funded with TCRF allocations.

Recommendation

The city must reimburse the Special Gas Tax Street Improvement Fund TCRF allocations by \$101,102 for unallowable costs.

City's Response

The city agreed with the finding.

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

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