

CITY OF OAKLEY

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2012

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2005, through June 30, 2012

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2012



JOHN CHIANG
California State Controller

November 2014



JOHN CHIANG
California State Controller

November 4, 2014

The Honorable Randy Pope
Mayor of the City of Oakley
3231 Main Street
Oakley, CA 94561

Dear Mayor Pope:

The State Controller's Office audited the City of Oakley's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2012. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2012; and the Proposition 1B Fund allocations recorded in the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2012.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Proposition 1B Fund in compliance with requirements, except that it overstated the Proposition 1B fund balance by \$5,333 as of June 30, 2012. The city overstated the fund balance because it did not spend all the FY 2007-08 allocations within the four-year time limit.

If you have any questions, please contact Mike Spalj, Acting Chief, Local Government Audits Bureau, at (916) 324-6984.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/mh

cc: Paul Abelson, Finance Director
City of Oakley

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Audit Report

Summary

The State Controller's Office audited the City of Oakley's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2012. 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, 2005, through June 30, 2012; and the Proposition 1B Fund allocations recorded in the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2012.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements. 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 requirements, except that the city overstated the fund balance by \$5,333 as of June 30, 2012. The city overstated the fund balance because it did not spend all the FY 2007-08 allocations within the four-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 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 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 and Proposition 1B 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 and 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 Oakley 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, 2012.

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, 2005, through June 30, 2012.

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 requirements, except that the city overstated the fund balance by \$5,333 as of June 30, 2012. The city overstated the fund balance because it did not spend all the FY 2007-08 allocations within the four-year time limit.

**Views of
Responsible
Official**

We issued a draft report on June 30, 2014; however, the city did not receive a copy of the report until October 1, 2014. Paul Abelson, Finance Director, responded by letter dated October 1, 2014, 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 the City of Oakley'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

November 4, 2014

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2011, through June 30, 2012**

	Special Gas Tax Street Improvement Fund Highway Users Tax Allocations ^{1,2}	Proposition 1B Fund ³
Beginning fund balance per city	\$ 918,248	\$ 1,005,538
Revenues	<u>1,012,943</u>	<u>1,882</u>
Total funds available	1,931,191	1,007,420
Expenditures	<u>(1,199,291)</u>	<u>(507,183)</u>
Ending fund balance per city	<u>731,900</u>	<u>500,237</u>
SCO adjustment: ⁴		
Finding—Unspent Proposition 1B allocation	<u>—</u>	<u>(5,333)</u>
Ending fund balance per audit	<u>\$ 731,900</u>	<u>\$ 494,904</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, 2005, through June 30, 2012; however, this schedule includes only the period of July 1, 2011, through June 30, 2012.

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, 2005, through June 30, 2012. The city did not receive any TCRF revenues and did not incur any TCRF expenditures during FY 2011-12, 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, 2012.

⁴ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Unexpended
Proposition 1B
allocation**

During FY 2011-12, the city overstated its Proposition 1B fund balance by \$5,333 because it did not expend all of its FY 2007-08 allocations in a timely manner.

Government Code section 8879.65 requires cities and counties to expend the Proposition 1B allocations within four years of the receipt of the funds.

Recommendation

The city should return \$5,333 to the State Controller's Office, Attention Rhodora Bravo, P.O. Box 942850, Sacramento, CA 94250.

In addition, the city should establish procedures to ensure Proposition 1B allocations are expended within the four-year period as required.

City's Response

We have received today received and reviewed the above referenced draft audit report and agree with its finding. On June 27, 2014, we returned the unused \$5,333 Proposition 1B funds to the State Controller's Office; and we have incorporated new procedures for all grant funds to ensure they are spent timely in the future.

SCO's Comments

The city agreed with our finding and returned the money to the State Controller's Office.

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



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MAYOR
Randy Pope

VICE MAYOR
Doug Hardcastle

COUNCILMEMBERS
Diane Burgis
Kevin Romick
Carol Rios

October 1, 2014

Mike Spalj, Audit Manager
Local Government Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874

RE: Gas Tax, Traffic Congestion Relief Fund, and Prop 1B Fund Audit

Dear Mr. Spalj,

We have received today received and reviewed the above referenced draft audit report and agree with its finding. On June 27, 2014, we returned the unused \$5,333 Proposition 1B funds to the State Controller's Office; and we have incorporated new procedures for all grant funds to ensure they are spent timely in the future.

Sincerely,

Paul Abelson
Finance Director

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

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