

CITY OF SOUTH GATE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2007

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2007



JOHN CHIANG
California State Controller

December 2008



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California State Controller

December 31, 2008

The Honorable Gil Hurtado
Mayor of the City of South Gate
8650 California Avenue
South Gate, CA 90280-3075

Dear Mayor Hurtado:

The State Controller's Office audited the City of South Gate's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. 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, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required. However, we made an observation related to the city's financial solvency.

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: Grace Kong, Chief
Local Program Accounting
Department of Transportation

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Audit Report

Summary

The State Controller's Office audited the City of South Gate's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. 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, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required. However, we made an observation related to the city's financial solvency.

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.

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 South Gate accounted for and expended its 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, 2006, through June 30, 2007, except as noted in Schedule 1 and described in the Observation and Recommendation section of this report. The observation required no adjustment.

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, 2007.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on March 26, 2002, disclosed no findings.

View of Responsible Official

We issued a draft audit report on September 30, 2008. Julia James, Director of Finance, responded by telephone on December 2, 2008, agreeing with the audit results.

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

December 31, 2008

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2006, through June 30, 2007**

	<u>Special Gas Tax Street Improvement Fund</u>		
	<u>Highway Users Tax Allocation ¹</u>	<u>TCRF Allocation ²</u>	<u>Totals</u>
Beginning fund balance per city	\$ 1,080,436	\$ 455,489	\$ 1,535,925
Revenues	<u>1,960,406</u>	<u>746,745</u>	<u>2,707,151</u>
Total funds available	3,040,842	1,202,234	4,243,076
Expenditures	<u>(2,232,328)</u>	<u>(507,992)</u>	<u>(2,740,320)</u>
Ending fund balance per city	808,514	694,242	1,502,756
SCO adjustment: ³			
Observation—General Fund financial condition	—	—	—
Total SCO adjustment	<u>—</u>	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 808,514</u>	<u>\$ 694,242</u>	<u>\$ 1,502,756</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 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, 2007.

³ See the Observation and Recommendation section.

Observation and Recommendation

OBSERVATION— General Fund financial condition

The city's budget is balanced with deficit spending on the General Fund reserves. The General Fund reserves have been depleted to the point that the city's financial viability is in jeopardy.

The city held an election and passed a ballot measure—South Gate Vital City Services Measure P—on June 3, 2008. The measure is a means by which to close the city's budget deficit by raising the sales tax by 1%. The projected increase in sales tax revenue is \$7,000,000, which the city will use to avert the General Fund reserve depletion. If the city fails to collect the estimated amount of sales tax revenues, it may not be able to restore the financial health of the General Fund reserve and may thus inadvertently affect the gas tax fund's financial integrity.

Streets and Highways Code section 2118 imposes a mandatory duty on the Controller to ensure that the city deposits money received from the highway users tax fund into a separate bank account when deemed necessary.

We will continue to monitor the city's General Fund reserve. If the reserve is completely depleted, we will require the city to deposit money received from the highway users tax fund into a separate bank account.

Recommendation

The city should make every effort to stop the deficit spending and replenish the General Fund reserve.

City's Response

The City of South Gate's Director of Finance, Julia James, responded by telephone on December 2, 2008, agreeing with the audit finding.

**State Controller's Office
Division of Audits
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