

TOWN OF YUCCA VALLEY

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2007

TRAFFIC CONGESTION RELIEF FUND

July 1, 2001, through June 30, 2007



JOHN CHIANG
California State Controller

December 2008



JOHN CHIANG
California State Controller

December 19, 2008

The Honorable Robert Leone
Mayor of the Town of Yucca Valley
57090 Twentynine Palms Highway
Yucca Valley, CA 92284

Dear Mayor Leone:

The State Controller's Office audited the Town of Yucca Valley'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 for the period of July 1, 2001, through June 30, 2007.

Our audit disclosed that the town accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, and that no adjustment to the funds is required.

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:wm

cc: Curtis Yakimow
Administrative Services Director
Town of Yucca Valley
Grace Kong, Chief
Local Program Accounting
Department of Transportation

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Follow-Up on Prior Audit Findings	2
Views of Responsible Official	2
Restricted Use	2
Schedule 1—Reconciliation of Fund Balance	3
Findings and Recommendations	4
Attachment—Town’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office audited the Town of Yucca Valley'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 for the period of July 1, 2001, through June 30, 2007.

Our audit disclosed that the town accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, and that no adjustments to the funds are required.

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 town'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 (TCRF) 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 town recorded its TCRF allocations in the Traffic Congestion Relief Fund. We conducted our audit of the town'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 town accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code. To meet the audit objective, we determined whether the town:

- 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 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 town's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the town accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief 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 town expended funds for street purposes. We considered the town's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that the Town of Yucca Valley 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, 2006, through June 30, 2007.

Our audit also disclosed that the town 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, 2001, through June 30, 2007.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on July 13, 1999, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on October 17, 2008. Curtis Yakimow, Director of Administrative Services, responded by letter dated October 31, 2008, disagreeing with the audit results. The town's response is included in this final audit report as an attachment.

Restricted Use

This report is intended for the information and use of town 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 19, 2008

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

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ 90,898	\$ 48,446
Revenues	<u>666,192</u>	<u>145,445</u>
Total funds available	757,090	193,891
Expenditures	<u>(488,017)</u>	<u>(136,000)</u>
Ending fund balance per city	269,073	57,891
Timing adjustment:		
Accrual of June 2007 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	38,698	—
SCO adjustment	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 307,771</u>	<u>\$ 57,891</u>

¹ The town 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 Traffic Congestion Relief Fund. The audit period was July 1, 2001, through June 30, 2007.

Findings and Recommendations

FINDING 1— Unearned TCRF apportionment and interest income

The Town of Yucca Valley did not meet the maintenance-of-effort (MOE) required by Streets and Highways Code section 2182.1(b), which 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 town reported its average annual MOE as \$23,635. This is the amount the town is required to expend annually. The town did not report any discretionary fund spending in fiscal year (FY) 2000-01, FY 2001-02 and FY 2002-03.

The town received \$225,283 in total Traffic Congestion Relief Fund (TCRF) apportionments pursuant to Streets and Highways Code section 2182, as follows: \$137,010 for FY 2000-01, \$39,135 for FY 2001-02, and \$49,138 for FY 2002-03. The town must return to the State Controller's Office \$225,283, plus accrued interest of \$6,823, pursuant to section 2182 which states:

Any city or county that has not complied with subdivision (b) shall reimburse the state for the funds it received during that fiscal year.

Recommendation

The town must return the TCRF allocations in the amount of \$232,106 to the State Controller's Office, Attn: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

Town's Response

With respect to the findings that the Town's Maintenance of Effort (MOE) was not expended, we would respectfully disagree. The Town's MOE is calculated at \$23,635 annually, and that amount or more was spent annually, or twice the amount in the subsequent year as the case may be. Attached are resolutions and invoices from the Town's discretionary funds from each of the three years in question identifying expenditures that exceed the required annual MOE.

It appears that the Town was not accurate in its reporting contained in the Town's Annual Streets Report, and the Town takes full responsibility for this reporting obligation. Being a small Town, it is generally more efficient for the Town to outsource many activities, including the completion of its Annual Streets Report. The Town's external auditor assisted the Town in the completion of the report. Unfortunately, the Town may have missed the inaccuracies in the report through personnel changes, management changes, and timing differences in completion of the Annual Streets Report versus the

completion of the Town's annual audit. In some cases, changes may have been identified in the Town's financials that were not reflected in the initial Streets Report due to timing differences in the submission deadlines for the reports.

SCO's Comment

After reviewing the town's response to our draft report and additional documentation provided by the town, we have concluded that the town made reporting errors in its Annual Street Report. The documentation provided by the town substantiates its claim that the town did meet the maintenance-of-effort requirement during these fiscal years. The town is in compliance with Streets and Highways Code section 2182 and Revenue and Taxation Code section 7104. The finding is withdrawn.

FINDING 2— Unallowable expenditures

The town did not meet its MOE requirement during FY 2000-01 through FY 2002-03, as noted in Finding 1. Consequently, the expenditure of these funds, totaling \$232,106, was not allowable.

Recommendation

The town must reimburse the TCRF by \$232,106 for unallowable expenditures.

Town's Response

The town did not respond to this finding.

SCO's Comment

The town's response to Finding 1 and the additional information provided makes the expenditures eligible. The finding is withdrawn.

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



October 31, 2008

VIA FEDEX MAIL

Mr. Steven Mar
Chief, Local Government Audits Bureau, SCO
300 Capitol Mall, Suite 518
Sacramento, CA 95814

RE: Town of Yucca Valley Draft Audit Report
Special Gas Tax Street Improvement and TCR Funds

Dear Mr. Mar;

We are in receipt of the Draft Audit Report and letter dated October 17, 2008, and are replying to the finding of the report.

Firstly, we wanted to convey our appreciation for the professional manner in which the audit was conducted. The field auditor was courteous and professional in all regards.

With respect to the findings that the Town's Maintenance of Effort (MOE) was not expended, we would respectfully disagree. The Town's MOE is calculated at \$23,635 annually, and that amount or more was spent annually, or twice the amount in the subsequent year as the case may be. Attached are resolutions and invoices from the Town's discretionary funds from each of the three years in question identifying expenditures that exceed the required annual MOE.

It appears that the Town was not accurate in its reporting contained in the Town's Annual Streets Report, and the Town takes full responsibility for this reporting obligation. Being a small Town, it is generally more efficient for the Town to outsource many activities, including the completion of its Annual Streets Report. The Town's external auditor assisted the Town in the completion of the report. Unfortunately, the Town may have missed the inaccuracies in the report through personnel changes, management changes, and timing differences in completion of the Annual Streets Report versus the completion of the Town's annual audit. In some cases, changes may have been identified in the Town's financials that were not reflected in the initial Streets Report due to timing differences in the submission deadlines for the reports.



The Town of
Yucca Valley

57090 Twentynine Palms Highway • Yucca Valley, California 92284
760/369-7207 • FAX 760/369-0626

Mr. Steven Mar
October 31, 2008

Page 2

The Town has since taken steps to ensure both the proper accounting and reporting of all TCRF and Gas Tax Funds, and equally important, the reconciliation of the Annual Streets Report with the Town's general ledger. These include the following:

1. Annual Budgeted MOE Line item in the Town's Discretionary Funds for ease of tracking.
2. Transfer of any TCRF Funds to Gas Tax Fund to ensure spend down requirement.
3. Annual Reconciliation of General Ledger to Annual Streets Report, with differences being reported as an update to the Town's Annual Streets Report.
4. Concurrence in reporting with the Town's external auditor.

The receipt of TCRF and Gas Tax monies are critical to a town the size of Yucca Valley. With a limited budget and enormous infrastructure needs, each dollar is essential to the Town. The proposed Audit Recommendation of reimbursing \$232,106 to the State would be an enormous burden on the citizens of the Town of Yucca Valley, and would impair the Town's ability to provide what little maintenance it can on the Town's 170 miles of maintained roads. Accordingly, we would ask that the State agree that the Town has met the spirit of the law, and be entitled to the funds already allocated through the TCRF.

If any further assistance is needed in this matter, or if the Town's request is not granted, please contact me at (760) 369-7207 to discuss.

Sincerely,



Town of Yucca Valley
Curtis Yakimow
Director of Administrative Service

Cc: Andrew Takata – Town Manager
Attachments

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

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