

CITY OF SIERRA MADRE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2004, through June 30, 2012

TRAFFIC CONGESTION RELIEF FUND

July 1, 2004, through June 30, 2011



JOHN CHIANG
California State Controller

December 2013



JOHN CHIANG
California State Controller

December 3, 2013

The Honorable Nancy Walsh
Mayor of the City of Sierra Madre
City of Sierra Madre
232 Sierra Madre Boulevard
Sierra Madre, CA 91024

Dear Mayor Walsh:

The State Controller's Office audited the City of Sierra Madre's Special Gas Tax Street Improvement Fund for the period of July 1, 2004, through June 30, 2012. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2004, through June 30, 2011.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, except that the city understated the balance in the Special Gas Tax Street Improvement Fund by \$28,362 as of June 30, 2012, because the fund had a deficit of \$28,362 for the fiscal year (FY) ended June 30, 2007.

In addition, our audit found that the city understated the balance in the Traffic Congestion Relief Fund (TCRF) by \$126,253 as of June 30, 2011, because it did not meet the maintenance-of-effort requirement during FY 2006-07; therefore, the city did not qualify to receive the TCRF allocation of \$81,586 for that fiscal year. In addition, the city did not meet the two-year spending requirement for the TCRF allocation received in FY 2009-10. The entire allocation was not spent by June 30, 2011; \$44,667 remained as of that date.

If you have any questions, please contact Mr. Mar by phone at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

Attachment

cc: Karin Schnaider, Administrative Services Director
City of Sierra Madre

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Audit Report

Summary

The State Controller's Office audited the City of Sierra Madre's Special Gas Tax Street Improvement Fund for the period of July 1, 2004, through June 30, 2012. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2004, through June 30, 2011.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, except that the city understated the balance in the Special Gas Tax Street Improvement Fund by \$28,362 as of June 30, 2012, because the fund had a deficit of \$28,362 for the fiscal year (FY) ended June 30, 2007.

Our audit also found that the city understated the balance in the Traffic Congestion Relief Fund by \$126,253 as of June 30, 2011, because it did not meet the maintenance-of-effort requirement during FY 2006-07; therefore, the city did not qualify to receive the TCRF allocation of \$81,586 for that fiscal year. In addition, the city did not meet the two-year spending requirement for the TCRF allocation received in FY 2009-10. The entire allocation was not spent by June 30, 2011; \$44,667 remained as of that date.

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.

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 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 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; 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 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 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 Sierra Madre 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, 2004, through June 30, 2012, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$28,362 to the city's accounting records.

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, 2004, through June 30, 2011, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$126,253 to the city's accounting records.

**Follow-Up on Prior
Audit Findings**

The city satisfactorily resolved the findings noted in our prior audit report, issued on August 9, 2006.

**Views of
Responsible
Official**

We issued a draft audit report on September 10, 2013. Karin Schnaider, Administrative Services Director, responded by letter dated September 10, 2013, agreeing with the audit results with the exception of Findings 1 and 2. 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 Sierra Madre'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

December 3, 2013

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

	Special Gas Tax Street Improvement Fund
	Highway Users Tax Allocation ¹
Beginning fund balance per city	\$ 91,749
Revenues	316,071
Total funds available	407,820
Expenditures	(255,738)
Ending fund balance per city	152,082
Timing adjustment:	
Accrual of June 2012 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	(1,794)
SCO adjustments: ^{2, 3}	
Finding 1—Deficit fund balance	28,362
Total SCO adjustments	28,362
Ending fund balance per audit	\$ 178,650

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, 2004, 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 TCRF Fund. The audit period was July 1, 2004, through June 30, 2011.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Deficit fund balance

The city's Special Gas Tax Street Improvement Fund had a deficit balance of \$28,362 for fiscal year (FY) ended June 30, 2007. By definition, each fund is a separate fiscal and accounting entity with a self-balancing set of accounts. A fund with a deficit balance would be insolvent.

In addition, encumbering future highway apportionments to finance current and prior year expenditures is contrary to generally accepted accounting principles.

Recommendation

The city must transfer \$28,362 to the Gas Tax Fund to eliminate the deficit balance. In the future, the city should adopt a balanced budget that limits expenditures to the amount of funds available.

City's Response

The city indicated that the negative fund balance was a result of the State delaying the remittance to the city.

SCO's Comment

By definition, each fund is a separate fiscal and accounting entity with a self-balancing set of accounts. A fund with a deficit balance would be insolvent. In addition, encumbering future highway apportionments to finance current and prior year expenditures is contrary to generally accepted accounting principles. The finding remains as stated.

FINDING 2— Unsupported street expenditures

The city's staff did not provide supporting documentation for street maintenance materials expenditures recorded in the city's Special Gas Tax Street Improvement Fund in FY 2011-12.

The guidelines relating to gas tax expenditures indicates:

...all expenditures charged to the Special Gas Tax Street Improvement Fund or Road Fund must be supported by a warrant or other source document clearly showing that the payment for the expenditure was made and that the source document (invoices, requisition, time sheet, equipment rental charge, engineering plans, specifications and other pertinent data, etc.) clearly identifies the project and other pertinent data to establish a readily discernible audit trail.

Recommendation

The city must reimburse the Special Gas Tax Street Improvement Fund in the amount of \$20,753. The city should make sure all expenditures are supported by a warrant or other source document clearly showing that the payment for the expenditure was made and that the source document

(invoices, requisition, time sheet, equipment rental charge, engineering plans, specifications and other pertinent data, etc.) clearly identifies the project and other pertinent data to establish a readily discernible audit trail.

City's Response

The city indicated that it showed eligible expenses in the general ledger for the Gas Tax Fund.

SCO's Comment

Subsequent to the issuance of draft report, the city provided the SCO auditor with additional documentation that validated the \$20,753 of street maintenance material expenditures charged to the Special Gas Tax Street Improvement Fund. Consequently, the SCO agreed to eliminate this finding.

**FINDING 3—
Maintenance-of-effort
not met**

The city did not meet the maintenance-of-effort (MOE) required by Street and Highways Code section 2182.1(b), which states that 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 maintenance-of-effort amount is \$68,471, which is the amount to be expended annually from discretionary funding sources. The city expended discretionary funds of \$25,566 during FY 2006-07. As a result, the city failed to meet its maintenance-of-effort requirement for that fiscal year.

The city received \$81,586 in TCRF apportionments during FY 2006-07. This amount must be returned to the State pursuant to section 2182 which states that any city that has not complied with subdivision (b) shall reimburse the state the funds it received during that year.

Recommendation

The city must return the unearned TCRF allocations in the amount of \$81,586 to the State Controller's Office, Attention: Rhodora Bravo, Associate Accounting Analyst, P.O. Box 942850, Sacramento, CA 94250.

City's Response

The city did not disagree with this finding, but asked for special consideration to remove the demand for refund of the \$81,586 in TCRF apportionments. The city indicated that it will experience unnecessary hardship if it is forced to refund the total amount.

SCO's Comment

The Street and Highways Code section 2182 does not provide any exemptions for hardship. Street and Highways Code section 2182 states that any city that has not complied with subdivision (b) shall reimburse the state the funds it received during that year. Consequently, the finding remains as stated.

**FINDING 4—
Expenditure
requirement not met**

The city did not meet the Traffic Congestion Relief Fund expenditure requirement for FY 2009-10 as required by Streets and Highways Code section 21.82.1(g), which states that the allocation made under paragraph 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 formula set forth in Section 2182.”

The \$44,667 in unexpended allocations is subject to the spending requirement of the Traffic Congestion Relief Fund.

Recommendation

The city must return the TCRF allocations that were unspent within the expenditure requirement in the amount of \$44,667 to the State Controller's Office, Attention: Rhodora Bravo, Associate Accounting Analyst, P.O. Box 942850, Sacramento, CA 94250.

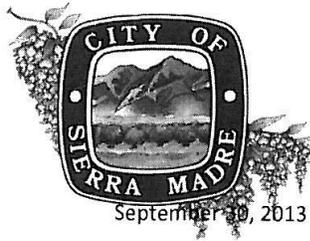
City's Response

The city did not disagree with this finding, but asked for special consideration to remove the demand for refund of the \$44,667 in unexpected allocations. The city indicated that it will experience unnecessary hardship if it is forced to refund the total amount.

SCO's Comments

The Street and Highways Code section 2182 does not provide any exemptions for hardship. Street and Highways Code section 2182 states that any city that has not complied with subdivision (g) shall reimburse the state the unexpended funds it received. Consequently, the finding remains as stated.

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



City of Sierra Madre

Steven Mar, Chief
Local Government Audits Bureau
State Controller's Office, Division of Audits
PO Box 942850
Sacramento CA 94250-5874

Dear Mr Mar:

Attached is the City of Sierra Madre's response to the State Controller's Office audit of the City's Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund. Per the audit, the City had four findings to respond. Of the four, the City is asking for the removal of two findings and is asking for special consideration on the findings 3 and 4.

In finding 1, the City explains that the negative fund balance was a result in the State delay in remittance to the City. In finding 2, the City showed eligible expenses in the General Ledger for the Gas Tax fund.

In finding 3 and 4, while the City does not disagree with the findings, the City will experience unnecessary hardship if asked to refund expenditures that the City has already used on eligible expenditures. The City has a population of 11,000 and therefore receives limited funds Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund. It takes the City several years to establish a sufficient amount of funds in order to fund a competitive street improvement project. By asking the City to refund the expenses four years after they have been used to fund a project will unduly hurt the City's finances and future street improvement projects. As a result, the City is asking for special consideration as to remove the demand for refunding these revenues to the State.

Please let me know if I can provide any further assistance.

Sincerely,

Karin Schnaider
Finance Director

Attachment: City of Sierra Madre's response to State Controller's Office audit of the City's Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund findings 1-4.

232 W. Sierra Madre Blvd., Sierra Madre, CA 91024
Telephone (626) 355-7135 Fax (626) 355-2251

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

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