

CITY OF TRACY

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2012

TRAFFIC CONGESTION RELIEF FUND

July 1, 2005, through June 30, 2012

PROPOSITION 1B FUND

July 1, 2007, through June 30, 2012



BETTY T. YEE
California State Controller

December 2015



BETTY T. YEE
California State Controller

December 22, 2015

The Honorable Michael Maciel
Mayor of the City of Tracy
333 Civic Center Drive
Tracy, CA 95376

Dear Mayor Maciel:

The State Controller's Office audited the City of Tracy'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 for the period of July 1, 2005, through June 30, 2012, as well as 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, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with requirements, except the city overstated the fund balance in the Proposition 1B Fund by \$19,651 as of June 30, 2012, because it did not completely spend its fiscal year 2007-08 revenue within the four-fiscal-year time limit.

If you have any questions, please contact Mike Spalj, Chief, Local Government Audits Bureau, by telephone at (916) 324-0984.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/ljs

Attachment

cc. V. Rachelle McQuiston
Director of Finance & Administrative Services
City of Tracy

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Audit Report

Summary

The State Controller's Office audited the City of Tracy's:

- Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2012;
- Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2005, through June 30, 2012; and
- 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, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with requirements, except that the city overstated the fund balance in the Proposition 1B Fund by \$19,651 as of June 30, 2012, because it did not completely expend its fiscal year (FY) 2007-08 revenue within the four-fiscal-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 Traffic Congestion Relief 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 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 Fund 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 its Special Gas Tax Street Improvement Fund, TCRF, 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 performed the following procedures:

Special Gas Tax Street Improvement Fund

- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule to determine whether Highway Users Tax Account (HUTA) funds received by the city were completely accounted for.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine whether HUTA funds were expended in accordance with the criteria above.
- Analyzed and tested a sample of transactions to determine whether recoveries of prior HUTA fund expenditures were identified and credited to the Special Gas Tax Street Improvement Fund.
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures.
- Interviewed city employees and reviewed policies and procedures to gain an understanding of the city's internal controls and accounting systems related to this audit.

Traffic Congestion Relief Fund

- Reconciled the TCRF revenue recorded in the city ledger to confirm that the TCRF allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.
- Reconciled the city's "Schedule of Expenditures as Reported in the Streets and Roads Annual Report" with the SCO's "Average Annual Expenditures Computation of Discretionary Funds" to determine compliance with the maintenance-of-effort (MOE) requirement.

Proposition 1B Fund

- Reconciled the Proposition 1B revenue recorded in the city ledger to confirm that the Proposition 1B allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.

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, Proposition 1B Fund and the Traffic Congestion Relief Fund in accordance with the requirements of the Streets and Highways Code, Government Code section 8879.23 and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street-related 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 Tracy 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.
- Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue Taxation Code section 7104 for the period of July 1, 2005, through June 30, 2012.
- Proposition 1B Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2012, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$19,651 to the city's accounting record.

Follow-Up on Prior Audit Findings

There was no prior audit report.

Views of Responsible Official

We issued a draft audit report on July 7, 2014. Robert Harmon, Senior Accountant, responded by e-mail dated September 30, 2015, agreeing with the audit results.

Restricted Use

This report is intended for the information and use of the City of Tracy'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 22, 2015

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

	Special Gas Tax Street Improvement Fund		Traffic Congestion Relief Fund ³
	Highway Users Tax Allocation ¹	Proposition 1B Fund ²	
Beginning fund balance per city	\$ 2,190,638	\$ (427,058)	\$ (648)
Revenues	<u>2,448,623</u>	<u>1,198,229</u>	<u>(3,757)</u>
Total funds available	4,639,261	771,171	(4,405)
Expenditures	<u>(2,745,039)</u>	<u>(137,255)</u>	<u>4,405</u>
Ending fund balance per city	<u>1,894,222</u>	<u>633,916</u>	<u>—</u>
SCO adjustment: ⁴			
Finding—Unspent revenue		<u>(19,651)</u>	
SCO adjustment			
Ending fund balance per audit	<u>\$ 1,894,222</u>	<u>\$ 614,265</u>	<u>\$ —</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 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; however, this schedule includes only the period of July 1, 2011, through June 30, 2012.

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 TCRF Fund. 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.

⁴ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING —
Unspent Proposition 1B
Revenue**

The City of Tracy did not expend \$19,651 of its fiscal year 2007-08 Proposition 1B revenue within the four-fiscal-year period as stated in Government Code section 8879.65.

Government Code section 8879.65 states "...a city or county shall have four fiscal years from the last date of the fiscal year in which the funds are allocated to it by the Controller to expend the funds."

Recommendation

The city should return the unspent portion of \$19,651 to the State Controller's Office: Attn: Rhodora Bravo, P.O. Box 942850, Sacramento, CA 94250

City's Response

The city agreed with the finding.

SCO's Comment

The city agreed with the finding.

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

Cheng, Michael

From: Robert Harmon <Robert.Harmon@ci.tracy.ca.us>
Sent: Wednesday, September 30, 2015 3:35 PM
To: Cheng, Michael
Subject: RE: Gas Tax Audit Draft Report - City of Tracy

Hi Michael – I believe the 15 days has passed and I'm not sure if I responded previously but everything is okay and we agree with the findings. Okay to issue report and send us the bill for the \$19K.

Robert

Robert Harmon, CPA
Senior Accountant
ERP Project Manager
City of Tracy
(209) 831-6828 Voice
(209) 831-6846 Fax



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

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