

CITY OF FIREBAUGH

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006

TRAFFIC CONGESTION RELIEF FUND

July 1, 2000, through June 30, 2006



JOHN CHIANG
California State Controller

June 2008



JOHN CHIANG
California State Controller

June 13, 2008

The Honorable Craig Knight
Mayor of the City of Firebaugh
1575 Eleventh Street
Firebaugh, CA 93622

Dear Mayor Knight:

The State Controller's Office audited the City of Firebaugh's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, through June 30, 2006.

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. In addition, our audit disclosed that the city understated the fund balance in its Traffic Congestion Relief Fund by \$14,882 as of June 30, 2006, because the city did not meet the TCRF expenditure requirement.

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/jj:vb

cc: Jose B. Garay
Finance Director
City of Firebaugh

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Audit Report

Summary

The State Controller's Office audited the City of Firebaugh's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, through June 30, 2006.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements. In addition, our audit disclosed that the city understated the fund balance in its Traffic Congestion Relief Fund by \$14,882 as of June 30, 2006. The city understated the fund balance because it did not meet the TCRF expenditure requirement.

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 our audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 disclosed that the City of Firebaugh 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, 2006.

Our audit also disclosed 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, 2000, through June 30, 2006, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require that the city return \$14,882 to the State Controller.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on April 5, 1999, disclosed no findings.

Views of Responsible Official

We discussed the audit results with city representatives during an exit conference on May 3, 2007. Jose Garay, Finance Director, agreed with the audit results. Mr. Garay further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

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

June 13, 2008

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2005, through June 30, 2006**

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund Allocation ²
Beginning fund balance per city	\$ 60,705	\$ —
Revenues	<u>125,650</u>	<u>46,348</u>
Total funds available	186,355	46,348
Expenditures	<u>(106,227)</u>	<u>—</u>
Ending fund balance per city	<u>80,128</u>	<u>46,348</u>
Timing adjustment:		
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	—	(16,294)
SCO adjustments: ³		
Finding 1—TCRF expenditure requirement not met	—	(14,882)
Finding 2—Ineligible TCRF expenditure	<u>—</u>	<u>14,882</u>
Net SCO adjustments	<u>—</u>	<u>(16,294)</u>
Ending fund balance per audit	<u>\$ 80,128</u>	<u>\$ 30,054</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 Traffic Congestion Relief Fund. The audit period was July 1, 2000, through June 30, 2006.

³ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
TCRF expenditure
requirement not met**

The city did not expend its TCRF allocations within the fiscal year following the fiscal year in which the allocations were made as required by Streets and Highways Code section 2182.1(g). The unexpended allocation subject to the spending requirements as of June 30, 2006 is \$14,882. Further, the Streets and Highways Code states, “. . . funds not expended within that period shall be returned to the State Controller’s Office. . . .”

Recommendation

The city should return the unexpended TCRF allocation and interest earned on the fund to the State Controller’s Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

Additionally, the city should review its TCRF expenditure levels to ensure compliance with program requirements.

City’s Response

Jose Garay, Finance Director, agreed with our finding. The city issued a check to the State Controller’s Office in the amount of \$14,882, check number 018087, dated May 11, 2007.

**FINDING 2—
Ineligible TCRF
expenditure**

The city did not meet its expenditure requirement as of June 30, 2006, as noted in Finding 1. Consequently, the expenditure of these funds, totaling \$14,882, was not eligible.

Recommendation

The city should reimburse the Traffic Congestion Relief Fund by \$14,882 to eliminate the ineligible expenditures.

City’s Response

Jose Garay, Finance Director, agreed with our finding.

**State Controller's Office
Division of Audits
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