

CITY OF CUDAHY

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2012

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2007, through June 30, 2012

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2012



JOHN CHIANG
California State Controller

April 2014



JOHN CHIANG
California State Controller

April 15, 2014

The Honorable Chris Garcia
Mayor of the City Of Cudahy
5220 Santa Ana Street
Cudahy, Ca 90201

Dear Mayor Garcia:

The State Controller's Office audited the City of Cudahy's Special Gas Tax Street Improvement Fund—highway users tax allocations—for the period of July 1, 2007, through June 30, 2012. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2007, through June 30, 2012, and 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—highway users tax allocations, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$32,550 as of June 30, 2012, primarily because it incurred expenses in excess of available funds in fiscal year (FY) 2009-10, and recorded its Highway Users Tax allocations in error in FY 2010-11.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, by phone at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

Attachment

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Audit Report

Summary

The State Controller's Office audited the City of Cudahy's Special Gas Tax Street Improvement Fund—highway users tax—for the period of July 1, 2007, through June 30, 2012. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2007, through June 30, 2012, and 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 and TCRF allocations in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$32,550 as of June 30, 2012, primarily because it incurred expenses in excess of available funds in fiscal year (FY) 2009-10, and recorded its Highway Users Tax allocations in error in FY 2010-11. Our audit also found that the city accounted for and expended its Proposition 1B Fund allocations in compliance with Government Code section 8879.23.

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 three years following the end of the fiscal year in which the allocation was made and to expend the funds

in compliance with Government Code section 8879.23. We conducted our audit 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 the Special Gas Tax Street Improvement Fund, TCRF allocations, and Proposition 1B Fund allocations in compliance with Article XIX of the California Constitution and the Streets and Highways Code, and Government Code section 8879.23. 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, TCRF allocations, and the Proposition 1B Fund allocations 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 Cudahy accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax allocations—in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2007, 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 \$32,550 to the city's accounting records.

Our audit also found that the city accounted for and expended its TCRF allocations 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, 2007, through June 30, 2012.

Our audit also found that the city accounted for and expended its Proposition 1B Fund allocations in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2012.

**Follow-Up on Prior
Audit Findings**

Our prior audit report, issued on July 16, 2008, disclosed no findings.

**Views of
Responsible
Officials**

We issued a draft audit report on January 10, 2014. Steven Dobrenen, Finance Director, responded by email dated January 28, 2014, agreeing with the audit results.

Restricted Use

This report is intended for the information and use of the City of Cudahy'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

April 15, 2014

Findings and Recommendations

**FINDING 1—
Negative fund balance**

The City of Cudahy’s Special Gas Tax Street Improvement Fund had a negative Fund balance of \$23,763 for fiscal year (FY) 2009-10 because city incurred expenditures in excess of available funds. By definition, each fund is a separate fiscal and accounting entity with a self-balancing set of accounts. As the Gas Tax Special Street Improvement Fund did not have sufficient funds to pay for all of its expenditures, it was insolvent. This resulted in encumbering future Highway Users Tax allocations to finance prior period expenditures.

Article 16, Section 18 of the California Constitution states in part:

No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year.

Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund \$23,763 for FY 2009-10. In the future, the city should establish procedures to ensure that expenditures do not exceed available funds and that future Highway Users Tax allocations are not encumbered to finance prior period expenditures.

City’s Response

The City agrees with the finding.

**FINDING 2—
Improper recording
of Highway Users Tax
allocations**

During FY 2010-11, the city failed to record Highway Users Tax allocations of \$8,787 in the Gas Tax Fund Street Improvement Fund. As a result, the fund balance at June 30, 2012 was understated by \$8,787.

Streets and Highways Code section 2113 states:

No apportionment of money from the Highway Users Tax Fund as provided in Section 2106 or 2107 shall be made to a city unless the city has set up by ordinance a “special gas tax street improvement fund.” All apportionments of such moneys shall be deposited in the “special gas tax street improvement fund.”

Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund by \$8,787 for FY 2010-11. In the future, the city should establish procedures to ensure that the future gas tax apportionments are properly recorded in the special Gas Tax Street Improvement Fund.

City’s Response

The city agrees with the finding.

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