

CITY OF CALISTOGA

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2014

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2007, through June 30, 2014

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2014



BETTY T. YEE
California State Controller

January 2016



BETTY T. YEE
California State Controller

January 14, 2016

The Honorable Chris Canning
Mayor of the City of Calistoga
1232 Washington Street
Calistoga, CA 94515

Dear Mayor Canning:

The State Controller's Office audited the City of Calistoga's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2014. We also audited the Traffic Congestion Relief Fund (TCRF) allocations, recorded in the Special Gas Tax Street Improvement Fund, for the period of July 1, 2007, through June 30, 2014, and the Proposition 1B Fund allocations, recorded in the Special Gas Tax Street Improvement Fund, for the period of July 1, 2007, through June 30, 2014.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, TCRF allocations, and Proposition 1B Fund allocations in compliance with requirements except that the it overstated the Special Gas Tax Street Improvement Fund balance by \$39,899 as of June 30, 2014, because it did not meet the TCRF maintenance-of-effort requirement in FY 2008-09. The city should return to the SCO the TCRF allocation of \$44,920 deposited in the Special Gas Tax Street Improvement Fund. Additionally, as of June 30, 2007, the city's Special Gas Tax Street Improvement Fund had a negative fund balance of \$5,021. The city should transfer \$5,021 to the Special Gas Tax Street Improvement Fund to eliminate the negative fund balance.

If you have any questions, please contact Mike Spalj, Chief, Local Government Audits Bureau, by telephone at (916) 324-6984.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

Attachment

cc. Gloria Leon, Administrative Services Director
City of Calistoga

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Calistoga's:

- Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2014;
- Traffic Congestion Relief Fund (TCRF) allocations, recorded in the Special Gas Tax Street Improvement Fund, for the period of July 1, 2007, through June 30, 2014; and
- Proposition 1B Fund allocations, recorded in the Special Gas Tax Street Improvement Fund, for the period of July 1, 2007, through June 30, 2014.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, TCRF allocations, and Proposition 1B Fund allocations in compliance with requirements except that the it overstated the Special Gas Tax Street Improvement Fund balance by \$39,899 as of June 30, 2014, because it did not meet the TCRF maintenance-of-effort requirement in FY 2008-09. The city should return to the SCO the TCRF allocation of \$44,920 deposited in the Special Gas Tax Street Improvement Fund. Additionally, as of June 30, 2007, the city's Special Gas Tax Street Improvement Fund had a negative fund balance of \$5,021. The city should transfer \$5,021 to the Special Gas Tax Street Improvement Fund to eliminate the negative fund balance.

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.

Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 636, Statutes of 2000, (Senate Bill 1662) and 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 Special Gas Tax Street Improvement 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 Fund allocations in the Special Gas Tax Street Improvement 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 funds in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B Fund allocations 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 allocations, and Proposition 1B Fund allocations 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 sample expenditure transactions and verified proper documentation and eligibility to determine whether HUTA funds were expended in accordance with the criteria above.
- Analyzed and tested sample 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 (TCRF) Allocations

- 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 sample 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 Allocations

- Reconciled the Proposition 1B revenue recorded in the city ledger to confirm that the Proposition 1B Fund allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected sample 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 its Special Gas Tax Street Improvement Fund in accordance with the requirements of the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23. 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 Calistoga 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, 2007, through June 30, 2014, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$5,021 to the city's accounting records.
- TCRF allocations recorded in the Special Gas Tax Street Improvement 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, 2007, through June 30, 2014, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$44,920 to the city's accounting records.

- Proposition 1B Fund allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30 2014.

**Follow-Up on Prior
Audit Findings**

The city satisfactorily resolved the findings noted in our prior audit report, issued on June 8, 2005.

**Views of
Responsible
Officials**

We issued a draft report on November 18, 2015. Gloria Leon, Administrative Services Director, responded by letter dated December 1, 2015, agreeing with the audit results. 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 Calistoga'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

January 14, 2016

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2013, through June 30, 2014**

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocations ^{1, 3}	TCRF Allocations ²	Totals
Beginning fund balance per city	\$ 75,281	\$ —	\$ 75,281
Revenues	<u>177,177</u>	<u>—</u>	<u>177,177</u>
Total funds available	252,458	—	252,458
Expenditures	<u>(128,881)</u>	<u>—</u>	<u>(128,881)</u>
Ending fund balance per city	<u>123,577</u>	<u>—</u>	<u>123,577</u>
SCO adjustments: ⁴			
Finding 1—MOE not met	—	(44,920)	(44,920)
Finding 2—Negative fund balance	<u>5,021</u>	<u>—</u>	<u>5,021</u>
Total SCO adjustments	<u>5,021</u>	<u>(44,920)</u>	<u>(39,899)</u>
Ending fund balance per audit	<u>\$ 128,598</u>	<u>\$ (44,920)</u>	<u>\$ 83,678</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, 2007, through June 30, 2014; however, this schedule includes only the period of July 1, 2013, through June 30, 2014.

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 Special Gas Tax Street Improvement Fund. The audit period was July 1, 2007, through June 30, 2014; however, this schedule includes only the period for July 1, 2013, through June 30, 2014.

³ 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, 2014. The city did not receive any Proposition 1B revenues and did not incur any Proposition 1B expenditures during FY 2013-14; therefore, it is not included in this schedule.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Maintenance-of-effort
(MOE) requirement
not met**

The city did not meet the maintenance-of-effort (MOE) required by Streets 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 expenditure 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 MOE amount is \$272,062, which is the amount to be expended annually from its General Fund. However, during FY 2008-09, the city expended \$181,639. As a result, the city failed to meet its MOE requirement for that fiscal year.

The city received \$44,920 in TCRF allocations during FY 2008-09. This amount must, therefore, be returned to the State.

Recommendation

The city must return the TCRF allocation of \$44,920 to the State Controller’s Office, Attention: Rhodora Bravo, P.O. Box 942850, Sacramento, CA 94250.

City’s Response

The city is in agreement that it did not meet the TCRF maintenance-of-effort requirements in Fiscal Year 2008-09 and will return \$44,920 to the State Controller’s Officer once the final report is issued to be taken to the City Council for authorization and approval of payment.

SCO’s Comment

The city agreed with our finding.

**FINDING 2—
Negative fund balance**

As of July 1, 2007, the city’s Special Gas Tax Street Improvement Fund had a negative fund balance of \$5,021. This resulted from the city inadvertently charging more street expenditures than there were funds available.

The practice of funding one fiscal year’s expenditures with Highway Users Tax apportionments from the following fiscal year is a violation of Article 16, Section 18, of the California Constitution, and contrary to established municipal budgetary and accounting practice.

As a result, the negative balance of \$5,021 is unallowable.

Recommendation

The city should transfer \$5,021 to the Special Gas Tax Street Improvement Fund to eliminate the negative fund balance and establish procedures to ensure there are sufficient funds prior to charging expenditures.

City's Response

The city will transfer \$5,021 to the Special Gas Tax Street Improvement Fund to eliminate the negative fund balance.

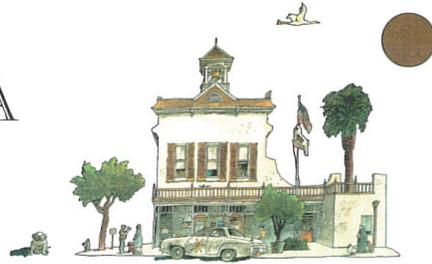
SCO's Comment.

The city agreed with our finding.

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

CITY OF CALISTOGA

1232 Washington Street • Calistoga, CA 94515
707.942.2800



December 1, 2015

Mike Spalj, Chief
Local Government Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

RE: Letter Dated November 18, 2015, Special Gas Tax Audit

Dear Mr. Spalj,

I have reviewed the audit findings for the City of Calistoga for the Fiscal Year 2013-14 and the City is in agreement that it did not meet the TCRF maintenance-of-effort requirements in Fiscal Year 2008-09. The City is also in agreement that as of June 30, 2007, the Special Gas Tax Street Improvement Fund had a negative fund balance of \$5,021.

The City will transfer \$5,021 to the Special Gas Tax Street Improvement Fund to eliminate the negative fund balance from the General Fund.

Once I am in receipt of the final Audit Report I will take the item to the City Council for authorization and approval to return the \$44,920 to the State Controller's Office for the TCRF allocation. Hopefully we will have the final report before the end of the year and I anticipate I will take the item to the City Council in January 2016.

Should you have additional questions from me please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Gloria Leon', written over a printed name and title.

Gloria Leon
Administrative Services Director

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

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