

# **CITY OF CALEXICO**

Audit Report

## **SPECIAL GAS TAX STREET IMPROVEMENT FUND**

*July 1, 2004, through June 30, 2014*

## **TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS**

*July 1, 2004, through June 30, 2011*

## **PROPOSITION 1B FUND ALLOCATIONS**

*July 1, 2007, through June 30, 2014*



**BETTY T. YEE**  
California State Controller

September 2016



**BETTY T. YEE**  
California State Controller

September 30, 2016

The Honorable Luis J. Castro  
Mayor of the City of Calexico  
608 Heber Avenue  
Calexico, CA 92231

Dear Mayor Castro:

The State Controller's Office audited the City of Calexico's Special Gas Tax Street Improvement Fund for the period of July 1, 2004, through June 30, 2014. We also audited the Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund, for the period of July 1, 2004, through June 30, 2011; and the Proposition 1B Fund allocations recorded in its Proposition 1B 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, 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 \$122,789 as of June 30, 2014, because it charged non-street-related expenditures and did not record interest income.

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits Bureau, by telephone at (916) 284-0120.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/rg

cc: Eduardo Gutierrez, Interim Finance Director  
City of Calexico

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# Audit Report

## Summary

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

- Special Gas Tax Street Improvement Fund for the period of July 1, 2004, through June 30, 2014;
- Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund for the period of July 1, 2004, through June 30, 2011; and
- Proposition 1B Fund allocations recorded in its Proposition 1B 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, 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 \$122,789 as of June 30, 2014, because it charged non-street-related expenditures and did not record interest income.

## Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) 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, 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 Traffic Congestion Relief Fund allocations in its Traffic Congestion Relief Fund. We conducted our audit of the city's Traffic Congestion Relief Fund 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 must 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 its Proposition 1B Fund. A city also must 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.

## **Objectives, Scope, and Methodology**

Our audit objective was to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund 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 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 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 Allocations***

- Reconciled the Traffic Congestion Relief Fund allocations recorded in the city ledger to confirm that the 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 requirement.

**Proposition 1B Fund Allocations**

- Reconciled the Proposition 1B Fund allocations recorded in the city ledger to confirm that the 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 its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations 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 Calexico 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, 2014, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$122,789 to the city's accounting records.
- Traffic Congestion Relief Fund allocations recorded in 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.
- Proposition 1B Fund allocations recorded in its Proposition 1B 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**

Our prior audit report, issued on April 20, 2005, disclosed no findings.

**Views of  
Responsible  
Officials**

We issued a draft audit report on July 8, 2016. Eduardo Gutierrez, Interim Finance Director, responded by email on August 23, 2016, agreeing with the audit results.

**Restricted Use**

This report is intended for the information and use of the City of Calexico 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

September 30, 2016

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

	Special Gas Tax Street Improvement Fund <sup>1, 2, 3</sup>
Beginning fund balance per city	\$ 915,529
Revenues	1,122,220
Total funds available	2,037,749
Expenditures	(1,032,814)
Ending fund balance per city	1,004,935
Timing adjustments:	
Accruals—FY 2013-14 (Governmental Accounting Standards Board Statement No. 34)	119,195
SCO adjustments: <sup>4</sup>	
Finding 1—Ineligible expenditures	121,076
Finding 2—Unrecorded interest revenue	1,713
Total SCO adjustments	122,789
Ending fund balance per audit	\$1,246,919

<sup>1</sup> The city receives apportionments from the State HUTA, 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 city must deposit its HUTA apportionments in its Special Gas Tax Street Improvement Fund. The audit period was July 1, 2004, through June 30, 2014; however, this schedule includes only the period of July 1, 2013, through June 30, 2014.

<sup>2</sup> 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 and road maintenance, reconstruction, and storm damage repair. The city recorded its Traffic Congestion Relief Fund allocations in its Traffic Congestion Relief Fund. The audit period was July 1, 2004, through June 30, 2011. The city did not receive any Traffic Congestion Relief Fund revenues and did not incur any Traffic Congestion Relief Fund expenditures during fiscal year (FY) 2013-14; therefore, it is not included in this schedule.

<sup>3</sup> 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 city recorded its Proposition 1B Fund allocations in its Proposition 1B Fund. 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.

<sup>4</sup> See the Findings and Recommendations section.

# Findings and Recommendations

**FINDING 1—  
Ineligible expenditures**

During FY 2011-12, FY 2012-13, and FY 2013-14, the city charged the Special Gas Tax Street Improvement Fund \$121,076 of non-street-related administrative costs. The non-street-related administrative costs consisted of permits, fines, 911 call-system cost sharing, and Transportation Commission memberships. Amounts charged to the Special Gas Tax Street Improvement Fund were as follows:

Fiscal Year	Amount
2011-12	\$ 41,729
2012-13	49,498
2013-14	29,849
Total	\$121,076

Streets and Highways Code section 2101 states, in part, "...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for ... (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways..."

Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund in the amount of \$121,076 for ineligible expenditures. Additionally, the city should ensure that future gas tax expenditures are for eligible street purposes.

City’s Response

City concurs with the audit finding No. 1 of ineligible expenditures by \$121,076 and has reimbursed the Gas Tax Fund from other sources, and as part of its annual year-end close process, city will conduct a secondary review of all Gas Tax Fund expenditures to ensure eligibility with the State’s Street and Highways Code.

**FINDING 2—  
Unrecorded interest income**

The city did not allocate interest revenue to the Special Gas Tax Street Improvement Fund in FY 2012-13 and FY 2013-14. We calculated interest revenue based on the pro-rata share of the monthly Special Gas Tax Street Improvement Fund cash balance to the monthly total city cash balance. The city understated interest revenue by \$585 in FY 2012-13, and by \$1,128 in FY 2013-14, for a total of \$1,713.

Streets and Highways Code section 2113, states, in part, "Interest received by a city from the investment of money in its Special Gas Tax Street Improvement Fund shall be deposited in the fund and shall be used for street purposes."

Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund in the amount for \$1,713 of interest revenue.

City's Response

City concurs with the audit finding No. 2 of unrecorded interest income and has allocated \$1,713 of retroactive interest revenue to the Gas Tax Fund as of June 2015.

Prospectively, as part of its annual year-end close process, the city will allocate investment income to all city funds participating in the city's pooled investment account.

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

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