

CITY OF LA HABRA HEIGHTS

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

February 2008



JOHN CHIANG
California State Controller

February 27, 2008

Freddie Vernon Vega
Finance Director
City of La Habra Heights
1245 North Hacienda Road
La Habra Heights, CA 90631

Dear Mr. Vega:

The State Controller's Office audited the City of La Habra Heights' 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 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 and Traffic Congestion Relief Fund in compliance with requirements; no adjustments to the funds are required.

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/sk:vb

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Audit Report

Summary

The State Controller's Office audited the City of La Habra Heights' 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 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 and Traffic Congestion Relief Fund in compliance with requirements; no adjustments to the funds are required.

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 Streets and Highways Code section 2101 and Article XIX of the California Constitution, 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 (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and 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 Streets and Highways Code section 2182 for FY 2000-01 through FY 2002-03, and Revenue and Taxation Code section 7104 for fiscal years thereafter.

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 the Revenue and Taxation Code. 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 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 the Revenue and Taxation Code for the period of July 1, 2000, through June 30, 2006.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on August 20, 1999, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on August 31, 2007, Freddie Vernon Vega, Finance Director, responded by letter dated December 18, 2007, acknowledging the audit results with explanations. After reviewing the city's response and additional documentation provided, we concur that the city made an accounting error. By correcting the accounting error, the city is in compliance with Streets and Highways Code section 2182 and 2182.1, and Revenue and Taxation Code section 7104. Therefore, we have reversed our findings. 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 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

February 27, 2008

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

	<u>Gas Tax Fund ¹</u>	<u>Traffic Congestion Relief Fund ²</u>
Beginning fund balance per city	\$ 143,580	\$ 32
Revenues	<u>123,291</u>	<u>68,117</u>
Total funds available	266,871	68,149
Expenditures	<u>(96,521)</u>	<u>—</u>
Ending fund balance per city	170,350	68,149
Timing adjustment:		
Accrual of FY 2003-04 and FY 2004-05 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	12,097	(40,356)
SCO adjustment	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 182,447</u>	<u>\$ 27,793</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 the 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.

Findings and Recommendations

FINDING 1— Ineligible expenditures

The city spent the fiscal year (FY) 2001-02 and FY 2002-03 Traffic Congestion Relief Fund (TCRF) allocations totaling \$11,783 on routine traffic signal maintenance and engineering and administration costs. The expenditure is not allowable pursuant Streets and Highways Code section 2128. Allocations made under this section shall be expended on specific roadway expenditures.

Recommendation

The city should reimburse \$11,783 to the Traffic Congestion Relief Fund.

City's Response

There was an accounting error in the system where by the City charged \$11,783 in routine traffic signal maintenance and engineering and administration cost to the TCRF, whereby these charges should have been applied to Street Assessment District #2, a local funding source that was approved by the voters of La Habra Heights to maintain and repair the streets and road in the City of La Habra Heights. Also, the City should have charged \$11,783 in street and repair maintenance to TCRF, but was charged in error to Street Assessment District #2.

SCO's Comment

After reviewing the city's response to our draft report and the additional documentation provided by the city, we concluded that the city made accounting errors. Correction of an accounting error may be made after the error is discovered. The city's correction of the accounting error renders the city in compliance with Streets and Highways Code sections 2182, and 2182.5 and Revenue and Taxation Code section 7104. The finding is reversed.

**FINDING 2—
Expenditure
requirement not met**

The city did not meet the TCRF expenditure requirement for FY 2001-02 and FY 2002-03 as required by Streets and Highways Code section 2128, which states:

Apportionments shall be expended not later than the end of the fiscal year following the fiscal year in which the allocation was made, and any funds not expended within the that period shall be returned to the Controller.

The unexpended allocations subject to the spending requirement total \$9,049 as of June 30, 2006.

Recommendation

The city should return the unexpended TCRF allocations in the amount of \$9,049, 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

After taking into account the accounting errors as discussed in Finding 1, the city will meet the TCRF expenditure requirement.

SCO's Comment

The city's correction of the accounting error referred to in Finding 1 renders the expenditures eligible. The finding is reversed.

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



City of La Habra Heights

1245 No. Hacienda Blvd.
La Habra Heights, CA 90631
(562) 694-6302

December 18, 2007

Attn: Larry Alexander
California State Controller's Office
600 Corporate Point
Culver City, CA 90230

RE: CITY OF LA HABRA HEIGHTS DRAFT AUDIT REPORT – GAS TAX (7/1/02 – 6/30/06) & TRAFFIC CONGESTION RELIEF FUND (7/1/06 – 6/30/06)

Dear Mr. Alexander:

This is the city's response to the finding of the draft Audit Report for the Gas Tax fund and Traffic Congestion Relief Fund for the years listed above:

FINDING 1 – Ineligible expenditures

The city spent the fiscal year (FY) 2001-02 and 2002-03 Traffic Congestion Relief Fund (TCRF) allocations totaling \$11,783 on routine traffic signal maintenance and engineering and administration costs. The expenditure is not allowable pursuant Streets and Highway Code section 2128. Allocations mad under this section shall be expended on specific roadway expenditures.

Recommendation

The city should reimburse \$11,783 to the Traffic Congestion Relief Fund.

Response

There was an accounting error in the system where by the City charged \$11,783 in routine traffic signal maintenance and engineering and administration cost to the TCRF, whereby these charges should have been applied to Street Assessment District # 2, a local funding source that was approved by the voters of La Habra Heights to maintain and repair the streets and roads in the City of La Habra Heights. Also, the City should have charged \$11,783 in street and repair maintenance to TCRF, but was charged in error to Street Assessment District # 2. Please see the attached excerpts of the City of La Habra Heights audited financial statements that shows total expenditures of \$61,642 for the Street Assessment District # 2. Included in the total of \$61,642 is the amount of \$11,783 in road maintenance that should have been charged to TCRF.

FINDING 2 – Expenditure requirement not met

The city did not meet the TCRF expenditure requirement for FY 2001-02 and FY 2002-03 as required by the Streets and Highway Code section 2128 which states:

Apportionments shall be expended not later than the end of the fiscal years following the fiscal years in which the allocation was made, and any funds not expended within that period shall be returned to the Controller.

The unexpended allocations subject to the to the spending requirement total \$9,049 as of June 30, 2006.

Recommendation

The city should return the unexpended TCRF allocations in the amount of \$9,049, to the State Controller's Office. Additionally, the City should review its TCRF expenditure levels to ensure compliance with program requirements.

Response

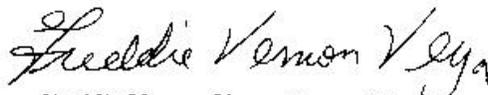
After taking into account the accounting errors as discussed in Finding 1, the city will meet the TCRF expenditure requirement and will not need to return any funds to the State Controller's Office.

Also, staff is aware of the TCRF guidelines and are in compliance with such guidelines.

Conclusion

Thank you for your patience with me in providing the responses. Please take into account the city's responses before you issue your final report. Please let me know if you have any questions or if you would like additional information.

Yours Truly,



Freddie Vernon Vega, Finance Director
City of La Habra Heights

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

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