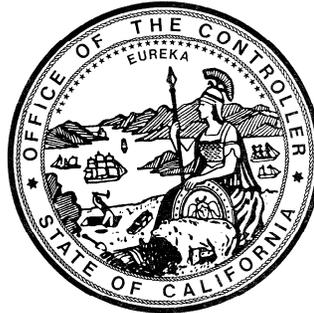


# **CITY OF SOLANA BEACH**

Audit Report

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

*July 1, 2005, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

February 2008



**JOHN CHIANG**  
**California State Controller**

February 6, 2008

David Ott  
City Manager  
City of Solana Beach  
635 South Highway 101  
Solana Beach, CA 92075-2215

Dear Mr. Ott:

The State Controller's Office audited the City of Solana Beach'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) allocations recorded in the Special Gas Tax Street Improvement 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—highway users tax and TCRF allocations—in compliance with requirements, except that the city understated the fund balance by \$23,129 as of June 30, 2006. This understatement resulted because the city did not correct prior audit exceptions; the audit report, issued March 31, 2000, reported \$23,129 of ineligible expenditures in the Special Gas Tax Street Improvement Fund.

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/vb

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Solana Beach'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 allocations recorded in the Special Gas Tax Street Improvement 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 in compliance with requirements, except that the city understated the fund balance by \$23,129 as of June 30, 2006. This understatement resulted because the city did not correct audit exceptions reported in our prior audit report, issued March 31, 2000.

## 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 established a Traffic Congestion Relief Fund (TCRF) 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 Streets and Highways Code sections 2182 and 2182.1, and 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 in compliance with Article XIX, California Constitution and the Streets and Highways Code, and Revenue and Taxation 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 in accordance with the requirements of the Streets and Highways Code, and 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, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$23,129 to the city's accounting records. Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, Streets and Highways Code, and Revenue and Taxation Code for the period of July 1, 2000, through June 30, 2006.

## **Follow-Up on Prior Audit Findings**

The city did not satisfactorily resolve the findings noted in our prior audit report, issued on March 31, 2000. These findings are described in the Finding and Recommendation section of this report.

## **Views of Responsible Official**

We issued a draft audit report on November 2, 2007. Dennis Coleman, Director of Finance, responded by telephone on December 10, 2007, agreeing with the audit results.

## **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 6, 2008

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

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation <sup>1</sup>	Traffic Congestion Relief Fund Allocation <sup>2</sup>	Totals
Beginning fund balance per city	\$ 207,596	\$ —	\$ 207,596
Revenues	<u>254,489</u>	<u>59,880</u>	<u>314,369</u>
Total funds available	462,085	59,880	521,965
Expenditures	<u>(320,428)</u>	<u>(59,880)</u>	<u>(380,308)</u>
Ending fund balance per city	141,657	—	141,657
SCO adjustment <sup>3</sup> :			
Finding—Prior audit exceptions not corrected	<u>23,129</u>	<u>—</u>	<u>23,129</u>
Ending fund balance per audit	<u>\$ 164,786</u>	<u>\$ —</u>	<u>\$ 164,786</u>

<sup>1</sup> 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.

<sup>2</sup> 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 and were audited for the period of July 1, 2000, through June 30, 2006.

<sup>3</sup> See the Finding and Recommendation section.

# Finding and Recommendation

## **FINDING— Prior audit exceptions not corrected**

The city did not make the adjustments, totaling \$23,129, as recommended in our prior audit report issued March 21, 2000. The prior audit findings pertaining to the \$23,129 of ineligible expenditures are presented below:

### **Finding 1—Ineligible salaries and fringe benefits**

The Gas Tax Fund reimbursed the city general fund \$14,745 for labor and fringe benefit costs that exceeded actual costs incurred. The city allocated street maintenance labor and fringe benefits charges based on budgeted percentages that were not adjusted to actual costs.

*Streets and Highways Code* Section 2101 specifies that gas tax monies may be expended only for street-related purposes. Although street maintenance labor and benefit charges are eligible street-related expenditures, charges that exceed actual costs incurred are not eligible and are disallowed. . . .

### **Finding 2—Ineligible funding of equipment**

The Gas Tax Fund reimbursed the city general fund for the purchase of a vehicle (1998 Ford Ranger XL) for street maintenance use. However, the truck's driver spends only about 50% of his time on street-related work. Therefore, only 50% of the truck's cost should be charged to the Gas Tax Fund and \$7,003 is disallowed.

*Streets and Highways Code* Section 2101 specifies that gas tax monies may be expended only for street-related purposes. . . .

### **Finding 3—Ineligible parking lot sweeping cost**

The Gas Tax Fund reimbursed the city general fund for the cost of a street-sweeping contract. However, the contract included the sweeping of parking lots as well as city streets.

*Streets and Highways Code* Section 2101 specifies that gas tax monies may be expended only for street-related purposes. As a result, \$1,381 of costs related to parking lot sweeping is disallowed. . . .

## Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund \$23,129 for the ineligible expenditures as noted in our prior audit report, issued March 31, 2000.

## City's Response

The city's Finance Director, Dennis Coleman, agreed with our audit findings (originally disclosed in our prior audit report issued March 21, 2000) by telephone on December 10, 2007, and will make the correcting adjustments upon receipt of the audit report.

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

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