

# **CITY OF MORENO VALLEY**

Audit Report

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

*July 1, 2006, through June 30, 2007*

## **TRAFFIC CONGESTION RELIEF FUND**

*July 1, 2001, through June 30, 2007*



**JOHN CHIANG**  
California State Controller

February 2009



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

February 27, 2009

The Honorable Richard Stewart  
Mayor of the City of Moreno Valley  
14777 Frederick Street  
P.O. Box 88005  
Moreno Valley, CA 92552-0805

Dear Mayor Stewart:

The State Controller's Office audited the City of Moreno Valley's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2001, through June 30, 2007.

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, and that no adjustment to the funds is 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/vb

# Contents

## **Audit Report**

<b>Summary</b> .....	1
<b>Background</b> .....	1
<b>Objective, Scope, and Methodology</b> .....	1
<b>Conclusion</b> .....	2
<b>Follow-Up on Prior Audit Findings</b> .....	2
<b>Views of Responsible Official</b> .....	2
<b>Restricted Use</b> .....	2
<b>Schedule 1—Reconciliation of Fund Balance</b> .....	3
<b>Finding and Recommendation</b> .....	4
<b>Attachment—City’s Response to Draft Audit Report</b>	

# Audit Report

## Summary

The State Controller's Office audited the City of Moreno Valley's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2001, through June 30, 2007.

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.

## 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 (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 Traffic Congestion Relief Fund. We conducted our audit of the city's TCRF allocations under the authority of 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 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 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 and the Traffic Congestion Relief Fund 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 disclosed that the City of Moreno Valley 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, 2006, through June 30, 2007.

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 Revenue and Taxation Code section 7104 for the period of July 1, 2001, through June 30, 2007.

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

Our prior audit report, issued on April 18, 2002, disclosed no findings.

## **Views of Responsible Official**

We issued a draft audit report on November 7, 2008. Steve Elam, Financial and Administrative Services Director, responded by letter dated January 9, 2009, explaining the city's position regarding its TCRF expenditures. 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, 2009

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2006, through June 30, 2007**

	Special Gas Tax Street Improvement Fund <sup>1</sup>	Traffic Congestion Relief Fund <sup>2</sup>
Beginning fund balance per city	\$ 445,092	\$ 1,884,054
Revenues	<u>4,358,124</u>	<u>1,206,539</u>
Total funds available	4,803,216	3,090,593
Expenditures	<u>(4,281,061)</u>	<u>(220,756)</u>
Ending fund balance per city	522,155	2,869,837
SCO adjustment: <sup>3</sup>		
Finding—Spending requirement not met	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 522,155</u>	<u>\$ 2,869,837</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 Traffic Congestion Relief Fund. The audit period was July 1, 2001, through June 30, 2007.

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

# Finding and Recommendation

**FINDING—  
The city did not meet  
the TCRF expenditure  
requirements**

The city did not expend its fiscal year (FY) 2002-03, FY 2003-04, and FY 2006-07 allocations of Traffic Congestion Relief Program funds within the fiscal year following the fiscal year in which the allocations were made as required by Streets and Highways Code section 2182.1(g). The unexpended allocations subject to the spending requirement have accumulated to total \$987,711 computed cumulatively as of June 30, 2007.

The Streets and Highways Code states, “. . . funds not expended within that period shall be returned to the Controller. . . .”

## Recommendation

The city must return the unexpended TCRF allocations totaling \$987,711 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

The City is pleased that the audit disclosed that the City accounted for and expended the Special Gas Tax Street Improvement Fund and the TCRF in compliance with requirements. However, the finding that the City did not expend its FY 2002-03, FY 2003-04 and FY 2006-07 allocations of Traffic Congestion Relief Program funds within the required time constraints prompted further research. We determined the following:

During the closing process of FY 2004-05, staff discovered there was unintended fund balance remaining in the Traffic Congestion Relief Fund from prior years. This was the result of accounting errors that classified expenditures to another fund instead of to the Traffic Congestion Relief Fund. Journal entries were prepared to reclassify expenditures to the Traffic Congestion Relief Fund in order to correct the problem. Our current investigation revealed those journal entries were posted as FY 2004-05 adjustments instead of being posted as prior period adjustments for FY 2002-03 and FY 2003-04; additional accounting errors. I am enclosing copies of these journal entries (JE No. 06989 and 06990) and summary reports for FY 2002-03 and FY 2003-04 showing the cost codes from which the expenditures should have been reclassified. Please see the highlighted cost codes 125.56330 and 125.84830. The journal entries total \$452,879 (which is \$216 more than the audit finding for these two fiscal years) and the expenditures in these two cost codes exceed the finding amounts for each of the fiscal years.

Staff’s research also disclosed additional accounting errors that classified FY 2006-07 expenditures to another fund instead of to the Traffic Congestion Relief Fund. As we were still in the closing process for FY 2007-08, journal entries were prepared to reclassify these

expenditures. These were posted as prior period adjustments for FY 2006-07. Copies of these entries (Journal Entry Number 069320) are also enclosed.

SCO's Comment

After reviewing the city's response to our draft report and additional documentation provided by the city, we have concluded that the city made accounting errors. The documentation provided by the city substantiates its claim that it did expend all of its TCRF funds within the fiscal year following the fiscal year in which the allocations were made. The city is in compliance with Streets and Highways Code section 2182 and Revenue and Taxation Code section 7104. The finding is reversed.

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

---

TEL: 951.413.3021  
FAX: 951.413.3096  
WWW.MORENO-VALLEY.CA.US



14177 FREDERICK STREET  
P. O. BOX 88005  
MORENO VALLEY, CA 92552-0805

January 9, 2009

Mr. Steven Mar  
Chief, Local Government Audits Bureau  
State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Mar:

This letter contains the City of Moreno Valley's response to the draft report resulting from the audit by the State Controller's Office of the Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007 and the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2001, through June 30, 2007.

The City is pleased that the audit disclosed that the City accounted for and expended the Special Gas Tax Street Improvement Fund and the TCRF in compliance with requirements. However, the finding that the City did not expend its FY 2002-03, FY 2003-04 and FY 2006-07 allocations of Traffic Congestion Relief Program funds within the required time constraints prompted further research. We determined the following:

During the closing process of FY 2004-05, staff discovered there was unintended fund balance remaining in the Traffic Congestion Relief Fund from prior years. This was the result of accounting errors that classified expenditures to another fund instead of to the Traffic Congestion Relief Fund. Journal entries were prepared to reclassify expenditures to the Traffic Congestion Relief Fund in order to correct the problem. Our current investigation revealed those journal entries were posted as FY 2004-05 adjustments instead of being posted as prior period adjustments for FY 2002-03 and FY 2003-04; additional accounting errors. I am enclosing copies of these journal entries (JE No. 06989 and 06990) and summary reports for FY 2002-03 and FY 2003-04 showing the cost codes from which the expenditures should have been reclassified. Please see the highlighted cost codes 125.56330 and 125.84830. The journal entries total \$452,879 (which is \$216 more than the audit finding for these two fiscal years) and the expenditures in these two cost codes exceed the finding amounts for each of the fiscal years.

Mr. Steven Mar  
Chief, Local Government Audits Bureau  
January 9, 2009  
Page 2 of 2

Staff's research also disclosed additional accounting errors that classified FY 2006-07 expenditures to another fund instead of to the Traffic Congestion Relief Fund. As we were still in the closing process for FY 2007-08, journal entries were prepared to reclassify these expenditures. These were posted as prior period adjustments for FY 2006-07. Copies of these entries (Journal Entry Number 069320) are also enclosed.

We trust that these adjustments will satisfy the TCRF expenditure requirements. If you have any questions or require further clarification, please contact Edith Houser, Financial Operations Division Manager, at 951.413.3079 or by email at [edithh@moval.org](mailto:edithh@moval.org).

Sincerely,



Steve Elam  
Financial & Administrative Services Director

Enclosures

c: Edith Houser, Financial Operations Division Manager

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

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