

# **CITY OF COSTA MESA**

Audit Report

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

*July 1, 2007, through June 30, 2008*



**JOHN CHIANG**  
California State Controller

May 2010



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

May 19, 2010

The Honorable Allan R. Mansoor  
Mayor of the City of Costa Mesa  
77 Fair Drive  
P.O. Box 1200  
Costa Mesa, CA 92628-1200

Dear Mayor Mansoor:

The State Controller's Office audited the City of Costa Mesa's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2008. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2002, through June 30, 2008.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund 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

cc: Colleen O'Donoghue, Assistant Finance Director  
City of Costa Mesa

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# Audit Report

## Summary

The State Controller's Office audited the City of Costa Mesa's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2008. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2002, through June 30, 2008.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is 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 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 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.

## 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 of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104. 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;
- 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 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 Costa Mesa 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, 2008.

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, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2002, through June 30, 2008.

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

The city satisfactorily resolved the findings noted in our prior audit report, issued on March 29, 2002.

## **Views of Responsible Official**

We discussed the audit results with city representatives during a phone exit conference on April 6, 2010. Colleen O'Donoghue, Assistant Finance Director, agreed with the audit results. Ms. O'Donoghue further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

## **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

May 19, 2010

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2007, through June 30, 2008**

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation <sup>1</sup>	TCRF Allocation <sup>2</sup>	Totals
Beginning fund balance per city	\$ 9,296,503	\$ 831,372	\$ 10,127,875
Revenues	<u>4,948,706</u>	<u>—</u>	<u>4,948,706</u>
Total funds available	14,245,209	831,372	15,076,581
Expenditures	<u>(8,045,036)</u>	<u>(831,372)</u>	<u>(8,876,408)</u>
Ending fund balance per city	6,200,173	—	6,200,173
Timing adjustment:			
Accrual of June 2008 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	472,184	—	472,184
SCO adjustment	<u>—</u>	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u><u>\$ 6,672,357</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 6,672,357</u></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. The audit period was July 1, 2002, through June 30, 2008.

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