

# **CITY OF SANTA CLARA**

Audit Report

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

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

## **TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS**

*July 1, 2000, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

June 2008



**JOHN CHIANG**  
California State Controller

June 25, 2008

Honorable Patricia Mahan  
Mayor of the City of Santa Clara  
1500 Warburton Avenue  
Santa Clara, CA 95050

Dear Mayor Mahan:

The State Controller's Office audited the City of Santa Clara's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. In addition, we audited Surface Transportation Program Exchange Funds recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2004, 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—highway users tax and Surface Transportation Program allocations—and its Traffic Congestion Relief Fund (TCRF) in compliance with requirements, except for our adjustment to the Traffic Congestion Relief Fund. Our audit disclosed that the city overstated the fund balance by \$315,886 as of June 30, 2006. The city overstated the fund balance because it erroneously recorded TCRF expenditures in the Pavement Repair Program 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

cc: Mary Ann Parrot, Director of Finance  
City of Santa Clara  
Grace Kong, Chief  
Local Program Accounting  
Department of Transportation

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# Audit Report

## Summary

The State Controller's Office audited the City of Santa Clara's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. In addition, we audited Surface Transportation Program exchange funds recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2004, 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—highway users tax and Surface Transportation Program allocations—and Traffic Congestion Relief Fund in compliance with requirements, except for our adjustment to the Traffic Congestion Relief Fund. Our audit disclosed that the city overstated the fund balance in its Traffic Congestion Relief Fund by \$315,886 as of June 30, 2006. The city overstated the fund balance because it erroneously recorded Traffic Congestion Relief Fund expenditures in the Pavement Repair Program Fund.

## 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.

The Surface Transportation Program is part of a federal program designed to increase flexibility in federal funding for transportation purposes by shifting the funding responsibility to state and local agencies. The funds are restricted to expenditures made in compliance with Article XIX of the California Constitution and the Streets and Highways Code. The California Department of Transportation (Caltrans) requested that we audit these expenditures to ensure the city's compliance.

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 from the receipt of state funds allocated for transportation purposes. 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 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 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 Santa Clara accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program allocations—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 Revenue and Taxation Code section 7104 for the period of July 1, 2000, 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 \$315,886 to the city's accounting records.

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

Our prior audit report, issued in March 2002, disclosed no findings.

**Views of  
Responsible  
Official**

We discussed the audit results with city representatives during an exit conference on July 18, 2007. Mary Ann Parrot, Director of Finance, agreed with the audit results. Ms. Parrot 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

June 25, 2008

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

	Special Gas Tax Street Improvement Fund			Traffic Congestion Relief Fund <sup>3</sup>
	Highway Users Tax Allocation <sup>1</sup>	Surface Transportation Program Allocation <sup>2</sup>	Totals	
Beginning fund balance per city	\$ 9,694,494	\$ —	\$ 9,694,494	\$ 315,886
Revenues	<u>2,773,719</u>	<u>61,808</u>	<u>2,835,527</u>	<u>488,519</u>
Total funds available	12,468,213	61,808	12,530,021	804,405
Expenditures	<u>(4,127,373)</u>	<u>(61,808)</u>	<u>(4,189,181)</u>	<u>—</u>
Ending fund balance per city	8,340,840	—	8,340,840	804,405
Timing adjustment:				
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	(6,789)	—	(6,789)	—
SCO adjustment: <sup>4</sup>				
Finding—Recording error	<u>—</u>	<u>—</u>	<u>—</u>	<u>(315,886)</u>
Ending fund balance per audit	<u>\$ 8,334,051</u>	<u>\$ —</u>	<u>\$ 8,334,051</u>	<u>\$ 488,519</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> The city received Surface Transportation Program funds, pursuant to Streets and Highways Code section 182.6. These funds were apportioned to the city by the regional transportation planning agency to be used for transportation projects.

<sup>3</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 city's Traffic Congestion Relief Fund. The audit period was July 1, 2000, through June 30, 2006.

<sup>4</sup> See the Finding and Recommendation section.

# Finding and Recommendation

**FINDING—  
Recording error**

The city erroneously recorded Traffic Congestion Relief Fund (TCRF) expenditures of \$315,886 to Project 1316 (Pavement Repairs Program) instead of Project 1322 (TCRF) during fiscal year 2003-04.

Streets and Highways Code section 2101, requires that Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund allocations must be deposited in designated Special Gas Tax Street Improvement and Traffic Congestion Relief funds, and expended for streets or street-related activities.

Recommendation

The city should transfer \$315,886 from its Project 1316–Pavement Repairs Program to Project 1322–TCRF.

Additionally, the city should establish procedures to minimize recording errors.

City’s Response

The city agreed with our finding and implemented our recommendation with Journal Entry #32543, dated July 16, 2007.

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