

CITY OF REDONDO BEACH

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2008

TRAFFIC CONGESTION RELIEF FUND

July 1, 2002, through June 30, 2008



JOHN CHIANG
California State Controller

June 2009



JOHN CHIANG
California State Controller

June 24, 2009

The Honorable Michael A. Gin
Mayor of the City of Redondo Beach
415 Diamond Street
P.O. Box 270
Redondo Beach, CA 90277

Dear Mayor Gin:

The State Controller's Office audited the City of Redondo Beach'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 (TCRF) 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 and TCRF in compliance with requirements, except that the city overstated the fund balance in the TCRF by \$58,581 as of June 30, 2008. The city overstated the fund balance because it did not spend the TCRF apportionments within the two-fiscal-year limit as required by Streets and Highways Code section 2182.1(g).

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

cc: Diana Moreno, Financial Services Director
City of Redondo Beach
Stephen Erlandson, Accounting Manager
City of Redondo Beach

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Audit Report

Summary

The State Controller's Office audited the City of Redondo Beach'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 (TCRF) 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 and TCRF in compliance with requirements, except that the city overstated the fund balance in the TCRF by \$58,581 as of June 30, 2008. The city overstated the fund balance because it did not spend the TCRF apportionments within the two-fiscal-year limit as required by Streets and Highways Code section 2182.1(g).

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 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 Redondo Beach 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 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, 2002, through June 30, 2008, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$58,581 to the city's accounting records.

Follow-Up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report, issued on October 31, 2003.

Views of Responsible Official

We issued a draft audit report dated March 31, 2009. Diana Moreno, Financial Services Director, responded by letter dated April 22, 2009, agreeing with our assessment that TCRF qualifying projects were incorrectly accounted for in the city's Capital Projects Fund. The city's formal response to our finding is included in this report.

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 24, 2009

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

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ 992,336	\$ 831,258
Revenues	<u>1,238,825</u>	<u>38,802</u>
Total funds available	2,231,161	870,060
Expenditures	<u>(1,351,336)</u>	<u>—</u>
Ending fund balance per city	879,825	870,060
SCO adjustment: ³		
Finding—TCRF expenditure requirement not met	<u>—</u>	<u>(58,581)</u>
Ending fund balance per audit	<u>\$ 879,825</u>	<u>\$ 811,479</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 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, 2002, through June 30, 2008.

³ See the Finding and Recommendation section.

Finding and Recommendation

FINDING— TCRF expenditure requirement not met

The city did not expend its allocations of the Traffic Congestion Relief Fund (TCRF) 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 city did not expend its TCRF allocations for fiscal year (FY) 2000-01 (\$110), FY 2002-03 (\$6,083), FY 2005-06 (\$302,388), and FY 2006-07 (\$526,817), totaling \$835,398.

Streets and Highways Code section 2182.1(g) states, “funds not expended within that period shall be returned to the Controller. . . .”

Recommendation

The city must return the unexpended TCRF allocations, in the amount of \$835,398, to the State Controller’s Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

Additionally, the city should periodically review its TCRF expenditure levels to ensure compliance with program requirements.

City’s Response

During the fiscal year 2007, the City budgeted \$250,000 in TCRF qualified projects in the Traffic Congestion Relief Fund; however, the TCRF qualified project expenses of \$254,699.41 were erroneously accounted for in our Capital Projects Fund. The City recognizes this accounting error and will reclassify the TCRF qualified project expenses of \$254, 669.41 from the Capital Projects Funds to the Traffic Congestion Relief Fund.

During fiscal year 2007, the City budgeted \$790,000 in TCRF qualified projects in the Traffic Congestion Relief Fund; however, the TCRF qualified project expenses of \$960,788.23 were erroneously accounted for in our Capital Projects Fund. The City recognizes this accounting error and will reclassify the TCRF qualified project expenses of \$960,788.23 from the Capital Projects Funds to the Traffic Congestion Relief Fund.

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 did make accounting errors during FY 2005-06 and FY 2006-07. The city’s annual budget for FY 2005-06 budgeted \$250,000 of TCRF allocations and \$700,000 of Capital Project Fund moneys to project #40190, Residential Street Rehabilitation. A total of \$960,788.23 was charged to the Capital Projects Fund and nothing was charged to the TCRF. Consequently, the city made accounting errors and the TCRF should have been charged \$250,000 during FY 2005-06. The correction of this accounting error allows for the adjustment of the FY 2005-06 allocation refund, from \$302,388 to \$52,388. The annual street report indicated

funding corrections to the accounting records that were not reflected in the FY 2006-07 accounting records. The correction transferred \$869,599 of expenditures from the state gas tax fund to the TCRF; however, only \$526,817 of the TCRF allocations was available, and that was the amount of our finding. The city's confirmation that accounting errors had occurred allows for the adjustment of the FY 2006-07 allocation refund from \$526,817 to \$0.

Our finding has been revised as follows: The city did not expend its TCRF allocations for FY 2000-01 (\$110), FY 2002-03 (\$6,083), and FY 2005-06 (\$52,388), totaling \$58,581.

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



Financial Services

415 Diamond Street, P.O. Box 270
Redondo Beach, California 90277-0270
www.redondo.org

tel 310 372-1171
fax 310 937-6666

April 22, 2009

Re: Resolution to letter from Jeffrey V. Brownfield dated March 13, 2009

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Larry E. Alexander, CPA, CGFM
Audit Manager
State Controller's Office
Division of Audits
600 Corporate Pointe
Suite 1000
Culver City, CA 90230

Dear Mr. Alexander:

Based on your audit fieldwork conducted on Thursday, April 16, 2009, the City of Redondo Beach agrees with your assessment that Traffic Congestion Relief Fund (TCRF) qualifying projects were incorrectly accounted for in our Capital Projects Fund.

During fiscal year 2007, the City budgeted \$250,000 in TCRF qualified projects in the Traffic Congestion Relief Fund; however, the TCRF qualified project expenses of \$254,669.41 were erroneously accounted for in our Capital Projects Fund. The City recognizes this accounting error and will reclassify the TCRF qualified project expenses of \$254,669.41 from the Capital Projects Funds to the Traffic Congestion Relief Fund.

During fiscal year 2007, the City budgeted \$790,000 in TCRF qualified projects in the Traffic Congestion Relief Fund; however, the TCRF qualified project expenses of \$960,788.23 were erroneously accounted for in our Capital Projects Fund. The City recognizes this accounting error and will reclassify the TCRF qualified project expenses of \$960,788.23 from the Capital Projects Funds to the Traffic Congestion Relief Fund.

We have attached the documentation to this letter per Mr. Alexander's instructions and are hereby requesting that the State Controller's Office recognize these expenditures as TCRF qualified expenditures and our resolution to reclassify these expenditures as TCRF expenditures. Please contact Stephen Erlandson, Accounting/Licensing Manager, via telephone (310-318-0683 ext. 12430) or e-mail at stephen.erlandson@redondo.org if you have any questions or comments.

The City appreciates your prompt attention and consideration to this response.

Sincerely,

Diana Moreno
Financial Services Director

DM/se

cc: David C. Biggs
Stephen C. Erlandson
Brad Lindahl

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

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