

CITY OF CARLSBAD

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2008

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2002, through June 30, 2008



JOHN CHIANG
California State Controller

June 2010



JOHN CHIANG
California State Controller

June 30, 2010

The Honorable Claude A. Lewis
Mayor of the City of Carlsbad
1635 Faraday Avenue
Carlsbad, CA 92008

Dear Mayor Lewis:

The State Controller's Office audited the City of Carlsbad'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) allocations recorded in the Traffic Congestion AB 2928 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, and TCRF allocations recorded in the Traffic Congestion AB 2928 Fund, in compliance with requirements, except the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$320,764 as of June 30, 2008, because it understated interest revenue in fiscal year (FY) 2006-07 by \$158,767 and in FY 2007-08 by \$161,997.

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 audited the City of Carlsbad'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) allocations recorded in the Traffic Congestion AB 2928 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, and TCRF allocations recorded in the Traffic Congestion AB 2928 Fund, in compliance with requirements, except the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$320,764 as of June 30, 2008, because it understated interest revenue in fiscal year (FY) 2006-07 by \$158,767 and in FY 2007-08 by \$161,997.

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 AB 2928 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 TCRF allocations recorded in the Traffic Congestion AB 2928 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 TCRF allocations recorded in the Traffic Congestion AB 2928 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 Carlsbad 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, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$320,764 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Traffic Congestion AB 2928 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

Our prior audit report, issued on March 17, 2004, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on April 30, 2010. Kevin Branca, Interim Finance Director, responded by letter dated June 4, 2010, agreeing with the audit results. 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 the City of Carlsbad 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 30, 2010

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

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund Allocation ²
Beginning fund balance per city	\$ 9,318,707	\$ —
Revenues	<u>2,175,034</u>	<u>—</u>
Total funds available	11,493,741	—
Expenditures	<u>(1,613,077)</u>	<u>—</u>
Ending fund balance per city	<u>9,880,664</u>	<u>—</u>
Timing adjustment:		
Accrual of June 2008 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	(11,673)	—
SCO adjustments: ³		
Finding—Understated interest revenue	<u>320,764</u>	<u>—</u>
Total SCO adjustment	<u>309,091</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 10,189,755</u>	<u>\$ —</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 AB 2928 Fund. The audit period was July 1, 2002, through June 30, 2008. The TCRF did not have any transactions during the 2007-08 fiscal year.

³ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Interest revenue
understated**

In both fiscal year (FY) 2006-07 and FY 2007-08, the city's ledgers reported a balance of \$3,643,344 in loans from the Gas Tax Fund to the Bridge and Thoroughfare District (BTD) Fund 362 and to BTD Fund 363. The city advanced \$1,000,000 to BTD Fund 362 and \$2,643,344 to BTD Fund 363. The loans were repaid to the Gas Tax Fund on July 1, 2008. The city excluded these amounts from the interest revenue calculations and allocations to the Gas Tax Fund in each fiscal year. We worked with the city to compute equitable interest revenue due the Gas Tax Fund for each fiscal year. For FY 2006-07, the Gas Tax Fund is due \$158,767 and for FY 2007-08, it is due \$161,997, the total adjustment is \$320,764.

Streets and Highways Code section 2101 requires gas tax monies to be spent on allowable and verifiable expenditures. Loans from the special gas tax improvement fund to other funds is not an allowable activity.

Streets and Highways Code section 2113 requires that interest earned by a city from the investment of its gas tax monies be deposited in its special gas tax street improvement fund and be used for street purposes.

Recommendation

We recommend that the city does not make loans from the Gas Tax Fund. In addition, we recommend that the city reimburse \$320,764 of interest revenue to the Gas Tax Fund.

City's Response

After discussions with the State, the City of Carlsbad reimbursed the Gas Tax Fund \$320,764 for interest earnings during Fiscal Year 2009-10. Additionally, the City will ensure no loans are made from the Gas Tax Fund.

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



CITY OF CARLSBAD
FINANCE DEPARTMENT

Attachment

June 4, 2010

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

RE: MANAGEMENT'S RESPONSE TO CITY OF CARLSBAD "GAS TAX" AUDIT

Dear Mr. Mar:

The State Controller's Office recently audited the City of Carlsbad's Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund. The City of Carlsbad received a finding that the interest revenue in the Gas Tax Fund was understated.

Please add a section titled "Management's Response" to the "Finding and Recommendation" section with the following language:

Management's Response

After discussions with the State, the City of Carlsbad reimbursed the Gas Tax Fund \$320,764 for interest earnings during Fiscal Year 2009-10. Additionally, the City will ensure no loans are made from the Gas Tax Fund.

I have included a copy of the requested changes for your reference. Please call me at (760) 602-2430 if you have any questions regarding this request.

Sincerely,


KEVIN BRANCA
Interim Finance Director

KB:ab

cc: Aaron Beanan – Accountant

Enclosure



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

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