

CITY OF LAGUNA NIGUEL

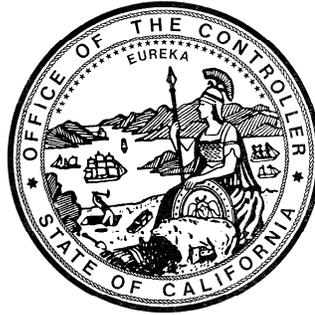
Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006

TRAFFIC CONGESTION RELIEF FUND

July 1, 2000, through June 30, 2006



JOHN CHIANG
California State Controller

September 2007



JOHN CHIANG
California State Controller

September 14, 2007

Cheryl Dyas
Director of Finance
City of Laguna Niguel
27801 La Paz Road
Laguna Niguel, CA 92677

Dear Ms. Dyas:

The State Controller's Office audited the City of Laguna Niguel's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, 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 and Traffic Congestion Relief Fund in compliance with the requirements, and no adjustments to the funds are 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/wm

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Laguna Niguel's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2000, through June 30, 2006. The last day of fieldwork was March 16, 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 adjustments to the funds are 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 are derived from state taxes on the sale of motor vehicle fuels. In accordance with Streets and Highways Code section 2101 and Article XIX of the California Constitution, 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.

Chapter 91, Statutes of 2000 (Assembly Bill 2928), as amended by Chapter 656, Statutes of 2000 (Senate Bill 1662), established 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 Streets and Highways Code sections 2182 and 2182.1.

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. 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 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, 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 and the Streets and Highways Code for the period of July 1, 2000, through June 30, 2006.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on June 11, 1999, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on May 25, 2007. Cheryl Dyas, Director of Finance, responded by letter dated June 6, 2007, addressing our audit finding. 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

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

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund ²
Beginning fund balance per city	\$ 54,560	\$ 2,040
Revenues	<u>1,198,574</u>	<u>299,176</u>
Total funds available	1,253,134	301,216
Expenditures	<u>(1,253,134)</u>	<u>(276,343)</u>
Ending fund balance per city	—	24,873
SCO adjustment	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ —</u>	<u>\$ 24,873</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 apportionments are restricted 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 Chapter 91, Statutes of 2000 (Assembly Bill 2928), as amended by Chapter 656, Statutes of 2000 (Senate Bill 1662), established the State Traffic Congestion Relief Fund (TCRF), which allocates funds to cities and counties for street or road maintenance and reconstruction. The TCRF allocations were recorded in the Traffic Congestion Relief Fund. Our audit of the Traffic Congestion Relief Fund was for the period of July 1, 2000, through June 30, 2006.

Finding and Recommendation

**FINDING—
TCRF expenditure
requirements**

The city did not meet the Traffic Congestion Relief Fund (TCRF) expenditure requirement for fiscal year 2003-04, as required by Streets and Highways Code section 2182.1(g), which states:

... allocation[s] ... shall be expended not later than the end of the fiscal year following the fiscal year in which the allocation was made, and any funds not expended within that period shall be returned to the Controller. . . .

Recommendation

The city must refund the unexpended TCRF funds, in the amount of \$2,040, to the State Controller as required by Revenue and Taxation Code section 7104.

City's Response

The City reflected an unspent balance of TCRF funds at the end of fiscal year 2003-04 and these funds remained in the TCRF fund through fiscal year 2004-05 resulting in a fund balance of \$2,040. The balance remained in the TCRF as a result of an oversight by City staff. The City spends its TCRF monies on our street resurfacing projects. During fiscal year 2002-03, 2003-04 and 2004-05, the City incurred street resurfacing costs paid for with general fund revenue in the amount \$225,205, \$102,245, \$1,292,524 respectively. The City has corrected this accounting error in the financial records of the City and would like to respectfully request that the City be allowed to retain the \$2,040 requested by the State Controller's Office.

SCO's Comment

Correction of an accounting error may be made after the error is discovered. The city's correction of the accounting error results in the city being in compliance with section 2182.1(g) of the Streets and Highways Code. The finding is withdrawn.

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



CITY of LAGUNA NIGUEL

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CITY COUNCIL

Gary G. Capata
Paul G. Glaab
Linda Lindholm
Robert Ming
Mike Whipple

June 6, 2007

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

Dear Mr. Mar:

This letter is in response to your letter dated May 25, 2007 and received by the City on June 4, 2007 in regards to the audit report of the Gas Tax Fund and Traffic Congestion Relief Fund (TCRF) for the period July 1, 2005 through June 30, 2006. The audit report includes a finding related to the TCRF expenditure requirement for fiscal year 2003-04. My response to this finding is as follows:

The City reflected an unspent balance of TCRF funds at the end of fiscal year 2003-04 and these funds remained in the TCRF fund through fiscal year 2004-05 resulting in a fund balance of \$2,040. The balance remained in the TCRF as a result of an oversight by City staff. The City spends its TCRF monies on our street resurfacing projects. During fiscal year 2002-03, 2003-04 and 2004-05, the City incurred street resurfacing costs paid for with general fund revenue in the amount \$225,205, \$102,245 and \$1,292,524 respectively. The City has corrected this accounting error in the financial records of the City and would like to respectfully request that the City be allowed to retain the \$2,040 requested by the State Controller's Office.

If your office requires additional information to substantiate our expenditures, I would be more than happy to provide any information needed.

Respectfully,

Cheryl Myas
Director of Finance

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

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