

CITY OF BUENA PARK

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 2008



JOHN CHIANG
California State Controller

September 19, 2008

The Honorable James Dow
Mayor of the City of Buena Park
6650 Beach Boulevard
Buena Park, CA 90622-5009

Dear Mayor Dow:

The State Controller's Office audited the City of Buena Park'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 requirements, and that no adjustment to the funds is required. However, we noted a procedural finding regarding the city's filed annual street reports.

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: Sung Hyun
Director of Finance
City of Buena Park

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Audit Report

Summary

The State Controller's Office audited the City of Buena Park'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 requirements, and that no adjustment to the funds is required. However, we noted a procedural finding regarding the city's filed annual street reports.

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 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 Buena Park 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. However, we noted a procedural finding regarding the city's filed annual street reports.

Our audit also disclosed that the city accounted for the expended 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.

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 April 23, 2008. Sung Hyun, Director of Finance, responded in a letter dated June 16, 2008, providing additional information regarding the reported TCRF findings. That letter, and relevant attachments, is included as an attachment to our final 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

September 19, 2008

**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	\$ 4,608,466	\$ 1,097,502
Revenues	<u>4,080,591</u>	<u>715,441</u>
Total funds available	8,689,057	1,812,943
Expenditures	<u>(5,743,269)</u>	<u>(1,023,860)</u>
Ending fund balance per city	2,945,788	789,083
Timing adjustment:		
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	136,512	—
City adjustment: ³		
Reimbursement of TCRF expenditures	<u>365,907</u>	<u>(365,907)</u>
Ending fund balance per audit	<u>\$ 3,448,207</u>	<u>\$ 423,176</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, 2000, through June 30, 2006.

³ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— TCRF expenditure requirement not met

The city did not expend its allocations of Traffic Congestion Relief Fund (TCRF) for fiscal years (FY) 2001-02 and FY 2002-03 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) and Revenue and Taxation Code section 7104. The unexpended allocations subject to the spending requirement total \$858,613 as of June 30, 2003. The codes state, “. . . funds not expended within that period shall be returned to the Controller. . . .”

Recommendation

The city must return the unearned TCRF allocations in the amount of \$858,613 to the State Controller’s Office, Attention Bill Byall, P.O. Box 942850, Sacramento, CA 94250. Additionally, the city should review its TCRF expenditure levels to ensure compliance with program requirements.

City’s Response

In response to our report, the city is providing additional information (regarding the existence of sufficient, eligible expenditures) that we believe resolves our previously reported finding. In conjunction with the additional information, the city is also providing copies of journal vouchers transferring (reimbursing) \$365,907 from the Traffic Congestion Relief Fund to the Special Gas Tax Street Improvement Fund.

SCO’s Comment

After reviewing the city’s response to our draft audit report and additional documentation provided by the city, we concluded that the city made errors in accounting for expenditures of the TCRF allocations it received. Correction of an accounting error may be made after the error is discovered. The city’s correction of those accounting errors eliminates the condition that caused us to previously report this finding. With that condition eliminated, the city is now in compliance with Streets and Highways Code section 2182.1(g). The previously reported finding is reversed and the city’s adjustment is included in this report.

**FINDING 2—
Ineligible TCRF
expenditure**

The city did not meet its expenditure requirement during FY 2001-02 and FY 2002-03, as noted in Finding 1. Consequently, these funds, totaling \$69,530, were ineligible for expenditure.

Recommendation

The city must reimburse the TCRF allocations by \$69,530 to eliminate the ineligible expenditures.

City's Response

In response to our report, the city is providing additional information (regarding the existence of sufficient, eligible expenditures) that we believe resolves our previously reported finding. In conjunction with the additional information, the city is also providing copies of journal vouchers transferring (reimbursing) \$365,907 from the Traffic Congestion Relief Fund to the Gas Tax Fund.

SCO's Comment

After reviewing the city's response to our draft audit report and additional documentation provided by the city, we have concluded that the city made errors in accounting for expenditures of the TCRF allocations it received. Correction of an accounting error may be made after the error is discovered. The city's correction of those accounting errors eliminates the condition that caused us to previously report this finding. With that condition eliminated, the city is now in compliance with Streets and Highways Code section 2182.1(g). The previously reported finding is reversed and the city's adjustment is included in this report.

**FINDING 3—
Reported amounts per
the ASR do not agree
with ledger amounts**

Fund balances reported in the Annual Street Report (ASR) for FY 2001-02, FY 2002-03, FY 2003-04, FY 2004-05, and FY 2005-06 do not reflect actual balances recorded in the city’s general ledger. Gas Tax Fund balances reported in the ASRs differed from the balances recorded in the general ledger as follows:

Source	Fiscal Year				
	2001-02	2002-03	2003-04	2004-05	2005-06
CAFR/ledger	\$ 7,222,982	\$7,618,840	\$4,428,101	\$4,608,466	\$ 2,945,788
ASR	<u>(5,755,854)</u>	<u>(5,783,024)</u>	<u>(4,583,702)</u>	<u>(3,281,269)</u>	<u>(3,102,052)</u>
Difference	<u>\$ 1,467,128</u>	<u>\$1,835,816</u>	<u>\$ (155,601)</u>	<u>\$1,327,197</u>	<u>\$ (156,264)</u>

In addition, TCRF balances reported in the ASRs differed from balances recorded in the general ledger as follows:

Source	Fiscal Year			
	2002-03	2003-04	2004-05	2005-06
CAFR/ledger	\$ 1,002,057	\$ 1,093,758	\$ 1,097,503	\$ 789,083
ASR	<u>(438,466)</u>	<u>(987,051)</u>	<u>—</u>	<u>—</u>
Difference	<u>\$ 563,591</u>	<u>\$ 106,707</u>	<u>\$ 1,097,503</u>	<u>\$ 789,083</u>

Streets and Highways Code section 2151 requires the city to file a complete report of expenditures for street purposes.

Recommendation

The city’s preparation of future ASRs should reflect the actual results of transactions recorded in the general ledger funds.

City’s Response

The city did not respond to this finding.

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



CITY OF BUENA PARK

DEPARTMENT OF FINANCE

June 16, 2008

Steve Mar, Chief
Local Government Audits Bureau
Division of Audits
State Controller's Office
600 Corporate Pointe, Suite 1000
Culver City, CA 90230

Dear Mr. Mar:

In connection with the State Controller's Office audit of the City's Traffic Congestion Relief Program (TCRP) funds, for the period of July 1, 2001, through June 30, 2006, we affirm, to the best of our knowledge and belief, the following representations made to your staff during the course of the audit.

1. Eligible TCRP expenditures were incurred during FY2002-03 in the amount of \$161,783 but were reported on the Annual Streets Report as Gas Tax expenditures.
2. Eligible TCRP expenditures were incurred during FY2003-04 in the amount of \$204,124 but were reported on the Annual Streets Report as Gas Tax expenditures.

Sincerely,


Sung Hyun
Director of Finance

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

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