

# **CITY OF MURRIETA**

Audit Report

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

*July 1, 2006, through June 30, 2007*

## **TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS**

*July 1, 2000, through June 30, 2007*



**JOHN CHIANG**  
California State Controller

November 2008



**JOHN CHIANG**  
*California State Controller*

November 7, 2008

The Honorable Rick Gibbs  
Mayor of the City of Murrieta  
24601 Jefferson Avenue  
Murrieta, CA 92562

Dear Mayor Gibbs:

The State Controller's Office audited the City of Murrieta's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements.

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 Murrieta's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax and Traffic Congestion Relief Fund allocations—in compliance with requirements, and that no adjustment to the fund is 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 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 Special Gas Tax Street Improvement 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 in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104. 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;
- 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 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 Murrieta 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, 2006, through June 30, 2007.

Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement 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, 2007.

**Follow-Up on Prior Audit Findings**

Our prior audit report, issued on June 28, 2002, disclosed no findings.

**Views of Responsible Official**

We issued a draft audit report on July 30, 2008. Suzanne Wellcome, Finance Director, responded by letter dated August 22, 2008, disagreeing 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 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

November 7, 2008

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2006, through June 30, 2007**

	<u>Special Gas Tax Street Improvement Fund</u>		
	<u>Highway Users Tax Allocation <sup>1</sup></u>	<u>TCRF Allocation <sup>2</sup></u>	<u>Totals</u>
Beginning fund balance per city	\$ 3,762,506	\$ 402,485	\$ 4,164,991
Revenues	<u>2,393,183</u>	<u>548,465</u>	<u>2,941,648</u>
Total funds available	6,155,689	950,950	7,106,639
Expenditures	<u>(2,183,135)</u>	<u>(34,689)</u>	<u>(2,217,824)</u>
Ending fund balance per city	3,972,554	916,261	4,888,815
Timing adjustment:			
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	163,796	—	163,796
SCO audit adjustment	—	—	—
Ending fund balance per audit	<u>\$ 4,136,350</u>	<u>\$ 916,261</u>	<u>\$ 5,052,611</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> 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 Special Gas Tax Street Improvement Fund. The audit period was July 1, 2000, through June 30, 2007.

# Finding and Recommendation

**FINDING—  
Expenditure  
requirement not met**

The city did not meet the Traffic Congestion Relief Fund (TCRF) expenditure requirement for fiscal year (FY) 2002-03 and FY 2005-06 as required by Revenue and Taxation Code section 7104, which states:

The allocation made under paragraph (4) or (5) of subdivision (c) 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 and shall be reallocated to the other cities and counties.

The unexpended allocations subject to the spending requirement have accumulated to total \$367,796 (\$41,731 in FY 2002-03 and \$326,065 in FY 2005-06).

Recommendation

The city must return the unexpended TCRF allocation of \$367,796 to the State Controller's Office, Attn: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

City's Response

Both the Public Works Director and myself are new to Murrieta this year, and we have found that construction projects have, in the past, not been charged correctly, but are often put into the fund that has the most funding available. We have changed the procedures, set up new funds and will have construction costs properly allocated going forward. For fiscal year 2007/08 staff has reviewed all the accounts and made corrections, but we are unable to do that for prior years.

I have enclosed printouts from our accounting software that document the expenditures made for the asphalt overlay, amounts that far exceed the \$367,796. We are in hopes that you will accept this as evidence that the City of Murrieta has, in fact, expended the TCRF funds as allocated.

SCO's Comment

After reviewing the city's response to our draft, we have concluded that the city made accounting errors. Correction of an accounting error may be made after the error is discovered. The city's correction of the accounting error renders the city in compliance with Streets and Highways Code sections 2182 and 2182.5, and Revenue and Taxation Code section 7104. The finding is withdrawn.

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

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CITY OF MURRIETA

August 22, 2008

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

Re: TCRF Audit

Dear Mr. Mar:

In a letter dated July 30, 2008, Jeffrey Bromfield noted that the City of Murrieta did not have justification in its Gas Tax Fund, to support \$367,796 of expenditures for the TCRF allocations for fiscal year 2005/06.

We provided information to the auditor, at a later date, of expenditures that should have been charged to the Gas Tax Fund but were erroneously charged to Measure A.

Both the Public Works Director and myself are new to Murrieta this year, and we have found that construction projects have, in the past, not been charged correctly, but are often put into the fund that has the most funding available. We have changed the procedures, set up new funds and will have construction costs properly allocated going forward. For fiscal year 2007/08 staff has reviewed all the accounts and made corrections, but we are unable to do that for prior years.

I have enclosed printouts from our accounting software that document the expenditures made for the asphalt overlay, amounts that far exceed the \$367,796. We are in hopes that you will accept this as evidence that the City of Murrieta has, in fact, expended the TCRF funds as allocated.

Thank you for your assistance and patience. I apologize for the lateness, I was on vacation for two weeks, and the letter arrived in my absence. Should you have additional questions, please call me at 951-461-6437.

Sincerely,

Suzanne Wellcome  
Finance Director

Enc:

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

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