

CITY OF PALOS VERDES ESTATES

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006



JOHN CHIANG
California State Controller

December 2007



JOHN CHIANG
California State Controller

December 28, 2007

Joseph M. Hoefgen, City Manager
City of Palos Verdes Estates
340 Palos Verdes Drive West
Palos Verdes Estates, CA 90274

Dear Mr. Hoefgen:

The State Controller's Office audited the City of Palos Verdes Estates' 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 (TCRF) allocations recorded in the Special Gas Tax Street Improvement 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—highway users tax and TCRF allocations—in compliance with requirements, and that no adjustment to the fund is 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/sk

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Palos Verdes Estates' 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 (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2006. The last day of fieldwork was July 31, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax and TCRF allocations—in compliance with requirements.

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 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 in the State Treasury for allocating funds quarterly to cities and counties for street and 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 Streets and Highways Code sections 2182 and 2182.1 and Revenues 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, 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;
- 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 in accordance with Article XIX of the California Constitution, 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 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 allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, Streets and Highways Code, and Revenue and Taxation Code for the period of July 1, 2000, through June 30, 2006.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on March 24, 1999, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on September 28, 2007, Judy Smith, Assistant City Manager/Finance Director, responded by letter dated October 18, 2007, and by telephone on November 6, 2007, acknowledging the audit results with an explanation. After reviewing the city's response and additional documentation provided, we have determined that the city made an accounting error. The city's correction of this accounting error renders the city in compliance with Streets and Highways Code sections 2182 and 2182.1 and Revenue and Taxation Code section 7104. Therefore, we have reversed the 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**

	<u>Special Gas Tax Street Improvement Fund</u>		
	<u>Highway Users Tax Allocation ¹</u>	<u>TCRF Allocation ²</u>	<u>Totals</u>
Beginning fund balance per city	\$ 304,072	\$ 17,258	\$ 321,330
Revenues	<u>272,520</u>	<u>45,554</u>	<u>318,074</u>
Total funds available	576,592	62,812	639,404
Expenditures	<u>(270,563)</u>	<u>—</u>	<u>(270,563)</u>
Ending fund balance per city	306,029	62,812	368,841
Timing adjustment:			
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	<u>25,647</u>	<u>17,791</u>	<u>43,438</u>
Ending fund balance per audit	<u>\$ 331,676</u>	<u>\$ 80,603</u>	<u>\$ 412,279</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 in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The Traffic Congestion Relief Fund allocations were recorded in the Special Gas Tax Street Improvement Fund. The TCRF was audited for the period of July 1, 2000, through June 30, 2006.

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



CITY OF
Palos Verdes Estates

October 18, 2007

Mr. Steven Mar
State Controller's Office, Division of Audits
P.O. Box 942850
Sacramento, CA 942850

RE: COMMENTS ON DRAFT AUDIT REPORT -TRAFFIC CONGESTION
RELIEF FUND (TCRF)

Dear Mr. Mar:

The City of Palos Verdes Estates is in receipt of the Draft Audit Report for the Special Gas Tax Fund (7-1-05 to 6-30-06) and the Traffic Congestion Relief Fund (7-1-00 to 6-30-06). Thank you for the opportunity to comment on the report.

The report includes the finding that the City did not spend the FY 2001-02 and FY 2002-03 TCRF funds within two years of receipt as required by Revenue and Taxation Code Section 7104. The finding further indicates the City must return to the Controller's Office unspent funds and interest totaling \$17,258.

We acknowledge that the City of Palos Verdes Estates was remiss by not zeroing out the balance of the remaining \$17,258 TCRF funds within the allotted two year time period. However, we ask that your office recognize that the City expended \$1,963,681 in what were clearly eligible TCRF expenditures during this same two year period. Our error was that we simply did not do the accounting to show the use of the TCRF funding, although we had eligible projects. If the City had misspent the \$17,258 for an ineligible expenditure, such as building a park, we would not dispute the punitive action of returning monies to your office. However, the City's error was minor by comparison, (we did not misspend the money), yet the same penalty of a \$17,258 return is being imposed. While we appreciate the auditor's work to allocate eligible gas tax fund expenditures during this time period to TCRF, the City respectfully requests that the Controller's Office permit the City to correct this clerical oversight and apply the \$17,258 balance of TCRF funds to eligible expenditures financed by our capital projects fund.

We appreciate your consideration of this request and look forward to your response.

Sincerely,

A handwritten signature in black ink, appearing to read "Judy Smith".

Judy Smith
Assistant City Manager/Finance Director

Cc: Joseph M. Hoefgen, City Manager

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

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