

CITY OF LONG BEACH

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2006



JOHN CHIANG
California State Controller

August 2008



JOHN CHIANG
California State Controller

August 22, 2008

The Honorable Bob Foster
Mayor of the City of Long Beach
333 West Ocean Boulevard
Long Beach, CA 90802

Dear Mayor Foster:

The State Controller's Office audited the City of Long Beach'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 allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2001, through June 30, 2006.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that it understated the fund balance by \$134,000 as of June 30, 2006. The city understated the fund balance because it charged the fund with ineligible parking lot expenditures.

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

cc: Lori Ann Farrell
City Manager
City of Long Beach

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Follow-Up on Prior Audit Findings	2
Views of Responsible Official	2
Restricted Use	2
Schedule 1—Reconciliation of Fund Balance	3
Finding and Recommendation	4
Attachment—City’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office audited the City of Long Beach'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 (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 in compliance with requirements, except that it understated the fund balance by \$134,000 as of June 30, 2006. The city understated the fund balance primarily because it charged the fund with ineligible parking lot expenditures. 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 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 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 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 Long Beach 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, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$134,000 to the city's accounting records.

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, 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 August 7, 1997, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on June 20, 2008. Sandra Jong, Accounting Officer, responded by letter dated July 7, 2008, 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 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

August 22, 2008

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

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation ¹	TCRF Allocation ²	Totals
Beginning fund balance per city	\$ 6,062,950	\$ —	\$ 6,062,950
Revenues	8,977,782	5,064	8,982,846
Total funds available	15,040,732	5,064	15,045,796
Expenditures	(8,596,395)	—	(8,596,395)
Ending fund balance per city	6,444,337	5,064	6,449,401
Timing adjustment:			
Accrual of June 2006 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	780,097	2,196,536	2,976,633
SCO adjustment: ³			
Finding—Ineligible expenditures	134,000	—	134,000
Ending fund balance per audit	<u>\$ 7,358,434</u>	<u>\$ 2,201,600</u>	<u>\$ 9,560,034</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 Special Gas Tax Street Improvement Fund. The audit period was July 1, 2000, through June 30, 2006.

³ See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Ineligible expenditures

Recorded Special Gas Tax Street Improvement Fund expenditures for the period of July 1, 2005, through June 30, 2006, include \$134,000 in non-street-related repairs. The city recorded ineligible expenditures for repairs to the Long Beach Museum parking lot and off-street repairs at 3rd Place and Ocean Bluff.

Streets and Highways Code section 2151 restricts the use of highway users tax apportionments to street-related engineering, administration, construction, maintenance, and fixed asset acquisitions. The cited repairs do not represent street-related expenditures.

Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund \$134,000.

City's Response

The Special Gas Tax Audit from July 1, 2005, to June 30, 2006, indicated the City has expended \$134,000 of the Gas Tax Fund for non-street related projects. We agreed to this finding and have moved the ineligible out of the Gas Tax Fund in March 2007.

The \$5,064 expenditures on the "Schedule 1 – Reconciliation of Fund Balance" (see enclosure) draft report are for interest earned and, I believe, is revenue to the fund rather than a negative expenditure.

SCO's Comment

Interest income on Schedule 1 has been corrected to reflect interest as a revenue.

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



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

July 7, 2008

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

Re: Special Gas Tax Audit from July 1, 2005, to June 30, 2006

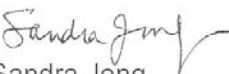
Dear Mr. Mar:

The Special Gas Tax Audit from July 1, 2005, to June 30, 2006, indicated the City has expended \$134,000 of the Gas Tax Fund for non-street related projects. We agreed to this finding and have moved the ineligible expenses out of the Gas Tax Fund in March 2007.

The \$5,064 expenditures on the "Schedule 1 – Reconciliation of Fund Balance" (see enclosure) draft report are for interest earned and, I believe, is revenue to the fund rather than a negative expenditure.

Please contact me if you have any questions at (562) 570-6630 or via e-mail at sandra_jong@longbeach.gov.

Sincerely,


Sandra Jong
Accounting Officer

SJ:tg

Enc.

STATE CONTROLLER'S OFFICE
UNCLASIFIED PROPERTY DIVISION
08 JUL 11 PM 12:05

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

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