

# **CITY OF SANTA FE SPRINGS**

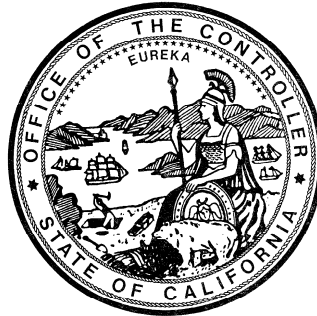
Audit Report

## **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

August 2008



**JOHN CHIANG**  
California State Controller

August 22, 2008

The Honorable Gustavo R. Velasco  
Mayor of the City of Santa Fe Springs  
11710 Telegraph Road  
Santa Fe Springs, CA 90670-3670

Dear Mayor Velasco:

The State Controller's Office audited the City of Santa Fe Springs' 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 (TCRF) allocations recorded in the Street Maintenance 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 and TCRF allocations recorded in the Street Maintenance Fund in compliance with requirements, and that no adjustment to the funds 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/vb

cc: Si Lau, Auditor  
State Controller's Office  
Grace Kong, Chief  
Local Program Accounting  
Department of Transportation

# Contents

## **Audit Report**

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

# Audit Report

## Summary

The State Controller's Office audited the City of Santa Fe Springs' 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 (TCRF) allocations recorded in the Street Maintenance 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 and TCRF allocations recorded in the Street Maintenance 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 Street Maintenance 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 TCRF allocations recorded in the Street Maintenance 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 TCRF allocations recorded in the Street Maintenance 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 Santa Fe Springs 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 Street Maintenance 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 September 23, 1999, disclosed no findings.

**Views of Responsible Official**

We issued a draft audit report on June 13, 2008. Jose Gomez, Director of Finance and Administrative Services, responded by letter dated July 18, 2008 agreeing with the audit results with an explanation. 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, 2006, through June 30, 2007**

	Special Gas Tax Street Improvement Fund <sup>1</sup>	Traffic Congestion Relief Fund Allocation <sup>2</sup>
Beginning fund balance per city	\$ 3,667	\$ —
Revenues	<u>327,987</u>	<u>155,742</u>
Total funds available	331,654	155,742
Expenditures	<u>(331,654)</u>	<u>—</u>
Ending fund balance per city	—	155,742
SCO adjustment <sup>3</sup>	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u><u>\$ —</u></u>	<u><u>\$ 155,742</u></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 Street Maintenance Fund. The audit period was July 1, 2000, through June 30, 2007.

<sup>3</sup> See the Findings and Recommendations section.

# Findings and Recommendations

**FINDING 1—  
TCRF allocations  
expenditure  
requirement not met**

The city did not expend its TCRF allocations for fiscal year (FY) 2001-02 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). The unexpended allocations subject to the spending requirement total \$31,262 as of June 30, 2003. The code states, “. . . funds not expended within that period shall be returned to the Controller. . . .”

Recommendation

The city must refund the unexpended TCRF allocations in the amount of \$31,262, to the State Controller’s Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250. Additionally, the city should review its TCRF allocation expenditure level to ensure compliance with program requirements.

City’s Response

We have carefully reviewed our accounting records for the time periods cited above. Unfortunately, we have found an internal accounting error during our review of FY 2002-03. We certainly incurred more than sufficient TCRF-eligible expenditures to cover the indicated \$31,262 fund balance. We, however, coded these expenditures to the General Fund instead of the TCRF. As evidenced in our Annual Street Reports, we routinely spend significant amounts of General Fund monies on TCRF-eligible street expenditures. This was certainly the case in FY 2002-03.

SCO’s Comment

After reviewing the city’s response to our draft report, we concluded that accounting errors were made by the city. Correction of an accounting error may be made anytime after the error is discovered. The city’s correction of the accounting error allows the city to be in compliance with Streets and Highways Code section 2182 and 2182.5 and Revenue and Taxation Code section 7104. The finding is reversed.

**FINDING 2—  
Ineligible  
expenditures**

The city did not meet its expenditure requirement during FY 2002-03 as noted in Finding 1. Consequently, the expenditure of these funds, totaling \$31,262, was not eligible.

Recommendation

The city must reimburse the TCRF allocations recorded in the Street Maintenance Fund by \$31,262 to eliminate the ineligible expenditures.

City's Response

No response.

SCO's Comment

The city's correction of the accounting error referred to in Finding 1 invalidates this finding. The finding is reversed.



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

---



# City of Santa Fe Springs

11710 Telegraph Road • CA • 90670-3679 • (562) 868-0511 • Fax (562) 868-7112 • [www.santafesprings.org](http://www.santafesprings.org)

July 18, 2008

Jeffrey V. Brownfield  
Chief, Division of Audits  
State Controller's Office  
P.O. Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Brownfield:

Subject: Traffic Congestion Relief Fund Audit

This letter is in response to your letter dated June 13, 2008 regarding your audit of the Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund (TCRF). Your letter indicated that we overstated the TCRF fund balance by \$31,262 as of June 30, 2007 due to not having expended all of our FY 2001-02 TCRF allocations by June 30, 2003.

We have carefully reviewed our accounting records for the time periods cited above. Unfortunately, we have found an internal accounting error during our review of FY 2002-03. We certainly incurred more than sufficient TCRF-eligible expenditures to cover the indicated \$31,262 fund balance. We, however, coded these expenditures to the General Fund instead of the TCRF. As evidenced in our Annual Street Reports, we routinely spend significant amounts of General Fund monies on TCRF-eligible street expenditures. This was certainly the case in FY 2002-03.

We would be happy to provide you with appropriate documentation illustrating the timely use of our TCRF. Even as our financial records currently stand, they indicate that we formally spent the remaining \$31,262 in TCRF by November 2003. Please feel free to give me or Donna Mack a call at (562) 868-0511 if you have any questions or comments.

Jose Gomez  
Director of Finance and Administrative Services

cc: Donna Mack, City of Santa Fe Springs  
Larry Alexander, State Controller's Office

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

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