

# **CITY OF SANTA ROSA**

Audit Report

## **GAS TAX FUND AND TRAFFIC CONGESTION RELIEF FUND**

*July 1, 2004, through June 30, 2005*



**JOHN CHIANG**  
California State Controller

March 2007



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**California State Controller**

March 21, 2007

Michael Frank, Chief Financial Officer  
Department of Administrative Services  
City of Santa Rosa  
90 Santa Rosa Avenue  
P.O. Box 1678  
Santa Rosa, CA 95402

Dear Mr. Frank:

The State Controller's Office audited the City of Santa Rosa's Gas Tax Fund and Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2004, through June 30, 2005.

The city accounted for and expended its Gas Tax Fund and TCRF allocations in compliance with Article XIX of the California Constitution and the *Streets and Highways Code*, except for our adjustment to the funds. Our audit disclosed that the city overstated the fund balance in the Gas Tax Fund by \$4,517 as of June 30, 2005. This overstatement occurred primarily because the city recorded an ineligible expenditure to the TCRF.

If you have any questions, please contact Paul R. Criss, Chief, Financial-Related Audits Bureau, at (916) 322-4941.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/vb

# Contents

## Audit Report

<b>Summary</b> .....	1
<b>Background</b> .....	1
<b>Objective, Scope, and Methodology</b> .....	1
<b>Conclusion</b> .....	2
<b>Follow-Up on Prior Audit Findings</b> .....	2
<b>Views of Responsible Officials</b> .....	2
<b>Restricted Use</b> .....	2
<b>Schedule 1—Reconciliation of Fund Balance</b> .....	3
<b>Findings and Recommendations</b> .....	4

# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Santa Rosa's Gas Tax Fund and Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2004, through June 30, 2005. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2001, through June 30, 2005. The last day of fieldwork was May 2, 2006.

Our audit disclosed that the city overstated the fund balance in the Gas Tax Fund by \$4,517 as of June 30, 2005. This overstatement occurred primarily because the city recorded an ineligible expenditure to the TCRF.

## 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 are derived 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 Gas Tax Fund (also known as the 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 Gas Tax 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 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 the TCRF in the TCRF. We conducted our audit of the city's TCRF under the authority of *Streets and Highways Code* Sections 2182 and 2182.1.

## Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Gas Tax Fund and the TCRF 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 Gas Tax 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 Gas Tax Fund and the TCRF in accordance with the requirements of the *Streets and Highways Code*. 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 Gas Tax Fund in compliance with Article XIX of the California Constitution and the *Streets and Highways Code* for the period of July 1, 2004, through June 30, 2005, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings required an adjustment of \$4,517 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its TCRF allocations in compliance with Article XIX of the California Constitution and the *Streets and Highways Code* for the period of July 1, 2001, through June 30, 2005.

## **Follow-Up on Prior Audit Findings**

Our prior audit report, issued on October 1996, disclosed no findings.

## **Views of Responsible Officials**

We discussed the audit results with city representatives during an exit conference on May 2, 2006. Michael Frank, Chief Financial Officer, agreed with the audit results. Mr. Frank further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

## **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, 2004, through June 30, 2005**

	Gas Tax Fund	
	Highway Users Tax Allocation <sup>1</sup>	TCRF Allocation <sup>2</sup>
Beginning fund balance per city	\$ 3,706,259	\$ 741,361
Revenues	<u>3,019,735</u>	<u>17,919</u>
Total funds available	6,725,994	759,280
Expenditures	<u>(2,864,273)</u>	<u>(192,182)</u>
Ending fund balance per city	<u>3,861,721</u>	<u>567,098</u>
SCO adjustments: <sup>3</sup>		
Finding 1—Ineligible expenditure	(4,517)	4,517
Finding 2—TCRF expenditure requirement not met	<u>—</u>	<u>(571,615)</u>
Total SCO adjustments	<u>(4,517)</u>	<u>(567,098)</u>
Ending fund balance per audit	<u>\$ 3,857,204</u>	<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 apportionments are restricted 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> Chapter 91, Statutes of 2000 (Assembly Bill 2928), as amended by Chapter 656, Statutes of 2000 (Senate Bill 1662), established the State Traffic Congestion Relief Fund (TCRF), which allocates funds to cities and counties for street or road maintenance and reconstruction from FY 2000-01 through FY 2005-06.

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

# Findings and Recommendations

## **FINDING 1— Ineligible expenditures— 2-way camera system**

During the FY 2004-05, the city improperly charged \$4,517 to the Traffic Congestion Relief Fund (TCRF) for the purchase of a two-way camera system.

*Streets and Highways Code* Section 2182(c) states that funds apportioned to a city or county under this section shall be used only for street and highway pavement maintenance, rehabilitation, and reconstruction. Rehabilitation or reconstruction may include widening necessary to bring the roadway width to the desirable minimum pavement width consistent with accepted design standards for local streets and roads, but does not include widening or increasing the traffic capacity of a street or road.

### Recommendation

The city should reimburse the TCRF in the amount of \$4,517 for the ineligible two-way camera system. In the future, the city should ensure that all costs charged to the TCRF are within the guidelines.

### City's Response

The city agreed with our finding. However, the city provided additional documentation, indicating that the city should have charged this expenditure to the Gas Tax Fund. We reviewed the additional information and agreed with the city. The city, therefore, made Journal Entry #12-8-21, dated June 30, 2005, moving the funds from the TCRF to the Gas Tax Fund.

## **FINDING 2— TCRF expenditure requirement not met**

The City of Santa Rosa did not expend its TCRF allocations 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 allocation and interest earned subject to the spending requirements have accumulated to a total of \$567,098 as of June 30, 2005.

*Streets and Highways Code* states, “. . . funds not expended within that period shall be returned to the State Controller's Office.”

### Recommendation

The city should return the unexpended TCRF allocations and interest earned in the amount of \$567,098 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

The city agreed with our finding. However, the city provided additional documentation, which indicated that the city had eligible TCRF expenditures in the Utility Impact Fee Fund for street overlay. Auditor reviewed the additional information and agreed with the city. The city, therefore, made Journal Entry #12-8-21, date June 30, 2005 to transfer funds from TCRF to the Utility Impact Fee Fund to correct a posting error.

SCO's Response

The SCO concurs and has withdrawn the finding.

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

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