




June 8, 2011

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer 

Subject: Financial and Compliance Audits of the Orange County Service Authority for Abandoned Vehicles, the Member Cities, and the County of Orange

Overview

Pursuant to Section 9250.7 of the Vehicle Code, audits have been completed of the Orange County Service Authority for Abandoned Vehicles and each of its member jurisdictions, including all 34 Orange County cities and the County of Orange. The audits were conducted by Mayer Hoffman McCann, P.C. for the fiscal year ended June 30, 2010. Recommendations have been offered to ensure compliance with program guidelines. Included in the audit reports are recommendations that the cities of Anaheim, Costa Mesa, and Westminster refund amounts received for abatements that were reported but were not adequately supported. The cities of Anaheim and Costa Mesa agreed to revise their reports and provide refunds; however, the City of Westminster maintains that the report submitted is accurate and no refund is owed. Therefore, the Internal Audit Department is recommending that the Orange County Transportation Authority withhold the amount due from a future payment to the City of Westminster.

Recommendations

- A. Receive and file financial and compliance audits of the Orange County Service Authority for Abandoned Vehicles and its member agencies, including all 34 Orange County cities and the County of Orange.
- B. Direct staff to offset a future payment to the City of Westminster in the amount of \$13,450.64.
- C. Direct staff to monitor implementation of recommendations related to refunds from the cities of Anaheim and Costa Mesa in the amounts of \$1,436.84 and \$706.00, respectively.

- D. Direct staff to monitor implementation of recommendation related to restoration of funds by the cities of La Habra, Los Alamitos, and Orange.
- E. Direct staff to enhance the User Guide for Member Agencies to include additional guidance on supporting documentation for expenditures and allocation of interest.

Background

Assembly Bill 4114 enabled counties to authorize the creation of a service authority to handle the increasing problem of abandoned vehicles throughout the State of California. Specifically, the law allows a service authority to be established and to impose a vehicle registration fee of \$1.00 per year to fund an abatement program. On October 17, 1991, the Orange County Transportation Authority (OCTA) Board of Directors approved resolutions establishing the Orange County Service Authority for Abandoned Vehicles (SAAV). OCTA developed the program and continues to administer it.

The California Highway Patrol issues an Abandoned Vehicle Abatement Program Handbook (Handbook) that provides uniform guidelines for establishment of Abandoned Vehicle Abatement Plans and for authorized expenditures. In December 2008, the Handbook was updated to include biennial audit requirements.

Mayer Hoffman McCann, P.C. (MHM) was engaged to perform required financial and compliance audits of the SAAV and all of the member agencies (including 34 Orange County cities and the County of Orange). The audits included testing to ensure expenditures and abatement activity by member agencies were properly supported and qualified per the Handbook.

Discussion

Audits were performed of the SAAV, its 34 member agencies, and the County of Orange. The attached Summary of Audit Findings and Recommendations Orange County Service Authority for Abandoned Vehicles Financial and Compliance Audits for the Year Ended June 30, 2010 (Attachment A) reflects these audits.

Findings and Recommendations

The City of Westminster (Westminster) could not provide documentation to support 14 vehicles reported on the Fiscal Year 2009-10 SAAV Member Agency Annual Report (Annual Report) as abated. MHM recommended

Westminster submit a revised Annual Report and refund the amount received for these abatements, totaling \$13,450.64. Westminster agreed to provide training to employees to ensure proper documentation in the future but did not agree to reimburse OCTA, citing their belief that the vehicles reported were qualified. Internal Audit is recommending that OCTA staff withhold the amount due from a future payment. MHM's report and Westminster's response are included as Attachment B.

The City of Huntington Beach (Huntington Beach) used program revenues to fund police helicopter and Air Support Unit expenses. MHM found these expenditures unqualified; however, through discussion and review noted that Huntington Beach does incur qualified personnel costs related to the program. As such, MHM recommended that Huntington Beach replace the unqualified expenditures with qualified personnel costs and submit a revised Annual Report. MHM's report and Huntington Beach's response are included as Attachment C.

The cities of Anaheim (Attachment D) and Costa Mesa (Attachment E) could not provide sufficient documentation to support one of the vehicle abatements reported on their Annual Report. MHM recommended the cities submit revised Annual Reports and refund the amounts received for the abatements. Both cities agreed to revise their Annual Report and refund the amounts.

The cities of Anaheim, Costa Mesa, Huntington Beach, Westminster, and six other cities did not maintain sufficient documentation to support personnel costs charged to the program; however, MHM performed alternate audit procedures to validate the costs and concluded that amounts claimed appeared reasonable. MHM recommended that the cities implement procedures to track and document time spent on the program and all of the cities responded that procedures had been, or will be, implemented. The six other cities included Brea, Buena Park, Fullerton, Laguna Beach, Santa Ana, and Seal Beach.

The cities of La Habra, Los Alamitos, and Orange also did not maintain sufficient documentation to support personnel costs charged to the program; however, MHM was unable to validate the amounts claimed by the cities. MHM recommended these cities restore program funds in an account until qualified, documented expenditures have been incurred. The cities agreed with MHM's recommendation and indicated that funds would be restored and applied against future qualified, documented expenditures.

In addition to findings and recommendations related to agencies' compliance with SAAV guidelines, MHM has made one recommendation related to OCTA's

administration of the program (Attachment F). MHM recommended that OCTA staff update the User Guide for Member Agencies to include guidance on maintaining supporting documentation for program expenditures and a requirement that interest be allocated to unspent program funds and be used on program related activities. OCTA management agreed to update the SAAV User Guide for Member Agencies as recommended.

Summary

Audits have been completed of the Orange County Service Authority for Abandoned Vehicles and each of its member jurisdictions. External auditors Mayer Hoffman McCann, P.C. have provided recommendations to both member agencies as well as one recommendation to improve OCTA's administration of the program. Internal Audit is recommending that the Orange County Transportation Authority withhold \$13,450.64 from a future payment to the City of Westminster.

Attachments

- A. Summary of Audit Findings and Recommendations Orange County Service Authority for Abandoned Vehicles Financial and Compliance Audits for the Year Ended June 30, 2010
- B. City of Westminster, California Abandoned Vehicle Abatement Program Financial Statement, Year Ended June 30, 2010
- C. City of Huntington Beach, California Abandoned Vehicle Abatement Program Financial Statement, Year Ended June 30, 2010
- D. City of Anaheim, California Abandoned Vehicle Abatement Program Financial Statement, Year Ended June 30, 2010
- E. City of Costa Mesa, California Abandoned Vehicle Abatement Program Financial Statement, Year Ended June 30, 2010
- F. April 26, 2011 letter from Mayer Hoffman McCann, P.C. to Janet Sutter

Approved by:



Janet Sutter
Acting Executive Director, Internal Audit
(714) 560-5591

SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS
Orange County Service Authority for Abandoned Vehicles
Financial and Compliance Audits for the Year Ended June 30, 2010

City	Finding	Recommendation	Management Response
Aliso Viejo	None		
Anaheim	<p>NOTE: This report is included in its entirety at Attachment D.</p> <p>1. Anaheim did not maintain adequate documentation to support personnel costs charged to the program. However, auditors were able to perform alternate audit procedures and deemed the charges reasonable.</p> <p>2. Auditors tested a sample of 25 abatements reported by Anaheim on the 2009-10 SAAV Member Agency Annual Report (Annual Report) and found one lacked sufficient evidence that it was a qualified abatement.</p>	<p>1. Anaheim should implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.</p> <p>2. Auditors recommended Anaheim implement procedures to ensure only qualified abatements are reported and submit a revised Annual Report, along with a refund to OCTA.</p>	<p>1. Anaheim has established and implemented a policy and procedures to separately track program-related costs.</p> <p>2. Anaheim agreed to implement procedures to ensure only qualified abatements are reported and to revise its Annual Report and provide a refund as recommended.</p>
Brea	Brea did not maintain adequate documentation to support personnel costs charged to the program. However, auditors were able to perform alternate audit procedures and deemed the charges reasonable.	Brea should implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.	Brea agreed to implement procedures to track time spent on program-related activities separately.
Buena Park	Buena Park did not maintain adequate documentation to support personnel costs charged to the program. However, auditors were able to perform alternate audit procedures and deemed the charges reasonable.	Buena Park should implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.	The Community Development Department has already implemented procedures for documenting hours related to abandoned vehicle abatement activities and will extend these procedures to include other departments involved in abatement cases.
Costa Mesa	<p>NOTE: This report is included in its entirety at Attachment E.</p> <p>1. Costa Mesa did not maintain adequate documentation to support personnel costs charged to the program. However, auditors were able to perform alternate audit procedures and deemed the charges reasonable.</p> <p>2. Auditors reviewed documentation supporting the two abatements reported by Costa Mesa on the 2009-10 SAAV Member Agency Annual Report (Annual Report) and found one of the two did not qualify under the program.</p>	<p>1. Costa Mesa should implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.</p> <p>2. Auditors recommended that Costa Mesa implement procedures to ensure only qualified abatements are reported and submit a revised Annual Report, along with a refund to OCTA.</p>	<p>1. Costa Mesa concurs and will implement policies and procedures to track personnel costs pertaining to program-related activities.</p> <p>2. Costa Mesa agreed to implement procedures to ensure only qualified abatements are reported and to submit a revised Annual Report and refund to OCTA.</p>
Cypress	None		
Dana Point	None		
Fountain Valley	None		
Fullerton	Fullerton did not maintain adequate documentation to support personnel costs charged to the program. However, auditors were able to perform alternate audit procedures and deemed the charges reasonable.	Fullerton should implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.	Subsequent to the audit, Fullerton has implemented policies and procedures to track time spent on program-related activities.
Garden Grove	None		
Huntington Beach	<p>NOTE: This report is included in its entirety at Attachment C.</p> <p>Huntington Beach used program revenues to partially fund helicopter and Air Support Unit expenses. The auditors did not accept these costs as qualified but, through discussion and review, identified qualified personnel related costs are incurred by Huntington Beach.</p>	Huntington Beach should revise their Annual Report to reflect replacement of unqualified helicopter and Air Support Unit expenses with qualified personnel related costs. In addition, Huntington Beach should implement procedures to track and document time spent on program-related activities.	Huntington Beach agreed to revise and resubmit the Annual Report to reflect the replacement of helicopter and Air Support Unit expenses with qualified personnel related costs. In addition, Huntington Beach agreed to identify procedures that will further support the documentation of program-related activities.
Irvine	None		

SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS
Orange County Service Authority for Abandoned Vehicles
Financial and Compliance Audits for the Year Ended June 30, 2010

City	Finding	Recommendation	Management Response
La Habra	La Habra used \$30,176 in program revenues to partially fund the cost of six full-time police officers but did not maintain adequate documentation to support the allocation of costs.	La Habra should restore the funds to an account until qualified, documented expenditures have been incurred. La Habra should also implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.	La Habra agreed to restore program funds and to implement policies and procedures to support personnel costs charged to the program.
La Palma	None		
Laguna Beach	Laguna Beach did not maintain adequate documentation to support personnel costs charged to the program. However, auditors were able to perform alternate audit procedures and deemed the charges reasonable.	Laguna Beach should implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.	Laguna Beach agreed to implement procedures to track time spent on program-related activities.
Laguna Hills	None		
Laguna Niguel	None		
Laguna Woods	None		
Lake Forest	None		
Los Alamitos	Los Alamitos used program revenues to partially fund the personnel costs of one code enforcement officer but did not maintain adequate documentation to support the allocation of costs.	Los Alamitos should restore the funds to an account until qualified, documented expenditures have been incurred. Los Alamitos should submit a revised Annual Report to reflect the restoration of funds and should implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.	Los Alamitos agreed to restore and hold the funding for future qualified expenditures and to maintain detailed records of program-related activities in the future.
Mission Viejo	None		
Newport Beach	None		
Orange	Orange used program revenues to partially fund the personnel costs of three parking control officers but did not maintain adequate documentation to support the allocation of costs.	Orange should restore the funds to an account until qualified, documented expenditures have been incurred. Orange should submit a revised Annual Report to reflect the restoration of funds and should implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.	Orange agreed and indicated that they intend to perform time and motion studies to develop an average cost basis for each abate notice issued or vehicle towed and will then submit an amended Annual Report. Orange will also use this for future Annual Reports.
Placentia	None		
Rancho Santa Margarita	None		
San Clemente	None		
San Juan Capistrano	None		
Santa Ana	Santa Ana did not maintain adequate documentation to support personnel costs charged to the program. However, auditors were able to perform alternate audit procedures and deemed the charges reasonable.	Santa Ana should implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.	Santa Ana agreed to implement procedures to track time spent on program-related activities.
Seal Beach	Seal Beach did not maintain adequate documentation to support personnel costs charged to the program. However, auditors were able to perform alternate audit procedures and deemed the charges reasonable.	Seal Beach should implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.	Seal Beach agreed to implement procedures to track time spent on program-related activities.
Stanton	None		
Tustin	None		

SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS
Orange County Service Authority for Abandoned Vehicles
Financial and Compliance Audits for the Year Ended June 30, 2010

City	Finding	Recommendation	Management Response
Villa Park	None		
Westminster	<p>NOTE: This report is included in its entirety at Attachment B.</p> <p>1. Westminster did not maintain adequate documentation to support personnel costs charged to the program. However, auditors were able to perform alternate audit procedures and deemed the charges reasonable.</p> <p>2. Auditors reviewed documentation on file for 25 abatements reported on Westminster's 2009-10 SAAV Member Agency Annual Report (Annual Report) and found that 14 lacked evidence of a qualified abatement.</p>	<p>1. Westminster should implement policies and procedures to track and document time spent on program-related activities to ensure costs charged to the program are allocable and properly supported.</p> <p>2. Westminster should implement procedures to ensure sufficient documentation is maintained to support abatements reported. In addition, Westminster should submit a revised Annual Report, and provide refund for the unsupported abatements, to OCTA.</p>	<p>1. Beginning with the fiscal year 2010-11, all personnel costs will be noted and tracked on timesheets and the abatement program will be separated into its own fund.</p> <p>2. Westminster has since been training employees to properly document items. However, Westminster does not believe any of its prior submissions were filed incorrectly, and, therefore, does not believe Westminster owes OCTA any reimbursements.</p>
Yorba Linda	None		
County of Orange	None		

CITY OF WESTMINSTER, CALIFORNIA

Abandoned Vehicle Abatement Program

Financial Statement

Year Ended June 30, 2010

CITY OF WESTMINSTER, CALIFORNIA

Abandoned Vehicle Abatement Program

Year Ended June 30, 2010

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Board of Directors
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Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying program financial statement, as listed on the table of contents, of the Abandoned Vehicle Abatement Program of the City of Westminster, California ("City") for the year ended June 30, 2010. The program financial statement of the Abandoned Vehicle Abatement Program is the responsibility of the management of the City. Our responsibility is to express an opinion on the program financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the program financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the program financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the accompanying program financial statement presents only revenues and expenditures of the Abandoned Vehicle Abatement Program of the City and does not purport to, and does not, present fairly the financial position of the City for the year ended June 30, 2010, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the revenues and expenditures of the Abandoned Vehicle Abatement Program of the City of Westminster for the year ended June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 23, 2011 on our consideration of the City of Westminster's internal control over financial reporting for the Abandoned Vehicle Abatement Program, and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Huffman McClann P.C.

Irvine, California
May 23, 2011

CITY OF WESTMINSTER, CALIFORNIA

Abandoned Vehicle Abatement Program

Notes to Program Financial Statement

Year Ended June 30, 2010

(1) Background

Assembly Bill 4114 enables counties to authorize the creation of a Service Authority to handle the increasing problem of abandoned vehicles throughout the State of California. Specifically, the law allows a Service Authority to be established and a vehicle registration fee of \$1.00 per year to be imposed to fund an abatement program.

On October 17, 1991, the Orange County Transportation Authority (OCTA) Board of Directors approved resolutions establishing the Orange County Service Authority for Abandoned Vehicles (SAAV). SAAV developed the Abandoned Vehicle Abatement Program and continues to administer it.

(2) Reporting Entity

The program financial statement included in this report is intended to present the revenues and expenditures of the City of Westminster's Abandoned Vehicle Abatement Program ("Program"). It is not intended to present the financial position and results of operations of the City of Westminster taken as a whole.

(3) Summary Of Significant Accounting Policies

The accompanying program financial statement has been prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred.

(4) Expenditures and Revenues

The City receives funds from SAAV based on abatement activity and population. Reports are submitted quarterly detailing abatements for the fiscal year. Annually, the City reports the amount of revenues received, how the funds were expended, and the total number of abatements.

CITY OF WESTMINSTER, CALIFORNIA

Abandoned Vehicle Abatement Program

Notes to Program Financial Statement

(Continued)

(5) Contingencies

See the City's basic financial statements for disclosures related to contingencies including those relating to various legal actions, administrative proceedings or claims in the ordinary course of operations.

(6) Vehicle Registration Fees

The \$333,670 of vehicle registration fees includes \$9,532 of prior year program funds received in the fiscal year 2009-2010. For the fiscal year 2009-2010, SAAV allocated to the City \$372,206, of which \$48,068 was received after the fiscal year ended and was not accrued as current year revenues based on the modified accrual basis of accounting.



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Board of Directors
Orange County Transportation Authority
Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF PROGRAM FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the accompanying program financial statement, as listed on the table of contents, of the Abandoned Vehicle Abatement Program of the City of Westminster, California ("City") for the year ended June 30, 2010, and have issued our report thereon dated May 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was performed to determine compliance with the Orange County Service Authority for Abandoned Vehicles (SAAV), SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting for the Abandoned Vehicle Abatement Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the program financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting for the Abandoned Vehicle Abatement Program that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the program financial statement of the Abandoned Vehicle Abatement Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the requirements of Vehicle Code Section 9250.7 of the Orange County SAAV, SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed certain instances of noncompliance that are required to be reported under *Government Auditing Standards* and the requirements of Vehicle Code Section 9250.7 of the Orange County SAAV, SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008 and are described in the accompanying Schedule of Findings and Recommendations as items 1 and 2.

The City's response to the findings identified from our audit is described in the accompanying Schedule of Findings and Recommendations. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the City, the Orange County Transportation Authority and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McLann P.C.

Irvine, California
May 23, 2011

CITY OF WESTMINSTER, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Findings and Recommendations

Year Ended June 30, 2010

(1) Need to Maintain Documentation to Support Personnel Costs Claimed

The City did not maintain documentation to support \$63,148 in personnel costs claimed to the program. However, alternate audit procedures were performed, including review of job descriptions and inquiry with personnel working on the program, and the amount claimed to the program appears reasonable.

The Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook (Revised December 2008), Chapter 2 – Requirements for Participating Service Authorities, Section 1, Paragraph h – Authorized Expenditures, states:

“The money received by an Authority pursuant to Sections 22710 and 9250.7 VC shall only be used for the abatement, removal, and disposal as public nuisances of abandoned, wrecked, dismantled, or inoperative vehicles or parts thereof from private or public property.”

Recommendation

We recommend that the City establish and implement policies and procedures to track and document time spent on program-related activities to ensure that costs claimed are allocable to the program and properly supported.

City's Management Response

Beginning with the fiscal year 2010-2011, the police abandoned vehicle abatement program will be separated into its own fund. The code enforcement program will be tracked in separate revenue and expenditure accounts. All personnel costs will be noted and tracked on the individual timesheets.

CITY OF WESTMINSTER, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Findings and Recommendations

(Continued)

(2) Need to Ensure that Sufficient Documentation is Maintained to Support Qualifying Abatements

The Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook (Revised December 2008), Chapter 2 – Requirements for Participating Service Authorities, Section 2, Paragraph c, states in part:

“Assignment of a vehicle to the AVA Program occurs only under one of the following circumstances:

- 1) The abandoned vehicle is located on public or private property and issued a 10-day notice of intention to abate pursuant to Section 2266.1(d) VC and is removed after the 10-day period has elapsed.
- 2) The vehicle is parked, resting , or otherwise immobilized on any highway or public right-of-way and lacks an engine, transmission, wheels, tires, or any part of equipment necessary to operate safely on the highway pursuant to Section 22669(d) VC.
- 3) The vehicle is located upon a parcel zoned for agricultural use or not improved with a residential structure containing one or more dwelling units, and is inoperable due to the absence of a motor, transmission, or wheels and incapable of being towed. Additionally, the vehicle must be valued at less than two hundred dollars by a person specified in Section 22855 VC, and is determined by the local agency to be a public nuisance, presenting an immediate threat to public health and safety, provided the property owner has signed a release authorizing removal and waiving further interest in the vehicle pursuant to Section 22661(c) VC.

We reviewed documentation on file for a sample of 25 abatements reported by the City on the SAAV Member Agency Annual Report for the fiscal year 2009-10 and found that 14 of them lacked sufficient documentation to support that they were qualified abatements.

CITY OF WESTMINSTER, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Findings and Recommendations

Year Ended June 30, 2010

(2) Need to Ensure that Sufficient Documentation is Maintained to Support Qualifying Abatements (Continued)

Recommendation

We recommend the City implement procedures to ensure that sufficient documentation is maintained to support abatements reported. In addition, we recommend the City submit an amended annual report to reflect the removal of unqualified abatements and return the funds to SAAV.

City's Management Response

The City has since been training employees to properly document items. However, the City does not believe any of its prior submissions were filed incorrectly, and, therefore, does not believe the City owes OCTA any reimbursements.

CITY OF HUNTINGTON BEACH, CALIFORNIA

Abandoned Vehicle Abatement Program

Financial Statement

Year Ended June 30, 2010

CITY OF HUNTINGTON BEACH, CALIFORNIA

Abandoned Vehicle Abatement Program

Year Ended June 30, 2010

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Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying program financial statement, as listed on the table of contents, of the Abandoned Vehicle Abatement Program of the City of Huntington Beach, California ("City") for the year ended June 30, 2010. The program financial statement of the Abandoned Vehicle Abatement Program is the responsibility of the management of the City. Our responsibility is to express an opinion on the program financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the program financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the program financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the accompanying program financial statement presents only revenues and expenditures of the Abandoned Vehicle Abatement Program of the City and does not purport to, and does not, present fairly the financial position of the City for the year ended June 30, 2010, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the revenues and expenditures of the Abandoned Vehicle Abatement Program of the City of Huntington Beach for the year ended June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 23, 2011 on our consideration of the City of Huntington Beach's internal control over financial reporting for the Abandoned Vehicle Abatement Program, and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayr Hoffman McLann P.C.

Irvine, California
May 23, 2011

CITY OF HUNTINGTON BEACH, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Revenues and Expenditures

Year Ended June 30, 2010

Revenues:

Vehicle registration fees (note 6)	\$ 95,844
Interest	<u>5,993</u>

Total revenues	<u>101,837</u>
----------------	----------------

Expenditures:

Services and supplies (See Finding No. 1)	<u>78,353</u>
---	---------------

Total expenditures	<u>78,353</u>
--------------------	---------------

Excess (deficiency) of revenues over (under) expenditures	<u>\$ 23,484</u>
---	------------------

See accompanying notes to program financial statement.

CITY OF HUNTINGTON BEACH, CALIFORNIA

Abandoned Vehicle Abatement Program

Notes to Program Financial Statement

Year Ended June 30, 2010

(1) Background

Assembly Bill 4114 enables counties to authorize the creation of a Service Authority to handle the increasing problem of abandoned vehicles throughout the State of California. Specifically, the law allows a Service Authority to be established and a vehicle registration fee of \$1.00 per year to be imposed to fund an abatement program.

On October 17, 1991, the Orange County Transportation Authority (OCTA) Board of Directors approved resolutions establishing the Orange County Service Authority for Abandoned Vehicles (SAAV). SAAV developed the Abandoned Vehicle Abatement Program and continues to administer it.

(2) Reporting Entity

The program financial statement included in this report is intended to present the revenues and expenditures of the City of Huntington Beach's Abandoned Vehicle Abatement Program ("Program"). It is not intended to present the financial position and results of operations of the City of Huntington Beach taken as a whole.

(3) Summary Of Significant Accounting Policies

The accompanying program financial statement has been prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred.

(4) Expenditures and Revenues

The City receives funds from SAAV based on abatement activity and population. Reports are submitted quarterly detailing abatements for the fiscal year. Annually, the City reports the amount of revenues received, how the funds were expended, and the total number of abatements.

CITY OF HUNTINGTON BEACH, CALIFORNIA

Abandoned Vehicle Abatement Program

Notes to Program Financial Statement

(Continued)

(5) Contingencies

See the City's basic financial statements for disclosures related to contingencies including those relating to various legal actions, administrative proceedings or claims in the ordinary course of operations.

(6) Vehicle Registration Fees

The \$95,844 of vehicle registration fees includes \$39,643 of prior year program funds received in fiscal year 2009-2010. For the fiscal year 2009-2010, OCTA SAAV allocated to the City \$76,055 of program funds, of which \$19,854 was received after the fiscal year ended and was not accrued as current year revenues based on the modified accrual basis of accounting.



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Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF PROGRAM FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the accompanying program financial statement, as listed on the table of contents, of the Abandoned Vehicle Abatement Program of the City of Huntington Beach, California ("City") for the year ended June 30, 2010, and have issued our report thereon dated May 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was performed to determine compliance with the Orange County Service Authority for Abandoned Vehicles (SAAV), SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting for the Abandoned Vehicle Abatement Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the program financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting for the Abandoned Vehicle Abatement Program that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the program financial statement of the Abandoned Vehicle Abatement Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the requirements of Vehicle Code Section 9250.7 of the Orange County SAAV, SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and the requirements of Vehicle Code Section 9250.7 of the Orange County SAAV, SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008 and is described in the accompanying Schedule of Finding and Recommendation as item 1.

The City's response to the finding identified from our audit is described in the accompanying Schedule of Finding and Recommendation. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the City, the Orange County Transportation Authority and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
May 23, 2011

CITY OF HUNTINGTON BEACH, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Finding and Recommendation

Year Ended June 30, 2010

1) Need to Maintain Documentation to Support Qualified Expenditures

According to the SAAV Member Agency Annual Report submitted by the City for the fiscal year 2009-2010, 100% of program funds were used to fund helicopter and Air Support Unit expenses. For the fiscal year 2009-2010, the City claimed a total of \$78,353 in helicopter and Air Support Unit costs, including helicopter parts and repairs, flight suits, office supplies, membership dues, uniform cleaning, travel and training costs, etc. Since the City could not provide documentation as to how these costs relate to the Abandoned Vehicle Abatement Program, we did not accept these costs as qualified expenditures.

The Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook (Revised December 2008), Chapter 2 – Requirements for Participating Service Authorities, Section 1, Paragraph h – Authorized Expenditures, states:

“The money received by an Authority pursuant to Sections 22710 and 9250.7 VC shall only be used for the abatement, removal, and disposal as public nuisances of abandoned, wrecked, dismantled, or inoperative vehicles or parts thereof from private or public property.”

Prior to finalization of this report, the City indicated that its Parking Control Officers perform program related activities and the related personnel costs could replace the \$78,353 in helicopter and Air Support Unit costs originally reported as qualified expenditures. Therefore, additional audit procedures were performed to determine if the City had incurred adequate personnel costs related to the program to replace the originally reported expenditures. While the City did not maintain documentation to support the personnel costs, alternate audit procedures were performed, including review of job descriptions and inquiry with personnel working on the program, and the amount of personnel costs appears adequate to replace the \$78,353 in helicopter and Air Support Unit costs originally reported as qualified expenditures.

Recommendation

We recommend the City replace the unqualified helicopter and Air Support Unit expenditures with qualified expenditures and submit a revised SAAV Member Agency Annual Report for the fiscal year 2009-2010. In addition, we recommend the City establish and implement policies and procedures to track and document time spent on program-related activities to ensure that costs claimed are properly supported.

CITY OF HUNTINGTON BEACH, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Finding and Recommendation

Year Ended June 30, 2010

1) Need to Maintain Documentation to Support Qualified Expenditures (Continued)

City's Management Response

The Huntington Beach Police Department's Air Support Unit, as part of its regular patrol duties, does have a role in the City's effort to abate or remove abandoned, wrecked, dismantled, or inoperative vehicles. During Fiscal Year 2009/2010, the Unit was involved with over 100 such vehicles. The reimbursed SAAV funds were originally used to support a portion of the Unit's air operations related to this activity.

The use of SAAV funds to provide financial support for the Huntington Beach Police Department's Air Support Unit is not new for the City. Please note that the Orange County Transportation Authority (OCTA) has provided formal approval of this practice in the past.

However, during this most recent audit, it became clear that additional, more detailed documentation needed to be provided regarding the precise amount of time spent by the Air Support Unit solely on the abatement of vehicles, and the exact vehicles abated by the Air Support Unit in order to be reimbursed for qualified expenses. Due to the prohibitive nature of such a detailed procedure for this particular work unit, the City and auditors mutually agreed to identify other qualified expenditures that more closely adhere to the SAAV grant's reimbursement guidelines.

As such, the City will be revising and resubmitting its Fiscal Year 2009-2010 Annual Report to reflect audited qualified expenditures relating to abandoned vehicle abatement activities performed by the City's Parking Control Officers.

The City of Huntington Beach would like to thank the OCTA staff and the auditors for working with the City to identify other qualified expenses that more adequately meet the grant's reimbursement requirements. The Police Department will work closely with the City's Finance Department to identify procedures that will further support the documentation of program-related activities, while not interfering with the provision of core public safety services.

CITY OF ANAHEIM, CALIFORNIA
Abandoned Vehicle Abatement Program
Financial Statement
Year Ended June 30, 2010

CITY OF ANAHEIM, CALIFORNIA

Abandoned Vehicle Abatement Program

Year Ended June 30, 2010

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Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying program financial statement, as listed on the table of contents, of the Abandoned Vehicle Abatement Program of the City of Anaheim, California ("City") for the year ended June 30, 2010. The program financial statement of the Abandoned Vehicle Abatement Program is the responsibility of the management of the City. Our responsibility is to express an opinion on the program financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the program financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the program financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the accompanying program financial statement presents only revenues and expenditures of the Abandoned Vehicle Abatement Program of the City and does not purport to, and does not, present fairly the financial position of the City for the year ended June 30, 2010, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the revenues and expenditures of the Abandoned Vehicle Abatement Program of the City of Anaheim for the year ended June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 27, 2011 on our consideration of the City of Anaheim's internal control over financial reporting for the Abandoned Vehicle Abatement Program, and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Meyer Hoffman McLean P.C.

Irvine, California
April 27, 2011

CITY OF ANAHEIM, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Revenues and Expenditures

Year Ended June 30, 2010

Revenues:

Vehicle registration fees (note 6)	\$ 798,886
------------------------------------	------------

Total revenues	<u>798,886</u>
----------------	----------------

Expenditures:

Personnel	519,789
-----------	---------

Service and supplies	<u>38,276</u>
----------------------	---------------

Total expenditures	<u>558,065</u>
--------------------	----------------

Excess (deficiency) of revenues over (under) expenditures	<u>\$ 240,821</u>
---	-------------------

See accompanying notes to program financial statement.

CITY OF ANAHEIM, CALIFORNIA

Abandoned Vehicle Abatement Program

Notes to Program Financial Statement

Year Ended June 30, 2010

(1) Background

Assembly Bill 4114 enables counties to authorize the creation of a Service Authority to handle the increasing problem of abandoned vehicles throughout the State of California. Specifically, the law allows a Service Authority to be established and a vehicle registration fee of \$1.00 per year to be imposed to fund an abatement program.

On October 17, 1991, the Orange County Transportation Authority (OCTA) Board of Directors approved resolutions establishing the Orange County Service Authority for Abandoned Vehicles (SAAV). SAAV developed the Abandoned Vehicle Abatement Program and continues to administer it.

(2) Reporting Entity

The program financial statement included in this report is intended to present the revenues and expenditures of the City of Anaheim's Abandoned Vehicle Abatement Program ("Program"). It is not intended to present the financial position and results of operations of the City of Anaheim taken as a whole.

(3) Summary Of Significant Accounting Policies

The accompanying program financial statement has been prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred.

(4) Expenditures and Revenues

The City receives funds from SAAV based on abatement activity and population. Reports are submitted quarterly detailing abatements for the fiscal year. Annually, the City reports the amount of revenues received, how the funds were expended, and the total number of abatements.

CITY OF ANAHEIM, CALIFORNIA

Abandoned Vehicle Abatement Program

Notes to Program Financial Statement

(Continued)

(5) Contingencies

See the City's basic financial statements for disclosures related to contingencies including those relating to various legal actions, administrative proceedings or claims in the ordinary course of operations.

(6) Vehicle Registration Fees

The \$798,886 of vehicle registration fees includes \$296,866 of prior year program funds received in the current fiscal year. For the fiscal year 2009-2010, SAAV allocated to the City \$683,020 of program funds, of which \$181,000 was received after the fiscal year ended and was not accrued as current year revenues based on the modified accrual basis of accounting.



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Orange, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF PROGRAM FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the accompanying program financial statement, as listed on the table of contents, of the Abandoned Vehicle Abatement Program of the City of Anaheim, California ("City") for the year ended June 30, 2010, and have issued our report thereon dated April 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was performed to determine compliance with the Orange County Service Authority for Abandoned Vehicles (SAAV), SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting for the Abandoned Vehicle Abatement Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the program financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting for the Abandoned Vehicle Abatement Program that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the program financial statement of the Abandoned Vehicle Abatement Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the requirements of Vehicle Code Section 9250.7 of the Orange County SAAV, SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed certain instances of noncompliance that are required to be reported under *Government Auditing Standards* and the requirements of Vehicle Code Section 9250.7 of the Orange County SAAV, SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008 and are described in the accompanying **Schedule of Findings and Recommendations** as items 1 and 2.

The City's response to the findings identified from our audit is described in the accompanying **Schedule of Findings and Recommendations**. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the City, the Orange County Transportation Authority and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.



Irvine, California
April 27, 2011

CITY OF ANAHEIM, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Findings and Recommendations

Year Ended June 30, 2010

(1) Need to Maintain Detail Documentation to Support Personnel Costs Claimed

The City did not maintain detail documentation to support \$519,789 in personnel costs claimed to the program. The City provided documentation, including payroll ledgers, payroll registers, employee timesheets and general ledger details, used to determine the amount claimed to the program. However, the employee timesheets did not track the time spent on program-related activities. Alternate audit procedures were performed, including review of job descriptions of and inquiry with personnel working on the program, and the amount claimed to the program appears reasonable.

The Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook (Revised December 2008), Chapter 2 – Requirements for Participating Service Authorities, Section 1, Paragraph h – Authorized Expenditures, states:

“The money received by an Authority pursuant to Sections 22710 and 9250.7 VC shall only be used for the abatement, removal, and disposal as public nuisances of abandoned, wrecked, dismantled, or inoperative vehicles or parts thereof from private or public property.”

Recommendation

We recommend that the City establish and implement policies and procedures to track and document time spent on program-related activities to ensure that costs claimed are allocable to the program and properly supported.

City's Management Response

The City formed its basis of allocating labor costs to the SAAV Program during the period of time under audit by conducting time review of employees who were assigned to the SAAV function. The actual productive labor costs and the related benefit dollars of these employees were allocated to the SAAV function based on an estimated percentage of program participation. The City maintained payroll registers, employee time sheets, and general ledger details as support to the total employee payroll costs; however, these records are not currently tracked and reported separately for the SAAV Program. The City has since established and implemented policy and procedures to track SAAV Program related costs separately.

CITY OF ANAHEIM, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Findings and Recommendations

(Continued)

(2) Need to Ensure that Only Qualifying Abatements are Reported by the City

We reviewed documentation of a sample of 25 abatements and found that 1 of them was not a qualified abatement. Specifically, the abatement notice and supporting documentation for this abatement did not describe the condition of the vehicle in question. Additionally, there was no evidence to support that the vehicle was removed from the premises. As such, it does not qualify as an abated vehicle under the Abandoned Vehicle Abatement (AVA) Program.

The Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook (Revised December 2008), Chapter 2 – Requirements for Participating Service Authorities, Section 2, Paragraph c, states in part:

“Assignment of the vehicle to the AVA Program occurs only under one of the following circumstances:

- 1) The abandoned vehicle is located on public or private property and issued a 10-day notice of intention to abate pursuant to Section 2266.1(d) VC and is removed after the 10 day period has elapsed...”

Recommendation

We recommend that the City implement procedures to ensure that only qualified abatements are reported. In addition, we recommend that the City submit an amended annual report to reflect the removal of the unqualified abatement and return the funds to SAAV program for the unqualified abatement.

City's Management Response

The City will implement additional review procedures to ensure only qualified abatements are reported. The City will submit an amended report to reflect the adjustment of one (1) unqualified abatement for Fiscal Year Ended June 30, 2010 and will refund the overpayment to OCTA

CITY OF COSTA MESA, CALIFORNIA

Abandoned Vehicle Abatement Program

Financial Statement

Year Ended June 30, 2010

CITY OF COSTA MESA, CALIFORNIA

Abandoned Vehicle Abatement Program

Year Ended June 30, 2010

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Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying program financial statement, as listed on the table of contents, of the Abandoned Vehicle Abatement Program of the City of Costa Mesa, California ("City") for the year ended June 30, 2010. The program financial statement of the Abandoned Vehicle Abatement Program is the responsibility of the management of the City. Our responsibility is to express an opinion on the program financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the program financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the program financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the accompanying program financial statement presents only revenues and expenditures of the Abandoned Vehicle Abatement Program of the City and does not purport to, and does not, present fairly the financial position of the City for the year ended June 30, 2010, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the revenues and expenditures of the Abandoned Vehicle Abatement Program of the City of Costa Mesa for the year ended June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 13, 2011 on our consideration of the City of Costa Mesa's internal control over financial reporting for the Abandoned Vehicle Abatement Program, and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
April 13, 2011

CITY OF COSTA MESA, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Revenues and Expenditures

Year Ended June 30, 2010

Revenues:

Vehicle registration fees (note 6)	\$ 44,497
------------------------------------	-----------

Total revenues	<u>44,497</u>
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Expenditures:

Personnel	<u>24,085</u>
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Total expenditures	<u>24,085</u>
--------------------	---------------

Excess (deficiency) of revenues over (under) expenditures	<u>\$ 20,412</u>
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See accompanying notes to program financial statement.

CITY OF COSTA MESA, CALIFORNIA

Abandoned Vehicle Abatement Program

Notes to Program Financial Statement

Year Ended June 30, 2010

(1) Background

Assembly Bill 4114 enables counties to authorize the creation of a Service Authority to handle the increasing problem of abandoned vehicles throughout the State of California. Specifically, the law allows a Service Authority to be established and a vehicle registration fee of \$1.00 per year to be imposed to fund an abatement program.

On October 17, 1991, the Orange County Transportation Authority (OCTA) Board of Directors approved resolutions establishing the Orange County Service Authority for Abandoned Vehicles (SAAV). SAAV developed the Abandoned Vehicle Abatement Program and continues to administer it.

(2) Reporting Entity

The program financial statement included in this report is intended to present the revenues and expenditures of the City of Costa Mesa's Abandoned Vehicle Abatement Program ("Program"). It is not intended to present the financial position and results of operations of the City of Costa Mesa taken as a whole.

(3) Summary Of Significant Accounting Policies

The accompanying program financial statement has been prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred.

(4) Expenditures and Revenues

The City receives funds from SAAV based on abatement activity and population. Reports are submitted quarterly detailing abatements for the fiscal year. Annually, the City reports the amount of revenues received, how the funds were expended, and the total number of abatements.

CITY OF COSTA MESA, CALIFORNIA

Abandoned Vehicle Abatement Program

Notes to Program Financial Statement

(Continued)

(5) Contingencies

See the City's basic financial statements for disclosures related to contingencies including those relating to various legal actions, administrative proceedings or claims in the ordinary course of operations.

(6) Vehicle Registration Fees

The \$44,497 of vehicle registration fees includes \$11,678 of prior year program funds received in fiscal year 2009-2010. For the fiscal year 2009-2010, SAAV allocated to the City \$45,125 of program funds, of which \$12,306 was received after the fiscal year ended and was not accrued as current year revenues based on the modified accrual basis of accounting.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF PROGRAM FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the accompanying program financial statement, as listed on the table of contents, of the Abandoned Vehicle Abatement Program of the City of Costa Mesa, California ("City") for the year ended June 30, 2010, and have issued our report thereon dated April 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was performed to determine compliance with the Orange County Service Authority for Abandoned Vehicles (SAAV), SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting for the Abandoned Vehicle Abatement Program as a basis for designing our auditing procedures for the purpose of expressing our opinion on the program financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting for the Abandoned Vehicle Abatement Program that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the program financial statement of the Abandoned Vehicle Abatement Program of the City is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the requirements of Vehicle Code Section 9250.7 of the Orange County SAAV, SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed certain instances of noncompliance that are required to be reported under *Government Auditing Standards* and the requirements of Vehicle Code Section 9250.7 of the Orange County SAAV, SAAV User Guide for Member Agencies and Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook of 2008 and are described in the accompanying Schedule of Findings and Recommendations as items 1 and 2

The City's response to the findings identified from our audit is described in the accompanying Schedule of Findings and Recommendations. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management of the City, the Orange County Transportation Authority and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McLann P.C.

Irvine, California
April 13, 2011

CITY OF COSTA MESA, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Findings and Recommendations

Year Ended June 30, 2010

(1) Need to Maintain Documentation to Support Personnel Costs Claimed

The City did not maintain documentation to support \$ 24,085 in personnel costs claimed to the program. However, alternate audit procedures were performed, including review of job descriptions and inquiry with personnel working on the program and the amount claimed to the program appears reasonable.

The Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook (Revised December 2008), Chapter 2 – Requirements for Participating Service Authorities, Section 1, Paragraph h – Authorized Expenditures, states:

“The money received by an Authority pursuant to Sections 22710 and 9250.7 VC shall only be used for the abatement, removal, and disposal as public nuisances of abandoned, wrecked, dismantled, or inoperative vehicles or parts thereof from private or public property.”

Recommendation

We recommend that the City establish and implement policies and procedures to track and document time spent on program-related activities to ensure that costs claimed are allocable to the program and properly supported.

City's Management Response

The City concurs with the finding and will implement policies and procedures to track personnel costs pertaining to the Abandoned Vehicle Abatement Program.

CITY OF COSTA MESA, CALIFORNIA

Abandoned Vehicle Abatement Program

Schedule of Findings and Recommendations

(Continued)

(2) Need to Ensure that Only Qualifying Abatements are Reported by the City

We reviewed the documentation of the population of 2 abatements and found that 1 of them was not a qualified abatement. Specifically, the vehicle related to the 1 abatement was cited for a 72-hour parking violation. As such, it did not qualify as an abated vehicle under the Abandoned Vehicle Abatement (AVA) Program.

The Department of California Highway Patrol, Abandoned Vehicle Abatement Program Handbook (Revised December 2008), Chapter 2 – Requirements for Participating Service Authorities, Section 2, Paragraph b, states in part:

“A vehicle removed for the following reasons shall not qualify as an abated vehicle pursuant to the AVA Program:

- 1) A vehicle cited for a 72-hour parking violation of a local ordinance authorizing its removal pursuant to section 22651(k) VC.”

Recommendation

We recommend that the City implement procedures to ensure that only qualified abatements are reported. In addition, we recommend that the City submit an amended annual report to reflect the removal of the unqualified abatement and return the funds to SAAV for the unqualified abatement.

City's Management Response

The City concurs with the finding and will implement procedures to ensure the proper reporting of abandoned vehicles. In addition, the City will refund the amount received from SAAV for the non-qualifying abatement.



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Janet Sutter, Acting Executive Director
Orange County Transportation Authority
Orange, California

In planning and performing our audits of the program financial statements of the Abandoned Vehicle Abatement Program ("Program"), of the member agencies within Orange County and of the Orange County Transportation Authority ("OCTA") as of June 30, 2010, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered the member agencies' and OCTA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the program financial statements, but not for the purpose of expressing an opinion on the effectiveness of the member agencies' and OCTA's internal control. Accordingly, we do not express an opinion on the effectiveness of the member agencies' and OCTA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's program financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, during our audits we became aware of certain matters that we believe present opportunities for OCTA to further strengthen controls over the Orange County Service Authority for Abandoned Vehicles (SAAV Program). These matters are provided as recommendations for your consideration and are not considered to be material weaknesses or significant deficiencies in internal control.

(1) OCTA Should Update the Orange County Service Authority for Abandoned Vehicles User Guide for Member Agencies

Twelve of thirty-six (33%) cities reviewed did not maintain adequate documentation to support personnel costs funded by the Program. Specifically, the cities did not maintain detailed records of personnel time spent on abatement activities versus unrelated activities and; therefore, could not readily determine and support the amount of expenses incurred. For nine out of twelve cities (75%), we were able to perform

alternate audit procedures to determine the amount of personnel costs being funded by the Program appeared reasonable. However, in three cities, we were unable to perform alternate audit procedures and, therefore, recommended funds be restored.

In addition, we noted that certain cities did not expend all program funds received from OCTA but did not accrue any interest on the unexpended funds.

Recommendation

To ensure that program expenditures are adequately supported and benefits from program funds are fully maximized, we recommend that OCTA update the SAAV User Guide for Member Agencies to include:

- a. Guidance to member agencies on maintaining documentation, such as employee timesheets, to track and document time spent on program-related activities; and
- b. A requirement that member agencies accrue and allocate interest to unspent program funds and use any interest earned on program-related activities.

Management Response

Management concurs and will update the SAAV User Guide to reflect the recommendations.

OCTA's written response to the matters identified in our audits is described above. We did not audit OCTA's response, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the management of the Orange County Transportation Authority and is not intended to be and should not be used by anyone other than this specified party.

Mayer Hoffman Melann P.C.

Irvine, California
April 26, 2011