

CITY OF LODI

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2014, through June 30, 2015



BETTY T. YEE
California State Controller

September 2016



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September 30, 2016

The Honorable Mark Chandler
Mayor of the City of Lodi
221 West Pine Street
Lodi, CA 95240

Dear Mayor Chandler:

The State Controller's Office audited the City of Lodi's Special Gas Tax Street Improvement Fund for the period of July 1, 2014, through June 30, 2015.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$16,806 as of June 30, 2015, because it did not allocate interest income to the fund.

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits Bureau, by telephone at (916) 284-0120.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

cc: Ruby Paiste, Financial Services Manager
City of Lodi

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Lodi's Special Gas Tax Street Improvement Fund for the period of July 1, 2014, through June 30, 2015.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$16,806 as of June 30, 2015, because it did not allocate interest income to the fund.

Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) in the Transportation Tax Fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from State taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Objectives, Scope, and Methodology

Our audit objectives were to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code.

We audited the city's Special Gas Tax Street Improvement Fund for the period of July 1, 2014, through June 30, 2015.

To meet the objectives, we:

- Gained a limited understanding of internal controls that would have an effect on the reliability of the accounting records of the Special Gas Tax Street Improvement Fund by interviewing key personnel, completing the internal control questionnaire, reviewing the city's organization chart, and assessing the reliability of computer-processed data;
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing;
- Performed analytical procedures to determine and explain the existence of unusual or unexpected account balances;
- Verified the accuracy of the fund balance by performing a fund balance reconciliation for the period of July 1, 2014 through June 30, 2014, and by recalculating the trial balance for the period of July 1, 2014, through June 30, 2015;

- Verified whether the components of and changes to the fund balances were properly computed, described, classified, and disclosed by scheduling and analyzing the Special Gas Tax Street Improvement Fund account balances;
- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule for fiscal year (FY) 2014-15 to determine whether HUTA apportionments received by the city were completely accounted for;
- Reviewed city accruals and adjustments for validity and eligibility;
- Analyzed the system used to allocate interest and determined whether the interest revenue allocated to the Special Gas Tax Street Improvement Fund was fair and equitable, by interviewing key personnel and recalculating a sample of interest allocations;
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures and protected from impairment; and
- Verified whether the expenditures incurred during FY 2014-15 were supported by proper documentation and eligible in accordance with applicable criteria by testing 100% of the expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and selecting samples of other transactions for the following categories based on our judgment (for the selected sample, errors found will not be projected to the intended population):
 - Services and Supplies – We tested, reviewed, and recalculated \$353,140 of \$1,342,229 in total services and supplies expenditures.
 - Labor – We tested, reviewed, and recalculated \$27,315 of \$1,333,987 in total labor costs.
 - Transfers – We tested, reviewed, and recalculated \$944,544 of \$953,969 in total transfers.

We did not audit the city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the city accounted for and expended its Special Gas Tax Street Improvement Fund in accordance with the criteria above. We considered the city's internal controls only to the extent necessary to plan the audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Our audit found that the City of Lodi accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2014, through June 30, 2015, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$16,806 to the city's accounting records.

Follow-Up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report, issued on August 3, 2005.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on August 4, 2016. Ruby Paiste, Financial Services Manager, agreed with the audit results. Ms. Paiste 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 the City of Lodi 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, CPA
Chief, Division of Audits

September 30, 2016

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2014, through June 30, 2015**

	Special Gas Tax Street Improvement Fund ¹
Beginning fund balance per city	\$ 658,026
Revenues	<u>2,821,409</u>
Total funds available	3,479,435
Expenditures	<u>(2,676,216)</u>
Ending fund balance per city	<u>803,219</u>
SCO adjustment: ²	
Finding—Interest income not allocated	<u>16,806</u>
Ending fund balance per audit	<u><u>\$ 820,025</u></u>

¹ The city receives apportionments from the State HUTA, pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments varies, but the money may be used for any street-related purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems.

² See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Interest income not
allocated**

During the audit period of fiscal year 2014-15, we noted that the city did not allocate interest income to the Special Gas Tax Street Improvement Fund. As a result, we performed a review of interest-earning transactions for the fund in prior periods up to the prior Special Gas Tax Street Improvement Fund audit ending June 30, 2004. We found that for the period of July 1, 2004, through June 30, 2015, the city did not allocate interest income totaling \$16,806.

Streets and Highways Code section 2113 states, in part, “Interest received by a city from the investment of money in its special gas tax street improvement fund shall be deposited in the fund and shall be used for street purposes.”

As a result, the Special Gas Tax Street Improvement Fund was not credited the correct share of interest income earned, in the amount of \$16,806.

Subsequently, the city reimbursed the Special Gas Tax Street Improvement Fund by Journal Entry No. 679, dated June 30, 2016.

Recommendation

The city should establish policies and procedures to ensure that all interest earned by the fund is deposited to the fund and used for street-related purposes.

**State Controller's Office
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