

CITY OF LAWNSDALE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2012

TRAFFIC CONGESTION RELIEF FUND

July 1, 2005, through June 30, 2011

PROPOSITION 1B FUND

July 1, 2007, through June 30, 2012



JOHN CHIANG
California State Controller

February 2014



JOHN CHIANG
California State Controller

February 26, 2014

The Honorable Harold Hofmann
Mayor of the City of Lawndale
14717 Burin Avenue
Lawndale, CA 90260

Dear Mayor Hofmann:

The State Controller's Office audited the City of Lawndale's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2012. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2005, through June 30, 2011, as well as the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2012.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$312,319 as of June 30, 2012, because it had a deficit fund balance of \$312,319 for the fiscal year ended June 30, 2012.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, by phone at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/mh

Attachment

cc: Ken Louie, Director of Finance/City Treasurer
City of Lawndale

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Audit Report

Summary

The State Controller's Office audited the City of Lawndale's Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2012. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2005, through June 30, 2011, as well as the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2012.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$312,319 as of June 30, 2012, because it had a deficit fund balance of \$312,319 for the fiscal year ended June 30, 2012.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Traffic Congestion Relief Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Senate Bill 1266 Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties shall be deposited into an account that is designated for the receipt of state funds allocated for streets and roads. The City recorded its Proposition 1B allocations in the Proposition 1B Fund. A city also is required to expend its allocations within three years following the end of the fiscal year in which the allocation was made and to be expended in compliance with Government Code section 8879.23. We conducted our audit of the City's Proposition 1B allocations under the authority of Government Code section 12410.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund, the Traffic Congestion Relief Fund, and the Proposition 1B Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Properly deposited TCRF allocations into an account designated for the receipt of state funds allocated for transportation purposes;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted 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.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund, the Traffic Congestion Relief Fund, and Proposition 1B Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that the City of Lawndale accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2005, through June 30, 2012, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$312,319 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2005, through June 30, 2011.

In addition, our audit found that the city accounted for and expended its Proposition 1B Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2012.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on October 31, 2006, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on December 3, 2013. Ken Louie, Director of Finance, responded by email dated January 27, 2014, agreeing with the audit results. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is intended for the information and use of the City of Lawndale's management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

February 26, 2014

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2011, through June 30, 2012**

	Special Gas Tax Street Improvement Fund Highway Users Tax Allocation ¹	Proposition 1B Fund ²
Beginning fund balance per city	\$ (251,627)	\$ 63,745
Revenues	940,481	133
Total funds available	688,854	63,878
Expenditures	(1,001,173)	(4,604)
Ending fund balance per city	(312,319)	59,274
SCO adjustment: ³		
Finding 1—Deficit fund balance-gas tax	312,319	—
SCO adjustment	312,319	—
Ending fund balance per audit	\$ —	\$ 59,274

¹ The city receives apportionments from the State highway users tax account, 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 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. The audit period was July 1, 2005, through June 30, 2012; however, this schedule includes only the period of July 1, 2011, through June 30, 2012.

² Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided Funds for a variety of transportation priorities. The audit period was July 1, 2007, through June 30, 2012.

³ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Deficit Fund balance-
gas tax**

As of June 30, 2012, the recorded fund balance in the gas tax fund was a deficit \$312,319. By definition, each fund is a separate fiscal entity with a self-balancing set of accounts. A fund with a deficit fund balance would be insolvent. In addition, encumbering future highway apportionments to finance current-year and prior-year expenditures is contrary to generally accepted accounting principles.

Recommendation

The city should replenish the gas tax fund by \$312,319 to eliminate the deficit fund balance. In the future, the city should adopt a balanced budget that limits expenditures to the amount of funds available.

City's Response

The city agrees with the finding and recommendation.

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

Luna, Art

From: Ken Louie <klouie@lawndalecity.org>
Sent: Monday, January 27, 2014 8:53 AM
To: Luna, Art
Subject: City Of Lawndale

Art here is our response:

The City of Lawndale is in receipt of the State findings which states that all of our expenditures are in compliance and within regulations. We also do recognize that our budget estimates did exceed actual State submissions causing a temporary deficit. At this time, we have taken measures to remove the deficit and anticipate that it will return to solvency approximately June 30, 2014. Thank you for your clean bill of health and we will be vigilant to conservatively budget future state submissions.

Ken Louie
Director of Finance

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

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