

CITY OF LAKEWOOD

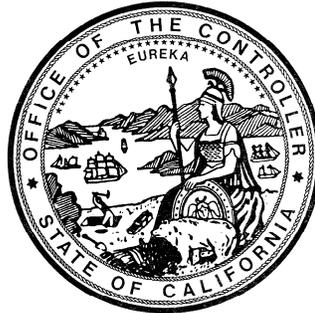
Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2007

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2007



JOHN CHIANG
California State Controller

July 2008



JOHN CHIANG
California State Controller

July 30, 2008

The Honorable Steve Croft
Mayor of the City of Lakewood
City of Lakewood
5050 N. Clark Avenue
Lakewood, CA 90712

Dear Mayor Croft:

The State Controller's Office audited the City of Lakewood's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city overstated the fund balance by \$120,621 as of June 30, 2007. The city overstated the fund balance because it did not reverse the accrual of June 2006 gas tax revenue. Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with requirements for the period of July 1, 2000, through June 30, 2007.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: Diane Perkin
Director of Administrative Services
City of Lakewood

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Audit Report

Summary

The State Controller's Office audited the City of Lakewood's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2007. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2007.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city overstated the fund balance by \$120,621 as of June 30, 2007. The city overstated the fund balance because it did not reverse the accrual of June 2006 gas tax revenue. Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with requirements.

Background

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

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

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104. 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;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted our audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund 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 Lakewood accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2006, through June 30, 2007, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$120,621 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its Traffic Congestion Relief Fund allocations recorded in the Gas Tax Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2000, through June 30, 2007.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on May 9, 2001, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on June 13, 2008. Diane Perkin, Director of Administrative Services responded by letter dated June 25, 2008, 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 city management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

July 30, 2008

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2006, through June 30, 2007**

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation ¹	TCRF Allocation ²	Totals
Beginning fund balance per city	\$ 146,859	\$ 104,770	\$ 251,629
Revenues	<u>1,707,925</u>	<u>612,513</u>	<u>2,320,438</u>
Total funds available	1,854,784	717,283	2,572,067
Expenditures	<u>(1,695,272)</u>	<u>(717,283)</u>	<u>(2,412,555)</u>
Ending fund balance per city	159,512	—	159,512
SCO adjustment: ³			
Finding—Accrual revenue reversal	<u>(120,621)</u>	<u>—</u>	<u>(120,621)</u>
Ending fund balance per audit	<u>\$ 38,891</u>	<u>\$ —</u>	<u>\$ 38,891</u>

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

² Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Special Gas Tax Street Improvement Fund. The audit period was July 1, 2000, through June 30, 2007.

³ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Accrual revenue
reversal**

The city overstated the gas tax revenues because it did not reverse the accrual of June 2006 gas tax revenue, in the amount of \$120,621, for the fiscal year ended June 30, 2007.

Generally accepted accounting principles require that the prior revenue accruals should be reversed in the subsequent fiscal year.

Recommendation

The city should reverse the accrual of June 2006 gas tax revenue, in the amount of \$120,621, for the fiscal year ended June 30, 2007.

City's Response

We agree with the State Controller's finding of Lakewood's Special Gas Tax Street Improvement Fund (Gas Tax Fund) and Traffic Congestion Relief Fund.

The finding states that as of June 30, 2007, the Gas Tax Fund was overstated by \$120,621. This has been corrected on May 9, 2008. A journal entry was made to reduce the fund balance by \$120,621.

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

Trudi Rogers
Vice Mayor

Diane DuBois
Council Member



Larry Van Nustran
Council Member

Joseph Esquivel
Council Member

June 25, 2008

Steven Mar, Chief
Local Government Audits Bureau
Division of Audits
State Controller's Office
PO Box 942850
Sacramento, CA 94250-5874

Dear Chief Mar:

We agree with the State Controller's finding of Lakewood's Special Gas Tax Street Improvement Fund (Gas Tax Fund) and Traffic Congestion Relief Fund.

The finding states that as of June 30, 2007, the Gas Tax Fund was overstated by \$120,621. This has been corrected on May 9, 2008. A journal entry was made to reduce the fund balance by \$120,621.

If you have any questions, please do not hesitate to contact me at (562)866-9771 extension 2601.

Sincerely,

A handwritten signature in black ink, appearing to read "Diane Perkin", is written over a horizontal line.

Diane Perkin
Director of Administrative Services

DP:ks

Lakewood

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

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