

CITY OF LINDSAY

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2012

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2006, through June 30, 2012

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2012



BETTY T. YEE
California State Controller

December 2015



BETTY T. YEE
California State Controller

December 29, 2015

The Honorable Ramona Villarreal-Padilla
Mayor of the City of Lindsay
251 East Honolulu Street
P.O. Box 369
Lindsay, CA 93247

Dear Mayor Villarreal-Padilla:

The State Controller's Office audited the City of Lindsay's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2012. 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, 2006, through June 30, 2012. In addition, we audited the Proposition 1B Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2012.

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 by \$21,406 as of June 30, 2012. The city understated the fund balance because it incurred expenditures in excess of available funds for FY 2006-07 and FY 2008-09; and improperly recorded Highway Users Tax and Traffic Congestion Relief Fund allocations for FY 2007-08 and FY 2009-10. Furthermore, the city did not expend its Proposition 1B Fund allocations within the four-year time limit required by Government Code section 8879.23.

If you have any questions, please contact Mike Spalj, Chief, Local Government Audits Bureau, by telephone at (916) 324-6984.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc. Tamara Laken, Finance Director
City of Lindsay

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	3
Follow-Up on Prior Audit Findings	4
Views of Responsible Official	4
Restricted Use	4
Schedule 1—Reconciliation of Fund Balance	5
Findings and Recommendations	6
Attachment—City’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the City of Lindsay's:

- Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2012;
- Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2006, through June 30, 2012; and
- Proposition 1B Fund for the period of July 1, 2007, through June 30, 2012.

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 by \$21,406 as of June 30, 2012. The city understated the fund balance because it incurred expenditures in excess of available funds for fiscal year (FY) 2006-07 and FY 2008-09; and improperly Highway Users Tax and TCRF allocations for FY 2007-08 and FY 2009-10. Furthermore, the city did not expend its Proposition 1B Fund allocations within the four-year time limit required by Government Code section 8879.23.

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 Special Gas Tax Street Improvement 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 Special Gas Tax Street Improvement 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 expend the allocation in compliance with Government Code section 8879.23. We conducted our review of the city's Proposition 1B Fund 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 its Special Gas Tax Street Improvement Fund, TCRF allocations, and the Proposition 1B Fund allocations in compliance with Article XIX of the California Constitution, the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23.

To meet the audit objective, we performed the following procedures:

Special Gas Tax Street Improvement Fund

- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule to determine whether Highway Users Tax Account (HUTA) funds received by the city were completely accounted for.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine whether HUTA funds were expended in accordance with the criteria above.
- Analyzed and tested a sample of transactions to determine whether recoveries of prior HUTA fund expenditures were identified and credited to the Special Gas Tax Street Improvement Fund.
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures.
- Interviewed city employees and reviewed policies and procedures to gain an understanding of the city's internal controls and accounting systems related to this audit.

Traffic Congestion Relief Fund (TCRF) Allocations

- Reconciled the TCRF revenue recorded in the city ledger to confirm that the TCRF allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.
- Reconciled the city's "Schedule of Expenditures as Reported in the Streets and Roads Annual Report" with the SCO's "Average Annual Expenditures Computation of Discretionary Funds" to determine compliance with the maintenance-of-effort (MOE) requirement.

Proposition 1B Fund Allocations

- Reconciled the Proposition 1B revenue recorded in the city ledger to confirm that the Proposition 1B allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.

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 in accordance with the requirements of the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street-related purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit found that the City of Lindsay 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, 2012, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$393,712 to the city's accounting records.
- TCRF allocations recorded in 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 for the period of July 1, 2006, through June 30, 2012, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$27,693 to the city's accounting records.
- Proposition 1B Fund allocations in compliance with Government Code section 8879.23 for the period of July 1, 2007 through June 30, 2012 except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$400,000 to the city's accounting records.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on September 24, 2003, disclosed no findings.

Views of Responsible Official

We issued a draft report on July 4, 2014. Tamara Laken, Finance Director, responded by letter dated August 4, 2014, partially 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 Lindsay'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

December 29, 2015

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

	Special Gas Tax Street Improvement Fund			
	Highway Users Tax Allocations ¹	TCRF Allocation ²	Proposition 1B Allocations ³	Totals
Beginning fund balance per city	\$ (350,953)	\$ (27,693)	\$ 400,000	\$ 21,354
Revenues	<u>337,787</u>	<u>—</u>	<u>—</u>	<u>337,787</u>
Total funds available	(13,166)	(27,693)	400,000	359,141
Expenditures	<u>(172,926)</u>	<u>—</u>	<u>—</u>	<u>(172,926)</u>
Ending fund balance per city	<u>(186,092)</u>	<u>(27,693)</u>	<u>400,000</u>	<u>186,215</u>
SCO adjustments: ⁴				
Finding 1—Negative fund balance	310,992	—	—	310,992
Finding 2—Improper recording of HUT & TCRF allocations	82,721	27,693	—	110,414
Finding 3—Proposition 1B improper documentation	<u>—</u>	<u>—</u>	<u>(400,000)</u>	<u>(400,000)</u>
Total SCO adjustments	<u>393,713</u>	<u>27,693</u>	<u>(400,000)</u>	<u>21,406</u>
Ending fund balance per audit	<u>\$ 207,621</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 207,621</u>

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, 2006, through June 30, 2012; however, this schedule includes only the period of July 1, 2011, through June 30, 2012.

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, 2006, through June 30, 2012; however, this schedule includes only the period of July 1, 2011, through June 30, 2012.

³ 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; however, this schedule includes only the period of July 1, 2011, through June 30, 2012.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Negative fund balance

The city's fund balance for FY 2011-12 was understated by \$310,992. This resulted from the city incurring expenditures in excess of available funds by \$197,084 in FY 2006-07 and by \$113,908 in FY 2008-09.

The practice of funding one fiscal year's activities with Highway Users Tax apportionments of the following fiscal year is in violation of Article 16, section 18 of the California Constitution and contrary to established municipal budgetary and accounting practice.

Recommendation

The city should transfer \$310,992 to the Special Gas Tax Street Improvement Fund to eliminate the negative balance. In the future, the city should ensure that expenditures of Gas Tax monies do not exceed available balances.

City's Response

Regarding the excess expenditures of \$197,084 in FY 2006-07: the City will transfer funds in that amount from the Street Improvement Fund to the Gas Tax Fund to account for the negative balance incurred in FY 2006-07. Regarding the excess expenditures of \$113,908 in FY 2008-09: the City contends that the excess expenditures of the Gas Tax Fund were actually expenditures made from the proceeds of the Prop 1B funds received 2-08-2008 and were spent on appropriate street renovation projects intended to facilitate transportation within city limits. Former staff failed to properly account for the use of the funds via council resolution. Current staff would ask to retain \$113,908 of the Prop 1B funds for FY 2008-09 to offset the deficit and no transfer of funds is needed.

SCO's Comments

The City partially agrees with the finding.

Regarding the excess expenditures of \$197,084 in FY 2006-07, the city agrees to transfer funds in that amount from the Street Improvement Fund to the Gas Tax Fund to account for the negative balance incurred in FY 2006-07.

Regarding the excess expenditures of \$113,908 in FY 2008-09, the city disagrees as noted above. However, the finding is a result of the city incurring expenditures in excess of available funds during FY 2008-09. The contention that the \$113,908 were expenditures made from the proceeds of the Proposition 1B funds is incorrect. During FY 2007-08, the city deposited the Proposition 1B Fund allocations of \$400,000 it received into the Gas Tax Fund. At June 30, 2009, the Gas Tax Fund had a negative fund balance of \$113,908, which means that the city exhausted all funds in the Gas Tax Fund, including the Proposition 1B Fund revenues. Incidentally, the negative fund balance of \$113,908 obligated the following year's Gas Tax revenues, which is not allowable.

The finding remains as stated.

**FINDING 2—
Improper recording
of Highway Users Tax
and TCRF allocations**

During FY 2007-08 and FY 2009-10, the city did not deposit Highway Users Tax and TCRF allocations of \$82,721 and \$27,693, respectively, into the Special Gas Tax Street Improvement Fund, as required.

Streets and Highways Code section 2113 states that all Highways Users Tax apportionments must be deposited into the Gas Tax Fund.

Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund \$110,414. In the future, the city should ensure that all Highway Users Tax and TCRF apportionments are properly deposited into the Special Gas Tax Street Improvement Fund.

City's Response

The auditor determined that \$110,414 in HUT and TCRF allocations (\$82,721 and \$27,693) were not deposited into the Gas tax Fund. If there is any additional information as to the exact amount and dates of the missing deposits that could be provided, it would be helpful to the Finance Director in determining which fund(s) need to reimburse the Gas Tax Fund and the appropriate AJE will be made to effect the transfer(s). Lacking such, the correction will be made by the General Fund.

SCO's Comments

The City agrees with the finding and will make the correction from the General Fund.

The finding remains as stated.

**FINDING 3—
Unexpended
Proposition 1B Fund**

During FY 2007-08 the city received \$400,000 in Proposition 1B Fund allocations and deposited them in the Special Gas Tax Street Improvement Fund. Agencies receiving these funds are required by Government Code section 8879.23 to expend the allocations within four years. The city did not expend its allocations within this time limit.

California Code section 8879.23 states:

...a city, county, or city and county receiving funds pursuant to this section shall have four fiscal years to expend the funds following the fiscal year in which the allocation was made by the Controller, and any funds not expended within that period shall be returned to the Controller...

Recommendation

The city should return the Proposition 1B Fund allocations of \$400,000 to the State Controller's Office, Attn: John Bodolay, P.O. Box 942850, Sacramento, CA 94250.

City's Response

The City did receive \$400,000 on 2-08-2008 from the Prop 1B Fund for various transportation priorities within Lindsay city limits. It is the City's contention that of this money \$113,908 was spent in FY 2008-09 and accounts for the excess expenditures in the Gas tax Fund for that year.

We further contend that \$56,198.34 was contributed toward streets renovations projects in FY 2007-08 and \$24,537.62 for streets renovation projects in FY 2008-09. Although we believe that the entire amount was spent on various street and transportation projects that were in process during the grant period, unfortunately we can only provide proper support detail for the aforementioned expenditures and of those, we do not have council resolutions. We would ask to retain \$194,643.96 and arrange for a repayment plan for the remaining balance of \$205,356.04 that is not adequately or properly supported. (General Ledger attachments included to support street projects).

SCO's Comments

The city partially agrees with the finding.

The City's claim that it expended Proposition 1B funds of \$113,908 from the excess of available funds in the Gas Tax Fund during FY 2008-09 is incorrect. As noted in Finding 1 of this report, the \$113,908 is the amount the city expended during the fiscal year in excess of available funds. During FY 2007-08, the city deposited the Proposition 1B Fund allocations of \$400,000 it received into the Gas Tax Fund. At June 30, 2009, the Gas Tax Fund had a negative fund balance of \$113,908, which means that the city exhausted all funds in the Gas Tax Fund, including the Proposition 1B Fund. Although it appears that the city used all of its Proposition 1B Fund by exhausting all available funds within its Gas Tax Fund, the city did not provide sufficient documentation to support that the Proposition 1B funds were expended in compliance with requirements.

The finding remains as stated.

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



City of Lindsay



P.O. Box 369 — Lindsay, California 93247 — 251 Honolulu Street
August 4, 2014 559 • 562 • 5927
559 • 562 • 7021 fax

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

Dear Mr. Mar:

This letter is in regards to your letter dated July 7, 2014 and received by my office July 31, 2014. I have reviewed the audit report findings and respond as follows:

FINDING 1—Negative Fund Balance

Regarding the excess expenditures of \$197,084 in FY 2006-07: the City will transfer funds in that amount from the Street Improvement Fund to the Gas Tax Fund to account for the negative balance incurred in FY 2006-07.

Regarding the excess expenditures of \$113,908 in FY 2008-09: the City contends that the excess expenditures of the Gas Tax Fund were actually expenditures made from the proceeds of the Prop 1B funds received 2-08-2008 and were spent on appropriate street renovation projects intended to facilitate transportation within city limits. Former staff failed to properly account for the use of the funds via council resolution. Current staff would ask to retain \$113,908 of the Prop 1B funds for FY 2008-09 to offset the deficit and no transfer of funds is needed.

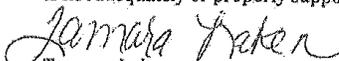
FINDING 2---Improper recording of HUT & TCRF allocations

The auditor determined that \$110,414 in HUT and TCRF allocations (\$82,721 and \$27,693) were not deposited into the Gas tax Fund. If there is any additional information as to the exact amount and dates of the missing deposits that could be provided, it would be helpful to the Finance Director in determining which fund(s) need to reimburse the Gas Tax Fund and the appropriate AJE will be made to effect the transfer(s). Lacking such, the correction will be made by the General Fund.

FINDING 3—Unexpended Proposition 1B Funds

The City did receive \$400,000 on 2-08-2008 from the Prop 1B Fund for various transportation priorities within Lindsay city limits. It is the City's contention that of this money \$113,908 was spent in FY 2008-09 and accounts for the excess expenditures in the Gas tax Fund for that year.

We further contend that \$56,198.34 was contributed toward streets renovations projects in FY 2007-08 and \$24,537.62 for streets renovation projects in FY 2008-09. Although we believe that the entire amount was spent on various street and transportation projects that were in process during the grant period, unfortunately we can only provide proper support detail for the aforementioned expenditures and of those, we do not have council resolutions. We would ask to retain \$194,643.96 and arrange for a repayment plan for the remaining balance of \$205,356.04 that is not adequately or properly supported. (General Ledger attachments included to support street projects).


Tamara Laken
Director of Finance

LINDSAY...
THE FRIENDLY CITY

HEART OF CENTRAL
CALIFORNIA ORANGE AREA

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

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