

# CITY OF CALEXICO

Audit Report

## SPECIAL GAS TAX STREET IMPROVEMENT FUND

*July 1, 2014, through June 30, 2017*



**BETTY T. YEE**  
California State Controller

January 2019



**BETTY T. YEE**  
California State Controller

January 24, 2019

David B. Dale, City Manager  
City of Calexico  
608 Heber Avenue  
Calexico, CA 92231

Dear Mr. Dale:

The State Controller's Office audited the City of Calexico's Special Gas Tax Street Improvement Fund to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements for the period of July 1, 2014, through June 30, 2017.

Our audit found that the city understated the fund balance by \$61,277 as of June 30, 2017, because it charged ineligible expenditures to the fund. We also identified a deficiency in internal control that warrants the attention of management. This deficiency is described in the Observation and Recommendation section of this audit report.

If you have any questions, please contact Efren Lose, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

JLS/lis

cc: The Honorable Lewis Pacheco, Mayor  
City of Calexico  
Miguel Figueroa, Assistant City Manager  
City of Calexico  
Karla Lobatos, Finance Director  
City of Calexico  
Jesus Eduardo Escobar, Mayor Pro Tem  
City of Calexico  
Bill Hodge, Council Member  
City of Calexico  
David Romero, Council Member  
City of Calexico  
Rosie Arreola-Fernandez, Council Member  
City of Calexico

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Calexico's Special Gas Tax Street Improvement Fund to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements for the period of July 1, 2014, through June 30, 2017.

Our audit found that the city understated the fund balance by \$61,277 as of June 30, 2017, because it charged ineligible expenditures to the fund. We also identified a deficiency in internal control that warrants the attention of management. This deficiency is described in the Observation and Recommendation section of this audit report.

## Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) in the Transportation Tax Fund to cities<sup>1</sup> 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 Streets and Highways Code, cities must establish individual Special Gas Tax Street Improvement Funds for the deposit of their HUTA fund apportionments. Additionally, cities must expend their HUTA fund apportionments only for street-related purposes in accordance with Article XIX of the California Constitution and Streets and Highways Code. We conducted our audit of the city's Special Gas Tax Street Improvement Fund 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 in compliance with Article XIX of the California Constitution and 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, 2017.

To achieve our objective, 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 an internal control questionnaire, and reviewing the city's organization chart;
- 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;

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<sup>1</sup>Includes towns.

- Verified the accuracy of fund balances by performing a fund balance reconciliation and by recalculating the trial balance for the period of July 1, 2014, through June 30, 2017;
- Verified that the components of and changes to 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 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 all interest allocations for the audit period;
- Reviewed the fund cash and receivables accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures and protected from impairment; and
- Verified that the expenditures incurred during the audit period were supported by proper documentation and eligible in accordance with the applicable criteria, by testing all expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and judgmentally (non-statistically) selecting samples of other transactions for the following categories:
  - Services and Supplies – We tested \$1,072,867 of \$1,628,918.
  - Labor – We tested \$263,767 of \$758,301.
  - Acquisitions – We tested \$34,337 of \$37,155.

For the selected samples, errors found, if any, were not projected to the intended (total) population.

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. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

**Conclusion**

Our audit found an instance of non-compliance for the period of July 1, 2014, through June 30, 2017, as quantified in the Schedule and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$61,277 to the city's accounting records. We also identified a deficiency in internal control that warrants the attention of management. This deficiency is described in the Observation and Recommendation section of this audit report.

**Follow-up on Prior Audit Findings**

The city satisfactorily resolved the findings noted in our prior audit report for the period of July 1, 2004, through June 30, 2014, issued on September 30, 2016.

**Views of Responsible Officials**

We issued a draft report on December 10, 2018. Karla Lobatos, Finance Director, responded by telephone on January 16, 2019, agreeing with the audit results.

**Restricted Use**

This audit report is solely for the information and use of the City of Calexico 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 audit report, which is a matter of public record.

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

January 24, 2019

**Schedule—  
Reconciliation of Fund Balance  
July 1, 2014, through June 30, 2017**

	Special Gas Tax Street Improvement Fund <sup>1</sup>
Fund balance at June 30, 2014, per prior SCO audit	\$ 1,246,919
FY 2014-15 Revenues <sup>2</sup>	1,193,298
FY 2014-15 Expenditures	<u>(796,137)</u>
Fund Balance at June 30, 2015	<u>1,644,080</u>
FY 2015-16 Revenues	870,582
FY 2015-16 Expenditures	<u>(950,665)</u>
Fund Balance at June 30, 2016	<u>1,563,997</u>
FY 2016-17 Revenues	756,374
FY 2016-17 Expenditures	<u>(677,572)</u>
Fund Balance at June 30, 2017	\$ 1,642,799
SCO adjustment: <sup>3</sup>	
Finding—Ineligible expenditures	<u>61,277</u>
Ending fund balance per audit	<u><u>\$ 1,704,076</u></u>

<sup>1</sup>Cities receive 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. Cities must establish individual Special Gas Tax Street Improvement Funds for the deposit of their HUTA fund apportionments.

<sup>2</sup>Includes the city's prior period adjustment to the July 1, 2014 beginning balance that increased grants receivable by \$194,091, and reconciling difference of \$5 to SCO's prior audit adjustment.

<sup>3</sup>See the Finding and Recommendation section.



# Finding and Recommendation

**FINDING—  
Ineligible expenditures**

During testing of expenditures for eligibility, we found that the city charged \$61,277 in non-street-related services and supplies to the Special Gas Tax Street Improvement Fund for fiscal year (FY) 2014-15 through FY 2016-17. Therefore, the expenditures are ineligible.

The city charged \$1,628,918 in services and supplies. We tested \$1,072,867 and identified \$61,277 in ineligible expenditures. The ineligible expenditures consisted of:

- Membership dues to the Imperial County Transportation Commission and the California City-County Street Light Association; and
- Fees for professional services rendered for the city’s municipal separate storm sewer systems (MS4) to be brought into compliance with its National Pollutant Discharge Elimination System permit requirements.

The ineligible expenditures are as follows:

Fiscal Year	Description	Amount
2014-15	Memberships	\$ 10,938
2014-15	MS4 Compliance Assistance	12,831
2015-16	MS4 Compliance Assistance	37,508
Total Ineligible Expenditures		\$ 61,277

Streets and Highways Code section 2101 states, in part:

all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for ...  
(a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways.

The ineligible expenditures were made because the city does not have adequate procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are for street-related purposes.

Recommendation

We recommend that the city:

- Reimburse the Special Gas Tax Street Improvement Fund \$61,277; and
- Establish adequate procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are for street-related purposes.

City’s Response

The city agreed with our finding.

# Observation and Recommendation

**OBSERVATION—  
Lack of adequate  
control over General  
Fund cash  
management**

The city's General Fund cash account reported negative balances for the months of July 2015 through May 2016, and July 2016 through May 2017. The negative balances resulted from the city paying out of its General Fund cash account more than the General Fund's actual available cash. The city pools its cash from all of its funds; when the General Fund cash balances are negative, that is an indication that cash from restricted funds is being used to pay for General Fund-related expenditures. As a result, the General Fund may be affecting the integrity of the Special Gas Tax Street Improvement Fund.

We noted this condition while reviewing the General Fund's cash balances to ensure that the Special Gas Tax Street Improvement Fund cash balances are not potentially impaired and used for non-street-related purposes. This conditioned occurred because the city lacked adequate cash management procedures.

Recommendation

We recommend that the city establish cash management procedures and ensure that sufficient cash is available within each individual fund to ensure the integrity of all of the city's funds.

City's Response

The city agreed with our observation.

**State Controller's Office  
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