

CITY OF SOUTH PASADENA

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2011, through June 30, 2014

PROPOSITION 1B FUND

July 1, 2007, through June 30, 2012



BETTY T. YEE
California State Controller

March 2016



BETTY T. YEE
California State Controller

March 14, 2016

The Honorable Diana Mahmud
Mayor of the City of South Pasadena
City of South Pasadena
1414 Mission Street
South Pasadena, CA 91030

Dear Mayor Mahmud:

The State Controller's Office audited the City of South Pasadena's Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2014. We also audited the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2014.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Proposition 1B Fund in compliance with requirements, except the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$31,350 as of June 30, 2014, because it charged ineligible labor costs to the fund. In addition, our audit also found that the city understated the fund balance in the Proposition 1B Fund by \$26,733 as of June 30, 2012, 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/lis

Attachment

cc: David Batt, Finance Director
City of South Pasadena

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Audit Report

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Audit Report

Summary

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

- Special Gas Tax Street Improvement Fund for the period of July 1, 2011, through June 30, 2014; 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 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 \$31,350 as of June 30, 2014, because it charged ineligible labor costs to the fund. In addition, our audit found that the city understated the fund balance in the Proposition 1B Fund by \$26,733 as of June 30, 2012, because it did not allocate interest income to the fund.

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.

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 Fund allocations in the Proposition 1B Fund. A city also is required to expend its allocations within four years following the end of the fiscal year in which the allocation was made and to expend the funds in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B 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 and Proposition 1B Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, 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 sample 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.

Proposition 1B Fund

- Reconciled the Proposition 1B revenue recorded in the city ledger to confirm that the Proposition 1B Fund 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 its Special Gas Tax Street Improvement Fund and Proposition 1B Fund in accordance with the requirements of the Streets and Highways Code 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 South Pasadena 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, 2011, through June 30, 2014, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$31,350 to the city's accounting records.
- Proposition 1B Fund 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 \$26,733 to the city's accounting record.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on April 27, 2012, disclosed no findings.

Views of Responsible Officials

We issued a draft audit report on December 24, 2015. Pearl Lieu, Assistant Finance Director, responded by telephone on January 12, 2016, agreeing with the audit results.

Restricted Use

This report is intended for the information and use of the City of South Pasadena 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

March 14, 2016

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2013, through June 30, 2014**

| | Special Gas Tax Street Improvement Fund Highway Users Tax Allocations ^{1, 2} |
|---|---|
| Beginning fund balance per city | \$ 712,888 |
| Revenues | 811,471 |
| Total funds available | 1,524,359 |
| Expenditures | (556,119) |
| Ending fund balance per city | 968,240 |
| SCO adjustments: ³ | |
| Finding 1—Ineligible labor costs | 31,350 |
| Finding 2—Interest income not allocated | 26,733 |
| Total SCO adjustments | 58,083 |
| Ending fund balance per audit | \$ 1,026,323 |

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, 2011, through June 30, 2014; however, this schedule includes only the period of July 1, 2013, through June 30, 2014.

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. The city did not receive any Proposition 1B revenues and did not incur any Proposition 1B expenditures during FY 2012-13; therefore, it is not included in this schedule.

³ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Ineligible labor costs**

During fiscal year 2013-14, the city improperly charged \$31,350 to the Special Gas Tax Improvement Fund for the salary of a Sewage Department employee. Work logs for this employee delineates that he worked on sewers and not on street projects.

Streets and Highways Code section 2101 specifies that Highway Users Tax apportionments are to be expended only for the construction, maintenance, and operation of public streets and roads, construction of exclusive public mass transit guideways, and related administrative costs. Costs are eligible under Section 2101 only when they are supported by documentation that they are street related.

As a result, \$31,350 in non-street-related expenditures is disallowed.

Recommendation

The city should transfer \$31,350 into the Special Gas Tax Improvement Fund. In the future, the city should ensure that all costs charged to the Gas Tax Fund are street-related and properly documented.

City’s Response

The city agrees with the finding and stated that they are in the process of implementing our recommendation.

SCO’s Comment

The city agrees with the SCO.

**FINDING 2—
Proposition 1B
interest income not
allocated**

During fiscal year (FY) 2007-08, FY 2008-09, and FY 2009-10, the city did not allocate interest income to the Proposition 1B Fund. The SCO auditor computed equitable interest income allocable to the Proposition 1B Fund to be \$26,733. Government Code section 8879.23(i)(4) states, “Funds apportioned...including interest or other return earned on the investment of those funds, shall be used for improvements to transportation facilities.” Since the city closed the Proposition Fund in FY 2011-12, both city staff and the State Controller’s Office agreed to have the \$26,733 recorded into the Special Gas Tax Improvement Fund for use on street projects. Street projects meet the definition of transportation facilities.

The following table summarizes the audit adjustment by fiscal year:

| Proposition 1B | FY 2007-08 | FY 2008-09 | FY 2009-10 | Total |
|----------------|------------|------------|------------|----------|
| Interest | \$6,110 | \$10,974 | \$9,649 | \$26,733 |

Recommendation

The city should transfer \$26,733 in interest income to the Special Gas Tax Improvement Fund. Also, the city should review its procedures to ensure that interest income is allocated to all appropriate funds.

City's Response

The city agrees with the finding and stated that they are in the process of implementing our recommendation.

SCO's Comment

The city agrees with the SCO.

**State Controller's Office
Division of Audits
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