

CITY OF LOMPOC

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

May 2019



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California State Controller

May 9, 2019

Jim Throop, City Manager
City of Lompoc
100 Civic Center Plaza
Lompoc, CA 93436

Dear Mr. Throop:

The State Controller's Office audited the City of Lompoc'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, 2015, through June 30, 2016.

Our audit found instances of non-compliance. The city understated the fund balance by \$24,882 as of June 30, 2016, because it charged ineligible expenditures to the Special Gas Tax Street Improvement Fund.

We also identified a deficiency in internal control that is not significant to the audit objective, but warrants the attention of management.

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/as

cc: The Honorable Jenelle Osborne, Mayor
City of Lompoc
Brad Wilkie, Management Services Director
City of Lompoc

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Lompoc'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, 2015, through June 30, 2016.

Our audit found instances of non-compliance. The city understated the fund balance by \$24,882 as of June 30, 2016, because it charged ineligible expenditures to the Special Gas Tax Street Improvement Fund.

We also identified a deficiency in internal control that is not significant to the audit objective, but warrants the attention of management.

Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) in the Transportation Tax Fund to cities¹ 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 the Streets and Highways Code.

The audit period was July 1, 2015, through June 30, 2016.

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 the 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;

¹Includes towns.

- Verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2008, through June 30, 2015, and by recalculating the trial balance for the period of July 1, 2015, through June 30, 2016;
- 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 for fiscal year (FY) 2015-16 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 of the expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and judgmentally selecting non-statistical samples of other transactions for the following categories:
 - Services and Supplies – We tested \$119,731 of \$280,956.
 - Transfers – We tested \$12,315 of \$544,360.

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 instances of non-compliance for the period of July 1, 2015, through June 30, 2016, as quantified in the Schedule and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$24,882 to the city's accounting records.

We also identified a deficiency in internal control that is not significant to the audit objective, but 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

Our prior audit report for the period of July 1, 2007, through June 30, 2008, issued on March 30, 2010, disclosed no findings.

Views of Responsible Officials

We issued a draft audit report on February 28, 2019. Robert Cross, Utility Accountant, responded by email on April 2, 2019, indicating that the city would not be responding to the draft audit report.

Restricted Use

This audit report is solely for the information and use of the City of Lompoc 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 the final report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

May 9, 2019

Schedule—
Reconciliation of Fund Balance
July 1, 2015, through June 30, 2016

	Special Gas Tax Street Improvement Fund ¹
Beginning fund balance per city	\$ 1,493,069
Revenues	930,900
Total funds available	<u>2,423,969</u>
Expenditures	<u>(825,316)</u>
Ending fund balance per city	1,598,653
SCO adjustment: ²	
Finding—Ineligible expenditures	<u>24,882</u>
Ending fund balance per audit	<u><u>\$ 1,623,535</u></u>

¹Cities 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.

²See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Ineligible expenditures

The city charged \$24,882 of non-street-related services and supplies to the Special Gas Tax Street Improvement Fund for FY 2015-16. Therefore, the expenditures are ineligible.

We tested \$119,731 of the total \$280,956 in services and supplies expenditures. During testing, we identified \$24,882 in ineligible expenditures. The ineligible expenditures consisted of:

- \$16,800 for channel cleaning throughout the city; and
- \$8,082 for preliminary engineering costs relating to a riverbank stabilization project.

We reviewed the remaining expenditures in the Special Gas Tax Street Improvement Fund's Detail of Transaction History File for FY 2015-16 to determine whether there were additional transactions for the identified ineligible expenditures. We did not identify additional ineligible expenditures.

Neither the channels nor the riverbank are located within any street right of way, and the work performed did not involve street maintenance, street construction, or street reconstruction.

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 city's non-compliance with these requirements resulted in overstated street expenditures by \$24,882, thereby understating the fund balance for the Special Gas Tax Street Improvement Fund by the same amount.

The city made the ineligible expenditures because the city does not have 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 by \$24,882; and
- Establish procedures to ensure that all costs charged to the Special Gas Tax Improvement Fund are for street-related purposes in compliance with Streets and Highways Code section 2101.

City's Response

The city responded by email on April 2, 2019, indicating that it would not be responding to the draft audit report.

Observation and Recommendation

OBSERVATION— Lack of policies and procedures

During our review of the various written city policies and procedures, we noted that the city could benefit from adopting policies that:

- Clarify procedures for grant administration;
- Address risk management and internal control;
- Encourage efficient, effective, and fair public procurement;
- Determine year-end accruals for accounts payable;
- Address the use of local vendors;
- Clarify procedures for dealing with debarred and suspended vendors; and
- Protect the integrity of the city's information systems in case of a disaster.

The Government Finance Officers Association recommends that governments formally adopt financial policies. Adopting comprehensive formal policies would provide detailed guidance to employees, management, and the city council, and help to ensure consistency and accountability during staff turnover.

Recommendation

We recommend that the city adopt formal policies and procedures for the issues noted above, to ensure that controls are in place to strengthen financial accountability.

City's Response

The city responded by email on April 2, 2019, indicating that it would not be responding to the draft audit report.

**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>