

# **CITY OF LARKSPUR**

Audit Report

## **SPECIAL GAS TAX STREET IMPROVEMENT FUND**

*July 1, 2015, through June 30, 2016*



**BETTY T. YEE**  
California State Controller

June 2019



**BETTY T. YEE**  
California State Controller

June 27, 2019

Cathy Orme, Finance Director  
City of Larkspur  
400 Magnolia Avenue  
Larkspur, CA 94939

Dear Ms. Orme:

The State Controller's Office (SCO) audited the City of Larkspur'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. The SCO also reviewed the city's Annual Street Report (ASR) for the period of July 1, 2015, through June 30, 2016, to determine whether the report was adequate and accurate.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required.

Our review of the city's ASR found that the city did not report an accurate fund balance for its Special Gas Tax Street Improvement Fund.

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/hf

cc: The Honorable Ann Morrison, Mayor  
City of Larkspur  
Dan Schwarz, City Manager  
City of Larkspur

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## **Audit Report**

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Larkspur'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. The SCO also reviewed the city's Annual Street Report (ASR) for the period of July 1, 2015, through June 30, 2016, to determine whether the report was adequate and accurate.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required.

Our review of the city's ASR found that the city did not report an accurate fund balance for its Special Gas Tax Street Improvement Fund.

## 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 the 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.

Cities are also required to file a report with the SCO, on or before October 1 of each year, detailing the revenues and expenditures for street-related purposes during the preceding fiscal year. We performed our review of the city's ASR under the authority of Streets and Highways Code section 2153.

## 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, and whether the city's ASR was adequate and accurate.

The audit and review 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 an internal control questionnaire, and reviewing the city's organization chart;

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<sup>1</sup>Includes towns.

- 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;
- Verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2010, 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 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;
- 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 selecting non-statistical samples of transfers: tested \$221,200 of \$285,240. For the selected samples, errors found, if any, were not projected to the intended (total) population; and
- Interviewed key personnel to gain an understanding of citywide street-related funds and activities and the ASR reporting process, and to verify that the city accounted for all of its HUTA apportionments; reported and properly classified all of its street-related expenditures and revenues, and year-end fund balances; and that the ASR was filed in a timely manner.

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 that the City of Larkspur 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 for the period of July 1, 2015, through June 30, 2016.

Our review of the city's ASR found that the city did not report an accurate fund balance for its Special Gas Tax Street Improvement Fund, as described in the Finding and Recommendation section of this report.

**Follow-up on Prior Audit Findings**

Our prior audit report for the period of July 1, 2003, through June 30, 2004, issued on July 28, 2005, disclosed no findings.

**Views of Responsible Officials**

We discussed the audit results with city representatives during an exit conference on May 29, 2019. Cathy Orme, Finance Director, agreed with the audit results. Ms. Orme further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

**Restricted Use**

This audit report is solely for the information and use of the City of Larkspur 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 and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

June 27, 2019

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

	Special Gas Tax Street Improvement Fund <sup>1</sup>
Beginning fund balance per city	\$ 674,446
Revenues	<u>278,425</u>
Total funds available	952,871
Expenditures	<u>(285,240)</u>
Ending fund balance per city	<u>\$ 667,631</u>
Ending fund balance per audit	<u><u>\$ 667,631</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.

# Finding and Recommendation

## **FINDING — Annual Street Report not accurate**

During our review of the city's ASR for FY 2015-16, we noted that the city reported an inaccurate fund balance for the Special Gas Tax Street Improvement Fund. The city did not reconcile the Special Gas Tax Street Improvement Fund balance identified in its ASR to the city's accounting records. As a result, the Special Gas Tax Street Improvement Fund balance was understated by \$458,535 in the city's ASR. The city lacked policies and procedures to ensure that it reported accurate street-related activity in its ASR by reconciling the ASR to the city's accounting records.

Streets and Highways Code section 2151 states, in part:

On or before the first day of October of each year, the governing body of each county and city shall cause to be made and filed with the Controller a complete report of the expenditures for street or road purposes during the preceding fiscal year ending on the 30th day of June.

Streets and Highways Code section 2152 states, in part:

The report shall contain ... a detailed statement of all expenditures during the fiscal year covered by the report for street or road purposes, including obligations incurred but not yet paid. The statement shall be broken down into expenditure categories ...

The State Controller, with the advice of the department, may prescribe any other expenditure categories and may require any detail that may be deemed necessary by him or her fully to disclose the nature and extent of all financial transactions by the county or city relating to streets or roads.

Streets and Highways Code section 2153 states:

The State Controller shall take such steps as he may deem necessary to ensure that such reports are adequate and accurate.

## Recommendation

We recommend that the city implement policies and procedures to ensure that amounts reported in its ASR are accurate, by reconciling the ASR to the city's accounting records.



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

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