

CITY OF TAFT

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

January 2018



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California State Controller

January 26, 2018

The Honorable Dave Noerr
Mayor of the City of Taft
209 East Kern Street
Taft, CA 93268

Dear Mayor Noerr:

The State Controller's Office audited the City of Taft's Special Gas Tax Street Improvement Fund for the period of July 1, 2015, through June 30, 2016.

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; however, we identified procedural findings.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/ljs

cc: Craig Jones, City Manager
City of Taft
Teresa Binkley, Director of Finance
City of Taft

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Taft's Special Gas Tax Street Improvement Fund for the period of July 1, 2015, through June 30, 2016.

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; however, we identified procedural findings.

Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) 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, 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 (GC) 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.

We audited the city's Special Gas Tax Street Improvement Fund for the period of July 1, 2015, through June 30, 2016.

To meet 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;
- Verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2007, through June 30, 2015, and by recalculating the trial balance for the period of July 1, 2015, through June 30, 2016;

- Verified whether 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 of the interest allocations for the audit period;
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures and protected from impairment; and
- Verified whether the expenditures incurred during the audit period were supported by proper documentation and eligible in accordance with the applicable criteria by testing all of \$196,473 in total transfers.

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 Taft 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, 2015, through June 30, 2016; however, we identified procedural findings described in the Findings and Recommendations section of this 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, 2006, through June 30, 2007, issued on April 30, 2009.

**Views of
Responsible
Officials**

We issued a draft audit report on November 16, 2017. Teresa Binkley, Director of Finance, responded by letter dated December 12, 2017, agreeing with the audit results. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is solely for the information and use of the City of Taft 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

January 26, 2018

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

	Special Gas Tax Street Improvement Fund ¹
Beginning fund balance per city	\$ 350
Revenues	<u>196,480</u>
Total funds available	196,830
Expenditures	<u>(196,473)</u>
Ending fund balance per city	<u>\$ 357</u>
Ending fund balance per audit	<u>\$ 357</u>

¹The city receives 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. The city must deposit its HUTA apportionments in its Special Gas Tax Street Improvement Fund.

Findings and Recommendations

PROCEDURAL FINDING 1— General Fund cash impairment

During FY 2015-16, the city's General Fund cash account reported month-end negative balances for the months of July 2015 through May 2016. We also reviewed the General Fund cash month-end balances, subsequent to the audit period, and noted negative balances from August 2016 through April 2017.

As the city pools the cash from all of its funds, a negative balance in the General Fund cash account potentially impairs other funds, including restricted funds such as the Special Gas Tax Street Improvement Fund, because the city might inadvertently use the restricted funds' available balances to pay for its operating costs. As of the end of audit fieldwork, the city had not demonstrated that it had restored the financial health of the General Fund. Consequently, the General Fund may be affecting the integrity of the Special Gas Tax Street Improvement Fund.

Streets and Highways Code section 2118 states:

When the State Controller determines it to be necessary, he may require a county or city to deposit money received from the Highway Users Tax Fund in a separate bank account.

Recommendation

We recommend that the city establish a separate bank account for the state gas tax funds. This account should be used to record all deposits and expenditures against the money. The bank account should remain open until the city provides evidence that, over a reasonable period of time, it has restored the financial health of its General Fund.

City's Response

In response to Finding 1 the city will agree to open a bank account for the state gas tax funds and as funds are received they will be deposited into this account. But the city will transfer the funds from the separate account by check to the city's general fund to reimburse funds spent on allowable expenditures. It is cost prohibitive to setup our accounting software for an infrequently used account.

SCO's Comment

The city agreed with our finding and recommendation, and stated that it will open a bank account for the state gas tax funds.

**PROCEDURAL
FINDING 2—
Lack of policies and
procedures**

Our audit procedures involved obtaining and evaluating various city policies and procedures. During our review, we noted that the city did not establish formal policies and procedures for the following:

- General Fund/other fund reserves
- Debt
- Risk management and internal controls
- Long-range financial planning
- Local vendors
- Debarment and suspension

Establishing formal policies would provide detailed guidance to employees, management, and the city council, and would help ensure process consistency and accountability during staff turnover.

Recommendation

We recommend that the city establish formal policies and procedures.

City's Response

In response to Finding 2 as per establishing a formal policies and procedures, the finance department has been working on establishing a formal policy manual as per the recommendation from our city auditor.

SCO's Comment

The city agreed with our finding and recommendation and indicated that it has been developing a policy manual.

**PROCEDURAL
FINDING 3—
Non-compliance with
Government Code
section 41004**

The city did not comply with GC section 41004, which requires the city treasurer to submit to the city clerk a monthly written report and an accounting of all receipts, disbursements, and fund balances.

GC section 41004 states:

Regularly, at least once each month, the city treasurer shall submit to the city clerk a written report and accounting of all receipts, disbursements, and fund balances. He shall file a copy with the legislative body.

Recommendation

We recommend that the city comply with GC section 41004 and ensure that the city treasurer submits to the city clerk a monthly written report and an accounting of all receipts, disbursements, and fund balances.

City's Response

In response to Finding 3 the city does prepare once a month a report to the city clerk and city council which includes the fund balances, but the current report needs to be updated to include accounting of all receipts and disbursements.

SCO's Comment

The city indicated that it prepares a monthly report to the city clerk and city council; however, the report must be updated to include accounting of all receipts and disbursements. We recommend that the city implement its update to the report to ensure compliance with GC section 41004.

**PROCEDURAL
FINDING 4—
Delinquent Annual
Street Report**

The city failed to complete and submit its Annual Street Report (ASR) for FY 2015-16 by October 1, 2016. As of the end of audit fieldwork, the city's ASR continues to be delinquent; consequently, the city has not received its HUTA funds.

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....

Recommendation

We recommend that the city file its FY 2015-16 ASR, and establish procedures for timely completion and submission of the ASR.

City's Response

In response to Finding 4 the city will establish procedures for timely completion and submission of the ASR.

SCO's Comment

The city stated that it will establish procedures for timely completion and submission of the ASR. We further recommend that the city monitor its implementation process.

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



December 12, 2017

Efren Loste, Chief
Local Government Audits Bureau
State Controller's Office
Division of Audits
3301 C Street, Ste. 710
Sacramento, CA 95816

RE: SPECIAL GAS TAX STREET IMPROVEMENT FUND FOR THE PERIOD OF JULY 1, 2015,
THROUGH JUNE 30, 2016, COMMENTS ON AUDIT FINDINGS

Dear Mr. Loste,

In response to Finding 1 the city will agree to open a bank account for the state gas tax funds and as funds are received they will be deposited into this account. But the city will transfer the funds from the separate account by check to the city's general fund to reimburse funds spent on allowable expenditures. It is cost prohibitive to setup our accounting software for an infrequently used account.

In response to Finding 2 as per establishing a formal policies and procedures, the finance department has been working on establishing a formal policy manual as per the recommendation from our city auditor.

In response to Finding 3 the city does prepare once a month a report to the city clerk and city council which includes the fund balances, but the current report needs to be updated to include accounting of all receipts and disbursements.

In response to Finding 4 the city will establish procedures for timely completion and submission of the ASR.

Sincerely,

Teresa Binkley
Finance Director

Cc: Craig Jones, City Manager
File

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

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