

CITY OF HURON

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

February 2019



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California State Controller

February 28, 2019

Jack Castro, Finance Director
City of Huron
36311 South Lassen Avenue
Huron, CA 93234

Dear Mr. Castro:

The State Controller's Office audited the City of Huron'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 an instance of non-compliance. The city understated the fund balance by \$2,351 as of June 30, 2016, because it did not post allocable interest income to the Special Gas Tax Street Improvement Fund. We also identified a deficiency in internal control that warrants the attention of management.

If you have any questions, please contact Efren Lose, CPA, 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 Rey León, Mayor
City of Huron

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	3
Follow-up on Prior Audit Findings.....	3
Views of Responsible Officials.....	3
Restricted Use	3
Schedule—Reconciliation of Fund Balance.....	4
Findings and Recommendations.....	5

Audit Report

Summary

The State Controller's Office (SCO) audited the City of Huron'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 an instance of non-compliance. The city understated the fund balance by \$2,351 as of June 30, 2016, because it did not post allocable interest income to the Special Gas Tax Street Improvement Fund. We also identified a deficiency in internal control that 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 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 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;

¹Includes towns.

- Verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2005, 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;
- 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 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 selecting non-statistical samples of other transactions for the following category:
 - Services and Supplies – We tested \$96,950 of \$162,238.

For the selected sample, 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 that the City of Huron 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 audit found an instance of non-compliance, as quantified in the Schedule and described in the Findings and Recommendations section of this report (Finding 1). The finding requires an adjustment of \$2,351 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 Findings and Recommendations section of this audit report (Finding 2).

Follow-up on Prior Audit Findings

Our prior audit report for the period of July 1, 2004, through June 30, 2005, issued on September 15, 2006, disclosed no findings.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on January 24, 2019. Jack Castro, Finance Director, agreed with the audit results. Mr. Castro 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 Huron 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 audit 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

February 28, 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	\$ 699,179
Revenues	<u>149,256</u>
Total funds available	848,435
Expenditures	<u>(162,238)</u>
Ending fund balance per city	686,197
SCO adjustment: ²	
Finding 1—Interest income not posted	<u>2,351</u>
Ending fund balance per audit	<u><u>\$ 688,548</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 Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Interest income not
posted**

The city did not post \$2,351 of allocable interest income to its Special Gas Tax Street Improvement Fund.

While reviewing the methodology used for allocating interest income, we noted that the city calculated interest allocations for various city funds. However, we found that the city did not post \$69 in allocable interest income for FY 2015-16 to the Special Gas Tax Street Improvement Fund. As a result, we expanded our review of the fund’s interest income transactions to include all prior unaudited periods of FY 2005-06 through FY 2014-15. We found that although the city calculated the interest income allocations, it did not post a total of \$2,351 in interest income to the Special Gas Tax Street Improvement Fund, as shown in the following table:

Fiscal Year	Interest Income
2005-06	\$ 17
2006-07	-
2007-08	925
2008-09	1,149
2009-10	2
2010-11	30
2011-12	50
2012-13	46
2013-14	35
2014-15	28
2015-16	69
Total	<u>\$ 2,351</u>

Streets and Highways Code section 2113 states, in part:

Interest received by a city from the investment of money in its special gas tax street improvement fund shall be deposited in the fund and shall be used for street purposes.

The city did not post the allocable interest income because it lacked adequate procedures to ensure that interest income is appropriately credited to the respective funds.

Recommendation

We recommend that the city:

- Post \$2,351 in allocable interest income earned from FY 2005-06 through FY 2015-16 to its Special Gas Tax Street Improvement Fund; and
- Establish procedures to ensure that interest income is appropriately credited to the respective funds.

City's Response

The city concurred with the finding and advised us that it is making the adjustment to post the interest income to the Special Gas Tax Street Improvement Fund.

**FINDING 2—
Lack of adequate
control over General
Fund cash
management**

During FY 2015-16, the city's General Fund cash account reported month-end negative balances for all 12 months. The negative balances were the result of the city paying out of its General Fund cash account more cash than was actually available. As the city pools cash from all of its funds, a negative balance in the General Fund cash account potentially impairs the other funds, including restricted funds such as the Special Gas Tax Street Improvement Fund. The city might inadvertently use the restricted funds' available balances to pay for its operating expenditures that are General Fund-related.

We noted this condition while reviewing the General Fund's cash balances to ensure that the Gas Tax Fund cash balances were not potentially impaired or used for non-street-related purposes. This condition resulted 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 recommendation.

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