

CITY OF MARICOPA

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

March 2018



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California State Controller

March 13, 2018

The Honorable John Wilke III
Mayor of the City of Maricopa
400 California Street, P.O. Box 550
Maricopa, CA 93252

Dear Mayor Wilke:

The State Controller's Office audited the City of Maricopa'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. However, we identified three deficiencies in internal controls that are insignificant to the audit objectives, but warrant the attention of management. These deficiencies are described in the Observations and Recommendations section of this report.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Eric Ziegler, City Administrator
City of Maricopa

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Maricopa'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. However, we identified three deficiencies in internal controls that are insignificant to the audit objectives, but warrant the attention of management. These deficiencies are described in the Observations and Recommendations section of this report.

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, 2004, 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 the 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 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 the expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and judgmentally selecting samples of other transactions for the following categories (for the selected sample, errors found, if any, were not projected to the intended population):
 - Services and Supplies – We tested \$5,592 of \$6,781.
 - Labor – We tested \$624 of \$4,656.
 - Overhead – We tested \$1,001 of \$2,786.

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 Maricopa 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 three deficiencies in internal controls that are insignificant to the audit objectives, but warrant the attention of management. These deficiencies are described in the Observations and Recommendations 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 August 3, 2005, disclosed no findings.
Views of Responsible Officials	We issued a draft audit report on November 6, 2017. Eric Ziegler, City Administrator, responded by email on December 14, 2017, indicating that the city has no comment on the draft audit report as presented.
Restricted Use	This report is solely for the information and use of the City of Maricopa 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 13, 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	\$ 96,545
Revenues	<u>29,171</u>
Total funds available	125,716
Expenditures	<u>(14,223)</u>
Ending fund balance per city	<u>\$ 111,493</u>
Ending fund balance per audit	<u>\$ 111,493</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.

Observations and Recommendations

OBSERVATION 1— Non-compliance with Government Code section 41004

The city did not comply with GC section 41004 for FY 2015-16. This section requires the city treasurer to submit to the city clerk a monthly written report and an accounting of all receipts, disbursements, and fund balances.

Compliance with GC section 41004 increases the accountability of receipts, disbursements, and fund balances.

We identified this error when reviewing the city's cash and fund balance controls. The city did not have procedures in place to ensure compliance with the above requirement. The city's noncompliance with this requirement does not affect the Special Gas Tax Street Improvement Fund compliance with Article XIX of the California Constitution and the Streets and Highways Code.

Recommendation

We recommend that the city establish procedures to ensure that it complies with GC section 41004.

OBSERVATION 2— Lack of policies and procedures

The city did not have formal policies and procedures during FY 2015-16 for the following:

- Grants
- Debt
- Accounting and financial reporting
- Risk management and internal controls
- Budget
- Long range financial planning
- Local vendors
- Debarment and suspension
- Unclaimed checks
- Computer disasters

We identified the above when reviewing existing city policies and procedures. Establishing formal policies and procedures would provide detailed guidance to employees, management, and the city council, and would help ensure process consistency during staff turnover. The lack of formal policies and procedures did not have a significant impact on the audit objective.

Recommendation

We recommend that the city establish policies and procedures to ensure that controls are in place to strengthen financial accountability.

**OBSERVATION 3—
Lack of segregation of
duties**

The city did not maintain adequate segregation of duties over wire transfers and journal entries during FY 2015-16.

When reviewing internal controls related to gas tax transactions, we noted that the same accounting staff members both initiated and approved wire transfers and journal entries. Sound internal control procedures require that duties be segregated to safeguard assets and to provide appropriate checks and balances. The lack of formal policies and procedures did not have a significant impact on the audit objective.

Recommendation

We recommend that the city establish procedures to ensure that conflicting duties are adequately segregated or mitigated.

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