

CITY OF MILLBRAE

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 9, 2018

The Honorable Reuben Holober
Mayor of the City of Millbrae
621 Magnolia Avenue
Millbrae, CA 94030

Dear Mayor Holober:

The State Controller's Office audited the City of Millbrae'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, except that it understated the fund balance by \$19,525 as of June 30, 2016. The city understated the fund balance because it charged an ineligible expenditure to the 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

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

cc: DeAnna Hilbrants, Finance Director
City of Millbrae

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Millbrae'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, except that the city understated the fund balance by \$19,525 as of June 30, 2016. The city understated the fund balance because it charged an ineligible expenditure to the fund.

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 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 audit 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, 2005, 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 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 \$113,229 of \$242,636.
 - Labor – We tested \$82,397 of \$162,811.
 - Capital Improvements – We tested \$216,953 of \$262,566.
 - Transfers – We tested all \$6,370 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 Millbrae 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, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$19,525 to the city's accounting records.

Follow-up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report for the period of July 1, 2004, through June 30, 2005, issued on July 14, 2006.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on December 12, 2017. Wayne Loo, Financial Services Manager, agreed with the audit results. Mr. Loo further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This report is solely for the information and use of the City of Millbrae 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 9, 2018

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

	<u>Special Gas Tax Street Improvement Fund¹</u>
Beginning fund balance per city	\$1,637,036
Revenues	<u>548,195</u>
Total funds available	2,185,231
Expenditures	<u>(674,383)</u>
Ending fund balance per city	1,510,848
SCO adjustment: ²	
Finding—Ineligible expenditure	<u>19,525</u>
Ending fund balance per audit	<u>\$1,530,373</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.

²See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Ineligible expenditure

The city charged \$19,525 of ineligible capital improvement expenditures to the Special Gas Tax Street Improvement Fund in FY 2015-16.

The city charged \$262,565 of capital improvement expenditures. We tested \$216,953 and determined that \$19,525 was for ineligible parking lot maintenance costs paid to a contractor. Parking lot maintenance costs are not incurred for the operation of public streets and highways. The remaining costs tested were for eligible street purposes. The error occurred because the city did not have adequate procedures in place to ensure that expenditures charged to the Special Gas Tax Street Improvement Fund are for street-related activities.

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...

During the audit field work, the city provided Journal Entry No. 2017-00000492, dated July 12, 2017, to reimburse the Special Gas Tax Street Improvement Fund.

Recommendation

We recommend that the city establish adequate procedures to ensure that all expenditures charged to the Special Gas Tax Street Improvement Fund are for street-related activities.

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

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