

CITY OF WEED

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND AND TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

March 2018



BETTY T. YEE
California State Controller

March 9, 2018

The Honorable Ken Palfini
Mayor of the City of Weed
550 Main Street
P. O. Box 470
Weed, CA 96094

Dear Mayor Palfini:

The State Controller's Office audited the City of Weed's Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief 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 and Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund in compliance with requirements except that, as of June 30, 2016, the city understated the fund balance in its Special Gas Tax Street Improvement Fund by \$25,625, and overstated the Traffic Congestion Relief Fund by \$25,625 because it recorded program expenditures in the wrong 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/lis

cc: Kelly McKinnis, Finance Director
City of Weed

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Weed's Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief 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 and Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund in compliance with requirements except that, as of June 30, 2016, the city understated the fund balance in its Special Gas Tax Street Improvement Fund by \$25,625, and overstated the Traffic Congestion Relief Fund by \$25,625 because it recorded program expenditures in the wrong 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.

Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 636, Statutes of 2000, (Senate Bill 1662) and Government Code section 14556.5, created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for streets or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the account designated for the receipt of state funds allocated for transportation purposes. The city recorded its Traffic Congestion Relief Fund allocations in its Traffic Congestion Relief Fund. We conducted our audit of the city's Traffic Congestion Relief Fund allocations under the authority of Revenue and Taxation Code section 7104.

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, the Streets and Highways Code, and Revenue and Taxation Code section 7104.

We audited the city's Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund allocations 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 accounting records for 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, 2015, 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;
- 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;
- 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 \$7,300 of \$15,614.
 - Labor – We tested \$44,575 of \$84,476.

- Verified whether the city expended the Traffic Congestion Relief Fund revenues within the required time limit by analyzing and scheduling the city's Traffic Congestion Relief Fund expenditures; and
- Verified the city's compliance with the maintenance-of-effort requirement of the Traffic Congestion Relief Fund allocations by computing the city's annual expenditures of its discretionary funds for street purposes.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Our audit found that the City of Weed 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 \$25,625 to the city's accounting records.
- Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund in compliance with Revenue and Taxation Code section 7104 for the period of July 1, 2015, through June 30, 2016, except as noted in the Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$25,625 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 May 31, 2006.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on December 10, 2017. Kelly McKinnis, Finance Director, agreed with the audit results. Mr. McKinnis 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 Weed 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**

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund Allocations ²
Beginning fund balance per city	\$ —	\$ 25,625
Revenues	100,090	—
Total funds available	100,090	25,625
Expenditures	(100,090)	—
Ending fund balance per city	—	25,625
SCO adjustment: ³		
Finding—Expenditures recorded in wrong fund	25,625	(25,625)
Ending fund balance per audit	\$ 25,625	\$ —

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.

²Government Code section 145565 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. The city recorded the Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund.

³See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Expenditures recorded
in wrong fund**

The city recorded \$25,625 of Traffic Congestion Relief Fund expenditures in the Special Gas Tax Street Improvement Fund in error during FY 2010-11.

During the audit field work, the city provided support for the expenditures. The error caused the balance in the Traffic Congestion Relief Fund to be overstated and in the Special Gas Tax Street Improvement Fund to be understated by \$25,625. The city corrected the error during the field work with Journal Entry No. 002599, dated May 30, 2017.

The city received the final Traffic Congestion Relief Fund allocations in FY 2009-10. Streets and Highways Code section 2182.1(g) requires that the allocations be spent by the fiscal year following the fiscal year in which the allocation was made. Furthermore, the Traffic Congestion Relief Fund program expired on June 30, 2011. The error occurred because of an oversight by staff.

Recommendation

We recommend that the city establish procedures to ensure that expenditures are recorded in the proper fund.

**State Controller's Office
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