

CITY OF SONOMA

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2016, through June 30, 2017



BETTY T. YEE
California State Controller

April 2019



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California State Controller

April 10, 2019

Sue Casey, Finance Director
City of Sonoma
No. 1 The Plaza
Sonoma, CA 95476

Dear Ms. Casey:

The State Controller's Office audited the City of Sonoma'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, 2016, through June 30, 2017.

Our audit found an instance of non-compliance. The city understated the fund balance by \$2,042 as of June 30, 2017, because it incurred an ineligible expense.

If you have any questions, please contact Efren Lose, 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 Amy Harrington, Mayor
City of Sonoma

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Sonoma'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, 2016, through June 30, 2017.

Our audit found an instance of non-compliance. The city understated the fund balance by \$2,042 as of June 30, 2017, because it incurred an ineligible expense.

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, 2016, through June 30, 2017.

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;
- Verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2006, through June 30, 2016,

¹Includes towns.

and by recalculating the trial balance for the period of July 1, 2016, through June 30, 2017;

- 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) 2016-17 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 and receivables accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures; 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 categories:
 - Services and Supplies – We tested \$59,595 of \$151,777.
 - Labor – We tested \$199,079 of \$455,192.
 - Indirect – We tested \$28,988 of \$33,012.
 - Transfers – We tested \$52,877 of \$52,877.
 - Construction/Engineering – We tested \$25,176 of \$28,095.

For the selected samples, 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 an instance of non-compliance for the period of July 1, 2016, through June 30, 2017, as quantified in the Schedule and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$2,042 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, 2005, through June 30, 2006, issued on June 28, 2006.
Views of Responsible Officials	We discussed the audit results with city representatives during a telephone exit conference on March 6, 2016. Jena Burrows, Deputy Finance Director, agreed with the audit results. Ms. Burrows further agreed that a draft audit report was not necessary and that the audit report could be issued as final. During fieldwork, the city provided a journal entry to reimburse the Special Gas Tax Street Improvement Fund.
Restricted Use	This audit report is solely for the information and use of the City of Sonoma 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 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

April 10, 2019

**Schedule—
Reconciliation of Fund Balance
July 1, 2016, through June 30, 2017**

	Special Gas Tax Street Improvement Fund ¹
Beginning fund balance per city	\$ 20,092
Revenues	<u>839,089</u>
Total funds available	859,181
Expenditures	<u>(720,954)</u>
Ending fund balance per city	138,227
SCO adjustment: ²	
Finding — Ineligible expenditure	<u>2,042</u>
Ending fund balance per audit	<u><u>\$ 140,269</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 Finding and Recommendation section.

Finding and Recommendation

FINDING— Ineligible expenditure

The city incurred ineligible costs paid from the Special Gas Tax Street Improvement Fund totaling \$2,042 in FY 2016-17.

During our testing of expenditures, we noted that the city used \$2,042 of the \$52,877 it transferred from the Special Gas Tax Street Improvement Fund to its General Fund to pay for an employee classification study, which is a non-street-related expense. Therefore, the city incurred an ineligible expenditure and understated the Special Gas Tax Street Improvement Fund balance by \$2,042 as of June 30, 2017.

The ineligible expenditure occurred because the city lacked adequate policies and procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are incurred for street-related purposes only.

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 our audit fieldwork, the city agreed with the finding and reimbursed the Special Gas Tax Street Improvement Fund for the ineligible expenditure through Journal Entry No.1, dated May 9, 2018.

Recommendation

We recommend that the city establish policies and procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are for street-related purposes.

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