

CITY OF GREENFIELD

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2016, through June 30, 2017



BETTY T. YEE
California State Controller

June 2019



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California State Controller

June 14, 2019

Paul Wood, City Manager
City of Greenfield
599 El Camino Real
Greenfield, CA 93927

Dear Mr. Wood:

The State Controller's Office (SCO) audited the City of Greenfield'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. The SCO also reviewed the city's Annual Street Report for the period of July 1, 2016, through June 30, 2017 to determine whether the city's report was adequate and accurate.

Our audit found an instance of non-compliance. The city understated the fund balance by \$15,934 as of June 30, 2017, because it charged ineligible expenditures to the Special Gas Tax Street Improvement Fund.

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

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/hf

cc: The Honorable Lance Walker
Mayor of the City of Greenfield

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Greenfield'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. The SCO also reviewed the city's Annual Street Report (ASR) for the period of July 1, 2016, through June 30, 2017, to determine whether the city's report was adequate and accurate.

Our audit found an instance of non-compliance. The city understated the fund balance by \$15,934 as of June 30, 2017, because it charged ineligible expenditures to the Special Gas Tax Street Improvement Fund.

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 (GC) section 12410. Cities are also required to file, on or before October 1 of each year, a report with the SCO detailing revenues and expenditures for street-related purposes during the preceding fiscal year. We performed our review of the city's ASR under the authority of Streets and Highways Code section 2153.

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, and whether the city's ASR was adequate and accurate.

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;

¹Includes towns.

- 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, 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;
- 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 \$71,768 of \$139,218.
 - Labor – We tested \$87,683 of \$231,220.
 - Acquisitions – We tested \$34,508 of \$34,508.

For the selected samples, errors found, if any, were not projected to the intended (total) population; and

- Interviewed key personnel to gain an understanding of citywide street-related funds and activities and the ASR reporting process, and to determine whether the city accounted for all of its HUTA apportionments; reported and properly classified all of its street-related expenditures, revenues, and year-end fund balances; and filed its ASR in a timely manner.

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 \$15,934 to the city's accounting records.

Follow-up on Prior Audit Findings

Our prior audit report for the period of July 1, 2005, through June 30, 2006, issued on June 8, 2007, disclosed no findings.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit teleconference on April 9, 2019. Paul Wood, City Manager, agreed with the audit results. Mr. Wood further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

During our 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 Greenfield 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

June 14, 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	\$ 211,742
Revenues	<u>320,010</u>
Total funds available	531,752
Expenditures	<u>(404,947)</u>
Ending fund balance per city	126,805
SCO adjustment: ²	
Finding — Ineligible expenditures	<u>15,934</u>
Ending fund balance per audit	<u><u>\$ 142,739</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 Expenditures

The city incurred ineligible costs paid from the Special Gas Tax Street Improvement Fund, totaling \$15,934, in FY 2016-17.

During our testing of expenditures, we noted that the city charged expenditures that were not street-related to the Special Gas Tax Street Improvement Fund throughout the year. As a result, the city understated the Special Gas Tax Street Improvement Fund balance by \$15,934 as of June 30, 2017. The table below summarizes the ineligible expenditures that were not street-related:

Expenditure Description	Unallowable Amount
Property tax payments	\$ 7,312
Fence upgrade	3,600
July 4th equipment rental	2,263
Memorial Day equipment rental	2,177
El Camino flag bolts	393
Animal cremation services	189
Total	<u>\$ 15,934</u>

The ineligible expenditures occurred because the city lacked adequate policies and procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund were 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 expenditures through Journal Entry No. JE00072, dated June 13, 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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