

CITY OF MARYSVILLE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

June 2019



BETTY T. YEE
California State Controller

June 24, 2019

Marti Brown, City Manager
City of Marysville
526 C Street
Marysville, CA 95901

Dear Ms. Brown:

The State Controller's Office audited the City of Marysville'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, 2015, through June 30, 2016.

Our audit found instances of non-compliance. The city understated the fund balance by \$2,854 as of June 30, 2016, because it posted ineligible expenditures totaling \$2,743 and charged negative interest totaling \$111 to the Special Gas Tax Street Improvement 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

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: The Honorable Ricky Samayoa, Mayor
City of Marysville
Jennifer Styczynski, Interim Finance Director
City of Marysville

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Marysville'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, 2015, through June 30, 2016.

Our audit found instances of non-compliance. The city understated the fund balance by \$2,854 as of June 30, 2016, because it posted ineligible expenditures totaling \$2,743 and charged negative interest totaling \$111 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 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, 2015, through June 30, 2016.

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;

¹Includes towns.

- 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 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) 2015-16 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 protected from impairment; 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 \$91,223 of \$158,593.
 - Administration – We tested \$158,005 of \$459,978.
 - Transfers – We tested \$7,002 of \$8,319.

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 instances of non-compliance for the period of July 1, 2015, through June 30, 2016, as quantified in the Schedule and described in the Findings and Recommendations section of this report. Findings 1 and 2 require an adjustment of \$2,854 to the city's accounting records.

Follow-up on Prior Audit Findings

Our prior audit report for the period of July 1, 2003, through June 30, 2004, issued on March 30, 2006, disclosed no findings.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on May 2, 2019. Jennifer Styczynski, Interim Finance Director, agreed with the audit results. Ms. Styczynski 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 journal entries 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 Marysville 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 24, 2019

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

	Special Gas Tax Street Improvement Fund ¹
Beginning fund balance per city	\$ 401,558
Revenues	<u>294,467</u>
Total funds available	696,025
Expenditures	<u>(626,889)</u>
Ending fund balance per city	<u>69,136</u>
SCO adjustments: ²	
Finding 1 - Ineligible expenditures	2,743
Finding 2 - Negative interest	<u>111</u>
Total SCO adjustments	<u>2,854</u>
Ending fund balance per audit	<u><u>\$ 71,990</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 Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Ineligible expenditures

During our testing of expenditures, we noted that the city charged \$2,743 in expenditures that were not street-related to the Special Gas Tax Street Improvement Fund. Specifically, the city recorded costs for park signs, trash bags, and non-street related tree services. As a result, the city understated the Special Gas Tax Street Improvement Fund balance by \$2,743 as of June 30, 2016.

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 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 (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes.

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. JN00314, dated June 16, 2017.

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.

FINDING 2— Negative interest

The city recorded negative interest totaling \$111 to the Special Gas Tax Street Improvement Fund in FY 2015-16. During our testing of revenues for FY 2015-16, we also reviewed the city's methodology for computing and allocating interest to various funds. We noted that the city allocated interest earnings to all city funds each quarter based on each fund's average monthly cash balance for that quarter. Although the Special Gas Tax Street Improvement Fund's cash balances were positive, other city's funds showed negative cash balances. As a result, the city computed negative interest and allocated the negative interest to other funds with positive cash balances. The Special Gas Tax Street Improvement Fund's interest earnings for FY 2015-16 was \$1,382, which was reduced to \$1,271 after the allocation of negative interest totaling \$111. By allocating negative interest to the Special Gas Tax Street Improvement Fund, the city understated the fund's balance by \$111.

The city posted negative interest because it lacked adequate cash management policies and procedures to ensure that various funds' cash balances remained positive at all times. The city computed interest for posting at a point in time without verifying sufficient cash balances in various funds.

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 negative interest through Journal Entry No. JN00316, dated June 16, 2017.

Recommendation

We recommend that the city implement cash management policies and procedures to prevent negative cash balances from occurring in its funds and to eliminate the practice of computing negative interest.

**State Controller's Office
Division of Audits
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Sacramento, CA 94250**

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