

CITY OF PINOLE

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 6, 2019

Andrea Miller, Finance Director
City of Pinole
2131 Pear Street
Pinole, CA 94564

Dear Ms. Miller:

The State Controller's Office audited the City of Pinole'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. The SCO also reviewed the city's Annual Street Report (ASR) for the period of July 1, 2015, through June 30, 2016 to determine whether the report was adequate and accurate.

Our audit found instances of non-compliance. The city understated the fund balance by \$4,929 as of June 30, 2016, because it charged negative interest to the Special Gas Tax Street Improvement Fund.

Our review of the city's ASR found that the city did not report an accurate fund balance for its 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/hf

cc: The Honorable Pete Murray, Mayor
City of Pinole
Michelle Fitzer, City Manager
City of Pinole

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Pinole'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. The SCO also reviewed the city's Annual Street Report (ASR) for the period of July 1, 2015, through June 30, 2016 to determine whether the report was adequate and accurate.

Our audit found instances of non-compliance. The city understated the fund balance by \$4,929 as of June 30, 2016, because it charged negative interest to the Special Gas Tax Street Improvement Fund.

Our review of the city's ASR found that the city did not report accurate fund balance for its 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.

Cities are also required to file a report with the SCO, on or before October 1 of each year, detailing the 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 the Streets and Highways Code, and whether the city's ASR was adequate and accurate.

The audit and review 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;

¹Includes towns.

- 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, 2003, 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;
- 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 \$69,598 of \$216,903.
 - Labor – We tested \$13,324 of \$53,887.

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 verify that the city accounted for all of its HUTA apportionments; reported and properly classified all of its street-related expenditures and revenues, and year-end fund balances; and that the ASR was filed 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 instances of non-compliance. The city understated the fund balance as of June 30, 2016, as quantified in the Schedule and described in the Findings and Recommendations section of this report. Finding 1 requires an adjustment of \$4,929 to the city's accounting records.

Our review of the city's ASR found that the city did not report an accurate fund balance for its Special Gas Tax Street Improvement Fund, as described in the Findings and Recommendations section of this report.

Follow-up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report for the period of July 1, 2002, through June 30, 2003, issued on March 30, 2005.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on May 2, 2019. Andrea Miller, Finance Director, agreed with the audit results. Ms. Miller further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This audit report is solely for the information and use of the City of Pinole 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 6, 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	\$ 155,357
Revenues	<u>418,401</u>
Total funds available	573,758
Expenditures	(270,790)
Ending fund balance per city	302,968
SCO Adjustment: ²	
Finding 1 - Negative interest	<u>4,929</u>
Ending fund balance per audit	<u><u>\$ 307,897</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— Negative Interest

The city posted negative interest totaling \$4,929 to the Special Gas Tax Street Improvement Fund. While preparing a reconciliation of the fund balance for FY 2003-04 through FY 2015-16, we noted that the city posted negative interest to the fund – \$2,275 in FY 2007-08 and \$2,654 in FY 2009-10, for a total of \$4,929. The city posted negative interest because it lacked adequate cash management policies and procedures to ensure that the Special Gas Tax Street Improvement Fund cash balance remains positive at all times. The city computed allocable interest 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.

As a result, the Special Gas Tax Street Improvement Fund balance was understated by \$4,929.

Recommendation

We recommend that the city:

- Reimburse the Special Gas Tax Street Improvement Fund \$4,929;
- Implement cash management policies and procedures to prevent negative cash balances from occurring in the Special Gas Tax Street Improvement Fund; and
- Eliminate the practice of computing negative interest.

FINDING 2— Annual Street Report Not Accurate

During our review of the city's ASR for FY 2015-16, we noted that the city reported an inaccurate fund balance for the Special Gas Tax Street Improvement Fund. The city did not reconcile the Special Gas Tax Street Improvement Fund balance stated in its ASR to its accounting records. As a result, the Special Gas Tax Street Improvement Fund balance was understated by \$81,432 in the city's ASR. The city lacked policies and procedures to ensure that it reported accurate street-related activity in its ASR by reconciling the ASR to the city's accounting records.

Streets and Highways Code section 2151 states, in part:

On or before the first day of October of each year, the governing body of each county and city shall cause to be made and filed with the Controller a complete report of the expenditures for street or road purposes during the preceding fiscal year ending on the 30th day of June.

Streets and Highways Code section 2152 states, in part:

The report shall contain ... a detailed statement of all expenditures during the fiscal year covered by the report for street or road purposes, including obligations incurred but not yet paid. The statement shall be broken down into expenditure categories ...

The State Controller, with the advice of the department, may prescribe any other expenditure categories and may require any detail that may be deemed necessary by him or her fully to disclose the nature and extent of all financial transactions by the county or city relating to streets or roads.

Streets and Highways Code section 2153 states:

The State Controller shall take such steps as he may deem necessary to ensure that such reports are adequate and accurate.

Recommendation

We recommend that the city implement policies and procedures to ensure that amounts reported its ASR are accurate by reconciling the ASR to the city's accounting records.

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

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