

CITY OF CORCORAN

Audit Report

SPECIAL GAS TAX STREET FUND AND ROAD MAINTENANCE AND REHABILITATION PROGRAM

July 1, 2021, through June 30, 2022



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

July 2024



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CALIFORNIA STATE CONTROLLER

July 12, 2024

Sandra Pineda, Finance Director
City of Corcoran
832 Whitley Avenue
Corcoran, CA 93212

Dear Ms. Pineda:

The State Controller's Office audited the City of Corcoran's Special Gas Tax Street Fund and the city's Road Maintenance and Rehabilitation Program for the period of July 1, 2021, through June 30, 2022.

Our audit found that the city accounted for and expended its Road Maintenance and Rehabilitation Program funds in compliance with requirements. However, our audit found an instance of non-compliance with the Special Gas Tax Street Fund requirements. The city incurred costs in excess of available funds, resulting in a deficit fund balance of \$157,868 in the Special Gas Tax Street Fund as of June 30, 2022.

If you have any questions regarding this report, please contact Efren Loste, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226, or by email at eloste@sco.ca.gov.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/am

Copy: The Honorable Jeanette Zamora-Bragg, Mayor
City of Corcoran
Greg Gatzka, City Manager
City of Corcoran

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Corcoran's Special Gas Tax Street Fund and the city's Road Maintenance and Rehabilitation Program (RMRP) for the period of July 1, 2021, through June 30, 2022.

Our audit found that the city accounted for and expended its RMRP funds in compliance with requirements. However, our audit found an instance of non-compliance with the Special Gas Tax Street Fund requirements. The city incurred costs in excess of available funds, resulting in a deficit fund balance of \$157,868 in the Special Gas Tax Street Fund as of June 30, 2022.

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 Streets and Highways Code, cities must establish individual Special Gas Tax Street 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.

Senate Bill 1 (Chapter 5, Statutes of 2017), known as the Road Repair and Accountability Act of 2017, created the RMRP to address deferred maintenance on the state highway system and local street and road systems. Program funds are apportioned by formula to eligible cities and counties pursuant to Streets and Highways Code (SHC) section 2032. Article XIX of the California Constitution and SHC sections 2030 through 2038 govern program requirements for RMRP funding.

Audit Authority

We conducted this audit in accordance with Government Code section 12410, which provides the SCO with general authority to audit the disbursement of state money for correctness, legality, and sufficient provisions of law for payment.

Objectives, Scope, and Methodology

Our audit objectives were to determine whether the city:

- Accounted for and expended the Special Gas Tax Street Fund and RMRP funds in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Government Code; and
- Was in compliance with the RMRP maintenance-of-effort requirements.

The audit period was July 1, 2021, through June 30, 2022.

To achieve our objectives, we completed the following procedures:

- We interviewed key personnel, completed an internal control questionnaire, and reviewed the city's organization chart to gain an understanding of the internal controls to the extent necessary to plan the audit. We deemed all components of internal control significant to our audit objectives.
- We assessed the reliability of computer-processed data by reviewing information about the data and the system that produced it; by interviewing city officials knowledgeable about the data; and by tracing data to source documents, based on auditor judgment and non-statistical sampling. We determined that the data was sufficiently reliable for the purposes of achieving our audit objectives.
- We conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- We performed analytical procedures to identify and explain the existence of unusual or unexpected account balances.
- We verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2012, through June 30, 2021, and by recalculating the trial balance for the period of July 1, 2021, through June 30, 2022, and by recalculating the trial balance for the period of July 1, 2017, through June 30, 2022 for RMRP funds.
- We verified that the components of and changes to fund balances were properly computed, described, classified, and disclosed by scheduling and analyzing account balances.
- We reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule for fiscal year 2021-22 to determine whether apportionments received by the city were completely accounted for.
- We reviewed the city's Special Gas Tax Street Fund and RMRP assets to ensure that they were properly recorded and identified.
- We analyzed the system used to allocate interest and determined whether the interest revenue allocated to the Special Gas Tax Street Fund and the RMRP was fair and equitable, by interviewing key personnel and recalculating all interest allocations for the audit period;
- We reviewed the fund cash and receivables accounts for unauthorized borrowing to determine whether unexpended funds were available for future street-related expenditures and protected from impairment.
- We compared the city's RMRP project list with the list submitted to the California Transportation Commission to ensure that actual RMRP expenditures were for program projects approved by California Transportation Commission.
- We recalculated the city's maintenance-of-effort contributions to verify that the city is in compliance with RMRP maintenance-of-effort requirements.
- We 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:

- Special Gas Tax Street Fund
 - Services and supplies – We tested \$307,023 of \$650,190.
 - Labor – We tested \$115,855 of \$223,557.
 - Indirect – We tested \$12,114 of \$197,067.
 - Transfers – We tested \$3,942 of \$14,503.
- RMRP
 - Services and supplies – We tested \$695,582 of \$713,916.
 - Labor – We tested \$3,116 of \$25,701.
 - Transfers – We tested \$481 of \$3,990.

No errors were found.

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 Fund and its RMRP in accordance with the program requirements.

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 an instance of non-compliance for the period of July 1, 2021, through June 30, 2022, with the Special Gas Tax Street Fund requirements as quantified in the Schedule—Reconciliation of Fund Balance and described in the Finding and Recommendation section. The finding requires an adjustment of \$157,868 to the city’s accounting records. The City of Corcoran complied with its maintenance-of-effort requirement.

Follow-up on Prior Audit Findings

Our prior audit report on the City of Corcoran’s Special Gas Tax Street Fund for the period of July 1, 2001, through June 30, 2012, issued on June 30, 2014, disclosed no findings.

Views of Responsible Officials

We issued a draft audit report on April 5, 2024; the City of Corcoran’s representative responded by email on April 17, 2024, agreeing with the audit results.

Restricted Use

This audit report is solely for the information and use of the City of Corcoran 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

Kimberly A. Tarvin, CPA
Chief, Division of Audits

July 12, 2024

Schedule—
Reconciliation of Fund Balance
July 1, 2021, through June 30, 2022

Cities receive apportionments from the HUTA, pursuant to SHC sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments varies, but the funds may be used for any street-related purpose. SHC 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 Funds for the deposit of their HUTA fund apportionments.

Cities also receive apportionments from the Road Maintenance and Rehabilitation Account of the State Transportation Fund, pursuant to SHC section 2032(h). These funds may be used for basic road maintenance, rehabilitation, and critical safety projects on local streets and roads systems. Furthermore, SHC section 2036 establishes the maintenance-of-efforts requirements, which cities must meet annually in order to remain eligible for an allocation or apportionment of funds. The City of Corcoran's required maintenance-of-effort is zero.

The following table shows the beginning and ending balances for the City of Corcoran's Special Gas Tax Street Fund and RMRP:

	Special Gas Tax Street Fund	Road Maintenance and Rehabilitation Program Fund
Beginning fund balance per city	\$ 47,092	\$ 1,206,696
Revenues	856,351	489,259
Total funds available	903,443	1,695,955
Expenditures	(1,061,311)	(735,847)
Ending fund balance per city	(157,868)	960,108
Audit adjustment ¹		
Finding — Deficit fund balance requiring reimbursement	157,868	\$ -
Total audit adjustment	157,868	\$ -
Ending fund balance per audit	\$ -	\$ 960,108

¹See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Deficit fund balance

The city incurred costs in excess of available funds, resulting in a deficit fund balance of \$157,868 in the Special Gas Tax Street Fund as of June 30, 2022. We performed a fund balance reconciliation and analyzed the revenues, expenditures, and beginning fund balance for fiscal year 2021-22. We found that the city spent \$1,061,311 on street-related expenditures, but only had funds of \$903,443 available to spend. The Special Gas Tax Street Fund was over-expended because the city lacks adequate procedures to ensure that funds are available prior to incurring costs.

The practice of funding one fiscal year's activities with HUTA apportionments from the following fiscal year is contrary to established municipal budgetary and accounting practice, and in violation of Article XVI, section 18(a), of the California Constitution, which states, in part:

No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year. . . .

Recommendation

We recommend that the city:

- Reimburse the Special Gas Tax Street Fund by \$157,868 to eliminate the deficit fund balance; and
- Implement procedures to ensure that sufficient funds are available prior to incurring costs.

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

www.sco.ca.gov