

CITY OF PISMO BEACH

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2016, through June 30, 2017



BETTY T. YEE
California State Controller

July 2019



BETTY T. YEE
California State Controller

July 8, 2019

James R. Lewis, City Manager
City of Pismo Beach
760 Mattie Road
Pismo Beach, CA 93449

Dear Mr. Lewis:

The State Controller's Office audited the City of Pismo Beach'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 that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required.

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/as

Attachment

cc: The Honorable Ed Waage
Mayor of the City of Pismo Beach
Nadia Feeser, Administrative Services Director
City of Pismo Beach

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	3
Follow-up on Prior Audit Findings.....	3
Views of Responsible Officials.....	3
Restricted Use	3
Schedule—Reconciliation of Fund Balance.....	4
Attachment—City of Pismo Beach’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the City of Pismo Beach'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 that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required.

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;

¹Includes towns.

- Verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2002, 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 2016-17 to determine whether HUTA apportionments received by the city were completely accounted for;
- Reviewed city accruals and adjustments for validity and eligibility;
- 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 liabilities 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 category:
 - Transfers – We tested \$223,648 of \$356,483.

For the selected sample, 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 that the City of Pismo Beach 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 for the period of July 1, 2016, through June 30, 2017.

Follow-up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report for the period of July 1, 2001, through June 30, 2002, issued on May 7, 2003.

Views of Responsible Officials

We issued a draft report on March 5, 2019. The draft report included an internal control deficiency observation that was not significant to the audit objectives but warranted the attention of management. Nadia Feeser, Administrative Services Director, responded by letter dated March 8, 2019 (Attachment). Ms. Feeser subsequently followed up with an email on March 27, 2019, provided supporting documentation to show that the city has adequate policies and procedures in place. As a result, we have removed the noted observation from this final audit report.

Restricted Use

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

July 8, 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	\$ 453,293
Revenues	<u>167,162</u>
Total funds available	620,455
Expenditures	<u>(356,483)</u>
Ending fund balance per city	<u>\$ 263,972</u>
Ending fund balance per audit	<u>\$ 263,972</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.

**Attachment—
City of Pismo Beach’s
Response to Draft Audit Report**



Administrative Services Department
760 Mattie Road
Pismo Beach CA 93449
Ph: 805-773-4655 Fax: 805-773-7065

March 8, 2019

Efren Loste, Chief
Local Government Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, CA 94250

Re: Comments concerning the draft City of Pismo Beach Gas Tax Audit Report

Dear Efren Loste,

Thank you for your March 5, 2019 letter to the City of Pismo Beach regarding the Special Gas Tax Street Improvement Fund. We appreciate that we were found in compliance with requirements.

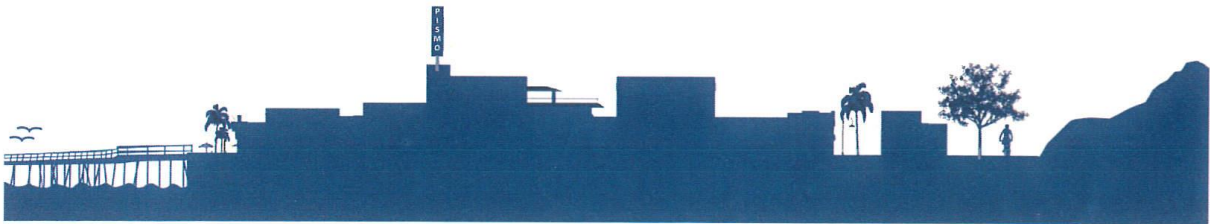
Regarding the Observation and Recommendation section, there is an observation that the City could benefit adopting various policies. During the audit process, the auditor stated that we needed a formal accounting *procedures* manual adopted by Council Resolution. The City maintains accounting procedures that are updated periodically (ranging from weekly to annually) depending on changing procedures. These procedures are so specific to the technology we use, that step-by-step instructions may be slightly adjusted provide more details or become more efficient. As such, with the details (i.e., click this button, hit enter, save, etc.) included in our procedures and the constant updating, we have not taken these procedures to Council.

After reading the Observation and Recommendation section, the observation states that the City could benefit from adopting *policies*. The City does in fact have an adopted Purchasing Policy that also includes the general accounting procedures for purchasing. This covers grants, key accounting principles, and addresses issues relating to the expenditures of city funds. The City's budget process address key financial policies (every odd year in April) that address many of the items on the list of policies that this section states that we do not have. The City has other policies that address risk management and internal control and business continuity (IT Use Policy and Procedures).

We follow the GFOA recommendation and adopt financial *policies* and understand their importance. We are sure there is always room for improvement, but we don't believe the Observation and Recommendation are necessary, or at least not at length. We respectfully request that you remove the Observation and Recommendation before publishing your final report. Thank you for your consideration!

Sincerely,

Nadia Feeser, Administrative Services Director
Email: nfeeser@pismo beach.org, Phone: 805.773.7010



**State Controller's Office
Division of Audits
Post Office Box 942850
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<http://www.sco.ca.gov>