

CITY OF WOODLAND

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

July 2019



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California State Controller

July 5, 2019

Paul Navazio, City Manager
City of Woodland
300 First Street, 2nd Floor
Woodland, CA 95695

Dear Mr. Navazio:

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

Our audit found instances of non-compliance. The city understated the fund balance by \$106,848 as of June 30, 2016, because it understated revenues received by \$105,627 and made an ineligible transfer of \$1,221.

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

cc: The Honorable Xóchitl Rodríguez
Mayor of the City of Woodland
Kimberly McKinney, Finance Officer
City of Woodland

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Woodland'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 city's report was adequate and accurate.

Our audit found instances of non-compliance. The city understated the fund balance by \$106,848 as of June 30, 2016, because it understated revenues received by \$105,627 and made an ineligible transfer of \$1,221.

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 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, 2005, 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;
- 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 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 \$88,606 of \$306,442.
 - Labor – We tested \$30,664 of \$577,842.
 - Indirect – We tested \$46,706 of \$401,584.
 - Transfers – We tested all \$12,190.
 - Acquisitions – We tested all \$15,619.

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 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 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. The findings required an adjustment of \$106,848 to the city's accounting records.

Follow-up on Prior Audit Findings

Our prior audit report for the period of July 1, 2004, through June 30, 2005, issued on January 25, 2007, disclosed no findings.

Views of Responsible Officials

We issued a draft audit report on May 10, 2019. Kimberly McKinney, Finance Officer, responded by email dated May 21, 2019, stating "I reviewed the draft report and do not have any comments or issues. Please go ahead and issue the final report as stated in the draft."

During fieldwork, the city provided journal entries to correct the fund balance and reimburse the Special Gas Tax Street Improvement Fund.

Restricted Use

This audit report is solely for the information and use of the City of Woodland 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 5, 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	\$ 474,814
Revenues	<u>1,166,300</u>
Total funds available	1,641,114
Expenditures	<u>(1,313,677)</u>
Ending fund balance per city	<u>327,437</u>
SCO adjustments: ²	
Finding 1—Understated revenues	105,627
Finding 2—Ineligible transfer	<u>1,221</u>
Total SCO adjustments	<u>106,848</u>
Ending fund balance per audit	<u><u>\$ 434,285</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— Understated revenues

The city understated HUTA revenues totaling \$105,627 in fiscal year (FY) 2015-16.

The city received HUTA revenues totaling \$1,252,888 in FY 2015-16. During our testing of revenues, we noted that the city posted only \$1,147,261 of the HUTA revenues to the Special Gas Tax Street Improvement Fund. Our testing revealed that the city did not post one HUTA payment in the amount of \$105,627, received on March 30, 2016, to the Special Gas Tax Street Improvement Fund. Therefore, the city understated the Special Gas Tax Street Improvement Fund's balance for the fiscal year. The understated revenues occurred because the city lacked adequate policies and procedures to ensure that revenues received are posted to the appropriate fund in a timely manner.

Streets and Highways Code section 2113 states, in part:

No apportionment of money from the Highway Users Tax Fund as provided in Section 2106 or 2107 shall be made to a city unless the city has set up by ordinance a "special gas tax street improvement fund."

All apportionments of such moneys shall be deposited in the "special gas tax street improvement fund."

During our audit fieldwork, the city agreed with the finding and corrected the fund balance by posting the understated revenues via Journal Entry No. 1242857, dated April 27, 2017.

Recommendation

We recommend that the city establish adequate policies and procedures to ensure that the city posts all HUTA revenues to the Special Gas Tax Street Improvement Fund in a timely manner.

City's Response

The city responded by email on May 10, 2019, indicating that it had reviewed the draft report and did not have any comments or issues.

FINDING 2— Ineligible transfer

The city inadvertently made an ineligible transfer from the Special Gas Tax Street Improvement Fund totaling \$1,221 in FY 2015-16.

During our testing of expenditures, we noted that the city transferred funds for a final lease payment in June 2016. The lease payment was for an asset that was an allowable expense. However, our testing revealed that the city transferred \$1,221 in excess of the final lease payment amount. Therefore, the Special Gas Tax Street Improvement Fund incurred an ineligible transfer of \$1,221. The ineligible transfer occurred because the city lacked adequate policies and procedures to ensure that it transferred funds based on actual payment amounts rather than budgeted amounts.

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 transfer by Journal Entry No. 1242857, dated April 27, 2017.

Recommendation

We recommend that the city establish adequate policies and procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are for street-related purposes and for actual amounts paid as opposed to budgeted amounts.

City's Response

The city responded by email on May 10, 2019, indicating that it had reviewed the draft report and did not have any comments or issues.

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

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