

CITY OF FORTUNA

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2016, through June 30, 2017



BETTY T. YEE
California State Controller

August 2019



BETTY T. YEE
California State Controller

August 23, 2019

Aaron Felmlee, Finance Director
City of Fortuna
621 11th Street
Fortuna, CA 95540

Dear Mr. Felmlee:

The State Controller's Office (SCO) audited the City of Fortuna'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. The SCO also reviewed the city's Annual Street Report for the period of July 1, 2016, through June 30, 2017, to determine whether the city's report was adequate and accurate.

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. Our review of the city's Annual Street Report revealed that it was adequate and accurate.

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/hf

cc: The Honorable Sue Long, Mayor
City of Fortuna

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

Audit Report

Summary

The State Controller's Office (SCO) audited the City of Fortuna'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. The SCO also reviewed the city's Annual Street Report (ASR) for the period of July 1, 2016, through June 30, 2017, to determine whether the city's report was adequate and accurate.

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. Our review of the city's ASR revealed that it was adequate and accurate.

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.

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;

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, 2006, 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;
- 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;
- 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 \$137,259 of \$199,341.
 - Labor – We tested \$33,746 of \$217,698.

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, revenues, and year-end fund balances; and filed its ASR 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 that the City of Fortuna 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. Our review of the city's ASR revealed that it was adequate and accurate.

Follow-up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report for the period of July 1, 2005, through June 30, 2006, issued on June 27, 2007.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on July 29, 2019. Aaron Felmlee, Finance Director, agreed with the audit results. Mr. Felmlee 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 Fortuna 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

August 23, 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	\$ 535,638
Revenues	245,851
Total funds available	781,489
Expenditures	(417,039)
Ending fund balance per city	364,450
Ending fund balance per audit	\$ 364,450

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.

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

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