

CITY OF EMERYVILLE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND AND TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

October 2018



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California State Controller

October 30, 2018

Susan Hsieh, Finance Director
City of Emeryville
1333 Park Avenue
Emeryville, CA 94608

Dear Ms. Hsieh:

The State Controller's Office audited the City of Emeryville's Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund and its Traffic Congestion Relief Fund allocations in compliance with requirements for the period of July 1, 2015, through June 30, 2016.

Our audit found that the city overstated the fund balance in its Traffic Congestion Relief Fund by \$179,124, and understated its Capital Improvement Fund by \$179,124 because it inadvertently recorded program expenditures in the wrong fund.

If you have any questions, please contact Efren Loste, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: The Honorable Scott Donahue
Mayor of the City of Emeryville

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Emeryville's Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund and its Traffic Congestion Relief Fund allocations in compliance with requirements for the period of July 1, 2015, through June 30, 2016.

Our audit found that the city overstated the fund balance in its Traffic Congestion Relief Fund by \$179,124, and understated its Capital Improvement Fund by \$179,124 because it inadvertently recorded program expenditures in the wrong fund. The city agreed with the finding and adjusted its Traffic Congestion Relief Fund accordingly.

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 (GC) section 12410.

Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 636, Statutes of 2000, (Senate Bill 1662) and GC section 14556.5, created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for streets or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the account designated for the receipt of state funds allocated for transportation purposes. The city recorded its Traffic Congestion Relief Fund allocations in its Traffic Congestion Relief Fund. We conducted our audit of the city's Traffic Congestion Relief Fund allocations under the authority of Revenue and Taxation Code section 7104.

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, Streets and Highways Code, and Revenue and Taxation Code section 7104.

¹ Includes towns.

We audited the city's Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund allocations for the period of July 1, 2015, through June 30, 2016.

To achieve our objective, we:

- Gained a limited understanding of internal control 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 the 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;
- 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 whether 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 liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures and protected from impairment;
- Verified whether the expenditures incurred during the audit period were supported by judgmentally (non-statistically) selecting samples of transfers expenditures. We tested \$192,363 of \$270,000 (for the selected sample, errors found, if any, were not projected to the intended population);
- Verified whether the city expended the Traffic Congestion Relief Fund revenues within the required time limit by analyzing and scheduling the city's Traffic Congestion Relief Fund expenditures; and

- Verified the city's compliance with the maintenance-of-effort requirement of the Traffic Congestion Relief Fund allocations by computing the city's annual expenditures of its discretionary funds for street purposes.

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 control 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 Emeryville 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, 2015, through June 30, 2016.
- Traffic Congestion Relief Fund allocations recorded in its Traffic Congestion Relief Fund in compliance with Revenue and Taxation Code section 7104 for the period of July 1, 2015, through June 30, 2016, except as noted in the Schedule and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$179,124 to the city's accounting records.

Follow-up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report for the period of July 1, 2004, through June 30, 2005, issued on April 13, 2007.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on December 11, 2017. Susan Hsieh, Finance Director, agreed with the audit results. Ms. Hsieh further agreed that a draft audit report was not necessary and that we could issue the audit report as final.

Restricted Use

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

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

October 30, 2018

Schedule—
Reconciliation of Fund Balance
July 1, 2015, through June 30, 2016

	Special Gas Tax Street Improvement Fund ¹	Traffic Congestion Relief Fund Allocations ²
Beginning fund balance per city	\$ 164,680	\$ 179,124
Revenues	<u>237,285</u>	<u>—</u>
Total funds available	401,965	179,124
Expenditures	<u>(270,000)</u>	<u>—</u>
Ending fund balance per city	\$ 131,965	\$ 179,124
SCO adjustment ³		
Finding—Expenditures recorded in wrong fund	<u>—</u>	<u>(179,124)</u>
Ending fund balance per audit	<u><u>\$ 131,965</u></u>	<u><u>\$ —</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.

²GC section 145565 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. The city recorded the Traffic Congestion Relief Fund allocations in its Traffic Congestion Relief Fund.

³See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Expenditures recorded
in wrong fund**

The city inadvertently recorded \$179,124 of Traffic Congestion Relief Fund program expenditures in its Capital Improvement Fund during FY 2010-11 because it lacked procedures to ensure that program expenditures are recorded in the proper fund.

As of June 30, 2016, the city’s Traffic Congestion Relief Fund reflected a fund balance of \$179,124. The city received the final Traffic Congestion Relief Fund allocations in FY 2009-10. Streets and Highways Code section 2182.1(g) requires that the allocations be spent by the fiscal year following the fiscal year in which the allocation was made. Furthermore, the Traffic Congestion Relief Fund program expired on June 30, 2011. Therefore, all Traffic Congestion Relief Fund allocations should have been expended by June 30, 2011.

During the audit, the city provided supporting documentation showing eligible Traffic Congestion Relief Fund program expenditures inadvertently recorded in its Capital Improvement Fund during FY 2010-11. The error occurred as a result of inadequate oversight procedures. The error caused the balance in the Traffic Congestion Relief Fund to be overstated and the Capital Improvement Fund to be understated by \$179,124. During the audit, the city provided support for the expenditures and corrected the error through Journal Entry No. 12781, dated June 23, 2017.

Recommendation

We recommend that the city update its policies and procedures to ensure that program expenditures are recorded in the proper fund.

**State Controller's Office
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