

CITY OF RIVERBANK

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

December 2017



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California State Controller

December 27, 2017

The Honorable Richard D. O'Brien
Mayor of the City of Riverbank
6707 Third Street
Riverbank, CA 95367

Dear Mayor O'Brien:

The State Controller's Office audited the City of Riverbank's Special Gas Tax Street Improvement Fund for the period of July 1, 2015, through June 30, 2016.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that it understated the fund balance by \$9,870 as of June 30, 2016. The city understated the fund balance because it charged ineligible expenditures.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

cc: Marisela Garcia, Assistant City Manager/Director of Finance
City of Riverbank

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Riverbank's Special Gas Tax Street Improvement Fund for the period of July 1, 2015, through June 30, 2016.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city understated the fund balance by \$9,870 as of June 30, 2016. The city understated the fund balance because it charged ineligible expenditures.

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 Article XIX of the California Constitution and Streets and Highways Code, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. 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 the Streets and Highways Code.

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

To meet the 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 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 the fund balances by performing a fund balance reconciliation for the period of July 1, 2015, 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 the 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 a sample of interest allocations;
- 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 whether the expenditures incurred during the audit period were supported by proper documentation and eligible in accordance with the applicable criteria by testing all of the expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and judgmentally selecting samples of other transactions for the following cost categories (for the selected sample, errors found will not be projected to the intended population):
 - Services and Supplies – We tested \$72,327 of \$247,533 in total services and supplies expenditures.
 - Labor – We tested \$11,210 of \$370,673 in total labor costs.
 - Maintenance and Streets – We tested \$129,239 of \$189,066 in total maintenance and street costs.
 - Transfers – We tested, reviewed, and recalculated \$191,354 of \$191,354 in total transfers.

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 Riverbank accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2015, through June 30, 2016, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$9,870 to the city's accounting records.

Follow-up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report, issued on November 17, 2006.

Views of Responsible Officials

We discussed the audit results with the city during an exit conference on October 23, 2017. Marisela Garcia, Assistant City Manager/Director of Finance, agreed with the audit results. Ms. Garcia further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This report is solely for the information and use of the City of Riverbank 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 report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

December 27, 2017

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

	Special Gas Tax Street Improvement Fund ¹
Beginning fund balance per city	\$ 427,251
Revenues	<u>610,886</u>
Total funds available	1,038,137
Expenditures	<u>(839,397)</u>
Ending fund balance per city	198,740
SCO adjustment: ²	
Finding—Ineligible expenditures	<u>9,870</u>
Ending fund balance per audit	<u>\$ 208,610</u>

¹The city receives 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. The city must deposit its HUTA apportionments in its Special Gas Tax Street Improvement Fund.

²See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Ineligible expenditures**

During FY 2015-16, the city charged \$9,870 to the Special Gas Tax Street Improvement Fund the following non-street related costs:

<u>Ineligible Costs</u>	<u>Amount</u>
Perimeter fence and gates	\$ 8,200
Closed-circuit television	1,065
Security alarm system	<u>605</u>
Total	<u>\$ 9,870</u>

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....

As a result, the above costs are ineligible gas tax fund expenditures.

During our review, the city provided Journal Entry Reference Nos. 65, 72, and 76, dated June 15, 2017, to fully reimburse the Special Gas Tax Street Improvement Fund.

Recommendation

We recommend that the city establish adequate procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are for street-related activities.

**State Controller's Office
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