

CITY OF SAN CARLOS

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

April 2017



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California State Controller

April 28, 2017

The Honorable Bob Grassilli
Mayor of the City of San Carlos
600 Elm Street
San Carlos, CA 94070

Dear Mayor Grassilli:

The State Controller's Office audited the City of San Carlos'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 \$25,191 as of June 30, 2016. The city understated the fund balance because it over-expended its Special Gas Tax Street Improvement Fund.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/ljs

cc: Rebecca Mendenhall, Administrative Services Director
City of San Carlos

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of San Carlos'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 \$25,191 as of June 30, 2016. The city understated the fund balance because it over-expended its Special Gas Tax Street Improvement Fund. The city agreed with the finding and adjusted the fund accordingly.

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.

Objectives, Scope, and Methodology

Our audit objectives were 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 objectives, 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, reviewing the city's organization chart, and assessing the reliability of computer-processed data;
- 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, 2004, 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 100% of the expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and selecting samples of other transactions for the following categories based on our judgment (for the selected sample, errors found will not be projected to the intended population):
 - Professional services – We tested, reviewed, and recalculated \$21,646 of \$49,811 in total professional services expenditures.
 - Contractual services – We tested, reviewed, and recalculated \$1,936,044 of \$1,998,254 in total contractual services.
 - Indirect – We tested, reviewed, and recalculated \$117,025 of \$468,100 in total indirect costs.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Our audit found that the City of San Carlos 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 \$25,191 to the city's accounting records.

Follow-up on Prior Audit Findings

Our prior audit report, issued on July 13, 2005, disclosed no findings.

Views of Responsible Officials

We discussed the audit results with city representatives during an exit conference on March 29, 2017. Tara Peterson, Assistant City Manager; Rebecca Mendenhall, Administrative Services Director; Jay Walter, Public Works Director; and Carrie Tam, Financial Services Manager, agreed with the audit results. Ms. Mendenhall 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 San Carlos 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

April 28, 2017

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

	Special Gas Tax Street Improvement Fund ¹
	<u> </u>
Beginning fund balance per city	\$1,695,881
Revenues	<u>1,780,563</u>
Total funds available	3,476,444
Expenditures	<u>(2,516,165)</u>
Ending fund balance per city	<u>960,279</u>
SCO adjustment: ²	
Finding—Over-expended fund	<u>25,191</u>
Ending fund balance per audit	<u>\$ 985,470</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—
Over-expended fund**

During our fund balance reconciliation of the city’s Special Gas Tax Street Improvement Fund, we noted that in FY 2005-06, the city over-expended the fund by \$25,191.

The practice of funding one fiscal year’s activities with HUTA apportionments from the following fiscal year is contrary to established municipal budgetary and accounting practice and in violation of Article 16, section 18, of the California Constitution, which states, in part:

- (a) No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year.

As a result, the over-spending of \$25,191 is unallowable. The city agreed and transferred \$25,191 of non-gas tax funds to the Special Gas Tax Street Improvement Fund through Journal Entry No. 253, dated March 24, 2017.

Recommendation

In the future, the city should verify the existence of available funds prior to charging expenditures to the Special Gas Tax Street Improvement Fund.

**State Controller's Office
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