

CITY OF WILLIAMS

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2007, through June 30, 2013

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2007, through June 30, 2013

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2013



BETTY T. YEE
California State Controller

June 2016



BETTY T. YEE
California State Controller

June 3, 2016

The Honorable John J. Troughton, Jr.
Mayor of the City of Williams
P.O. Box 310
Williams, CA 95987

Dear Mayor Troughton, Jr.:

The State Controller's Office audited the City of Williams' Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013. We also audited the Traffic Congestion Relief Fund allocations recorded in its Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013, and the Proposition 1B Fund allocations recorded in its Special Gas Tax Street Improvement Fund, for the period of July 1, 2007, through June 30, 2013.

Our audit found that the city did not account for and expend its Special Gas Tax Street Improvement Fund in compliance with requirements. The city understated the fund balance by \$303,981 as of June 30, 2013, because it recorded expenditures of \$174,833 to the wrong fund, charged ineligible labor costs of \$91,134, and recorded in error Highway Users Tax apportionments of \$38,014. In addition, we identified a procedural finding.

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits Bureau, by telephone at (916) 284-0120.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

cc: Rex Greenbaum, Finance Officer
City of Williams

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Williams':

- Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013;
- Traffic Congestion Relief Fund allocations recorded in its Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013; and
- Proposition 1B Fund allocations recorded in its Special Gas Tax Street Improvement Fund for the period of July 1, 2007, through June 30, 2013.

Our audit found that the city did not account for and expend its Special Gas Tax Street Improvement Fund in compliance with requirements. The city understated the fund balance by \$303,981 as of June 30, 2013, because it recorded expenditures of \$174,833 to the wrong fund, charged ineligible labor costs of \$91,134, and recorded in error Highway Users Tax apportionments of \$38,014. In addition, we identified a procedural finding.

Background

The State apportions funds monthly from the Highway Users Tax Account 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 section 2101, 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.

Chapter 91, Statutes of 2000, (Assembly Bill 2928) as amended by Chapter 636, Statutes of 2000, (Senate Bill 1662) and Government Code section 14556.5, 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. Cities must deposit funds received into the city account designated for the receipt of State funds allocated for transportation purposes. The city recorded its Traffic Congestion Relief Fund allocations in its Special Gas Tax Street Improvement Fund. We conducted our audit of the city's Traffic Congestion Relief Fund allocations under the authority of Revenue and Taxation Code section 7104.

Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties must be deposited into an account that is designated for the receipt of State funds allocated for streets and roads. The city recorded its Proposition 1B Fund allocations in its Special Gas Tax Street Improvement Fund. A city also must expend its allocations within four years following the end of the fiscal year in which the allocation was made and to expend the funds in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B Fund allocations under the authority of Government Code section 12410.

Objectives, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations and Proposition 1B Fund allocations in compliance with Article XIX of the California Constitution, the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23.

To meet the audit objective, we performed the following procedures:

Special Gas Tax Street Improvement Fund

- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule to determine whether Highway Users Tax Account (HUTA) funds received by the city were completely accounted for.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine whether HUTA funds were expended in accordance with the criteria above.
- Analyzed and tested sample transactions to determine whether recoveries of prior HUTA fund expenditures were identified and credited to the Special Gas Tax Street Improvement Fund.
- Reviewed the fund cash and liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures.
- Interviewed city employees and reviewed policies and procedures to gain an understanding of the city's internal controls and accounting systems related to this audit.

Traffic Congestion Relief Fund Allocations

- Reconciled the Traffic Congestion Relief Fund allocations recorded in the city ledger to confirm that the allocations received by the city agreed with the SCO's apportionment schedule.

- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.
- Reconciled the City's "Schedule of Expenditures as Reported in the Streets and Roads Annual Report" with the SCO's "Average Annual Expenditures Computation of Discretionary Funds" to determine compliance with the maintenance-of-effort requirement.

Proposition 1B Fund Allocations

- Reconciled the Proposition 1B Fund allocations recorded in the city ledger to confirm that the allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected a sample of expenditure transactions and verified proper documentation and eligibility to determine the city's compliance with the criteria above.

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.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in accordance with the requirements of the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8879.23. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street-related purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit found that the City of Williams did not account for and expend 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, 2007, through June 30, 2013. As noted in Schedule 1 and described in the Findings and Recommendations section of this report, the findings require an adjustment of \$303,981 to the city's accounting records.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on April 9, 2002, disclosed no findings.

**Views of
Responsible
Officials**

We issued a draft audit report on January 19, 2016. Rex Greenbaum, Finance Officer, responded by email on March 29, 2016, neither agreeing nor disagreeing with the audit results.

Restricted Use

This report is intended for the information and use of the City of Williams 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

June 3, 2016

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2012, through June 30, 2013**

	Special Gas Tax Street Improvement Fund ^{1, 2, 3}
Beginning fund balance per city	\$ (165,369)
Revenues	<u>230,344</u>
Total funds available	64,975
Expenditures	<u>(202,690)</u>
Ending fund balance per city	<u>(137,715)</u>
Timing adjustment:	
Accrual of June 2013 Highway Users Tax apportionment (Governmental Accounting Standards Board Statement No. 34)	<u>11,799</u>
SCO adjustments: ⁴	
Finding 1—Expenditures recording error	174,833
Finding 2—Ineligible labor costs	91,134
Finding 3—Revenue recording error	<u>38,014</u>
Total SCO adjustments	<u>303,981</u>
Ending fund balance per audit	<u>\$ 178,065</u>

¹ The city receives apportionments from the State Highway Users Tax Account (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. The audit period was July 1, 2007, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

² Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The city recorded its Traffic Congestion Relief Fund allocations in its Special Gas Tax Street Improvement Fund. The audit period was July 1, 2007, through June 30, 2013. The city did not receive any Traffic Congestion Relief Fund revenues and did not incur any Traffic Congestion Relief Fund expenditures during FY 2012-13; therefore, it is not included in this schedule.

³ Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds for a variety of transportation priorities. The city recorded its Proposition 1B Fund allocation in its special Gas Tax Street Improvement Fund. The audit period was July 1, 2007, through June 30, 2013. The city did not receive any Proposition 1B revenues and did not incur any Proposition 1B expenditures during FY 2012-13; therefore, it is not included in this schedule.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Recording error**

During fiscal year (FY) 2008-09 and FY 2009-10, the city mistakenly charged street expenditures, in the amounts of \$121,315 and \$53,518, respectively, to the Special Gas Tax Street Improvement Fund when the expenditures should have been charged to the General Fund.

Recommendation

The city should transfer \$174,833 to the Special Gas Tax Street Improvement Fund. In the future, the city should track its street expenditures and ensure that the expenditures are charged to the correct fund.

**FINDING 2—
Ineligible labor costs**

The city charged non-street-related labor costs, totaling \$91,134, to the Special Gas Tax Street Improvement Fund during FY 2010-11, FY 2011-12, and FY 2012-13. We informed the city finance director that the city should track the payroll charges for street-related labor costs only.

Streets and Highways Code section 2101 specifies that Highway Users Tax apportionments are to be expended only for the construction, maintenance, and operation of public streets and roads, construction of exclusive public mass transit guideways, and related administrative costs.

As a result, the non-street-related labor expenditures of \$91,134 are unallowable.

Recommendation

The city should transfer \$91,134 to the Special Gas Tax Street Improvement Fund. In the future, the city should ensure that all expenditures charged to the Special Gas Tax Street Improvement Fund are street-related.

**FINDING 3—
Highway Users Tax
recording error**

The city erroneously deposited \$38,014 of Highway Users Tax apportionments in the General Fund.

Streets and Highways Code section 2113 states that all revenues from the Highway Users Tax account must be deposited into the Special Gas Tax Street Improvement Fund.

Recommendation

The city should transfer \$38,014 to the Special Gas Tax Street Improvement Fund and should ensure that all future Highway Users Tax apportionments are deposited into that fund.

**FINDING 4—
Deficit fund balance**

The city's Special Gas Tax Street Improvement Fund operated with a deficit fund balance (as a result of Findings 1–3) from FY 2007-08 through FY 2012-13.

The practice of funding one fiscal year's activities with Highway Users Tax apportionments from the following fiscal year is in violation of Article 16, Section 18, of the California Constitution and contrary to established municipal budgetary and accounting practices.

Recommendation

The city should establish procedures to ensure that there are sufficient funds in the Special Gas Tax Street Improvement Fund prior to incurring expenditures.

**State Controller's Office
Division of Audits
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