

CITY OF AMADOR CITY

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2014, through June 30, 2015



BETTY T. YEE
California State Controller

July 2016



BETTY T. YEE
California State Controller

July 22, 2016

The Honorable Tim Knox
Mayor of the City of Amador City
14531 East School Street
P.O. Box 200
Amador City, CA 956001

Dear Mayor Knox:

The State Controller's Office audited the City of Amador City's Special Gas Tax Street Improvement Fund for the period of July 1, 2014, through June 30, 2015.

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 in the Special Gas Tax Street Improvement Fund by \$2,840 as of June 30, 2015, because it incurred non-street-related expenditures.

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/as

cc: Joyce Davidson, City Clerk
City of Amador City
Mary Louise Nixon, Independent Finance CPA Contractor
City of Amador City

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Audit Report

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Amador City's Special Gas Tax Street Improvement Fund for the period of July 1, 2014, through June 30, 2015.

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 in the Special Gas Tax Street Improvement Fund by \$2,840 as of June 30, 2015, because it incurred non-street-related 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 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.

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, 2014, through June 30, 2015.

To meet the objectives, we performed the following:

- 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 balance by performing a fund balance reconciliation for the period of July 1, 2014, through June 30, 2014, and by recalculating the trial balance for the period of July 1, 2014, through June 30, 2015;

- Verified whether the components of and changes to the fund balance were properly computed, described, classified, and disclosed by scheduling and analyzing the Special Gas Tax Street Improvement Fund;
- Reconciled the revenue recorded in the city ledger to the amounts reported in the SCO's apportionment schedule for FY 2014-15 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 FY 2014-15 were supported by proper documentation and eligible in accordance with the criteria above by testing 100% of \$15,085 total expenditures.

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 above. 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 Amador 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 for the period of July 1, 2014, through June 30, 2015, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$2,840 to the city's accounting records.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on November 26, 2003, disclosed no findings.

**Views of
Responsible
Officials**

We discussed the audit results with city representatives during an exit conference on May 13, 2016. Mary Louise Nixon, Independent Financial CPA Contractor, agreed with the audit results. Ms. Nixon 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 intended for the information and use of the City of Amador City 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

July 22, 2016

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2014, through June 30, 2015**

| | Special Gas Tax Street Improvement Fund ¹ |
|---------------------------------|---|
| Beginning fund balance per city | \$ 27,661 |
| Revenues | <u>20,810</u> |
| Total funds available | 48,471 |
| Expenditures | <u>(15,085)</u> |
| Ending fund balance per city | <u>33,386</u> |
| SCO adjustment: ² | |
| Finding—Ineligible expenditures | <u>2,840</u> |
| Ending fund balance per audit | <u><u>\$ 36,226</u></u> |

¹ The 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 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.

² See the Finding and Recommendation section.

Finding and Recommendation

FINDING— Ineligible expenditures

During FY 2014-15, the city's Special Gas Tax Street Improvement Fund incurred non-street-related expenditures of \$2,840; therefore, the amount of \$2,840 is disallowed.

Streets and Highways Code section 2101 specifies that:

... all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for all of the following:

- (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways...
- (b) The research and planning for exclusive public mass transit guideways (and their related fixed facilities), the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes.
- (c) The construction and improvement of exclusive public mass transit guideways (and their related fixed facilities), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, the administrative costs necessarily incurred in the foregoing purposes, and the maintenance of the structures and the immediate right-of-way for the public mass transit guideways...
- (d) The payment of principal and interest on voter-approved bonds issued for the purposes specified in subdivision (c).

Recommendation

The city should transfer \$2,840 into the Special Gas Tax Street Improvement Fund. In addition, the city should ensure that all expenditures incurred by the Special Gas Tax Street Improvement Fund are for street-related purposes.

**State Controller's Office
Division of Audits
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