CITY OF RICHMOND

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2006, through June 30, 2014

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2006, through June 30, 2014

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2008, through June 30, 2014

BETTY T. YEE

California State Controller

July 2016

BETTY T. YEE
California State Controller

July 29, 2016

The Honorable Tom Butt
Mayor of the City of Richmond
City of Richmond
450 Civic Center Plaza
Richmond, CA 94804

Dear Mayor Butt:

The State Controller's Office audited the City of Richmond's Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2014. We also audited the Traffic Congestion Relief Fund allocations recorded in its Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2014, and the Proposition 1B Fund allocations recorded in its Transportation Fund for the period of July 1, 2008, through June 30, 2014.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements; however, it understated the fund balance by $1,861,769 as of June 30, 2014. The city understated the fund balance because it charged the Special Gas Tax Street Improvement Fund unallowable debt service payments for the period of July 1, 2006 to June 30, 2012. In addition, our audit found that the city accounted for and expended its Proposition 1B Fund allocations in compliance with requirements for the period of July 1, 2008, through June 30, 2014.

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits bureau, by telephone at (916) 284-0120 or by email at clek@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

Attachment

cc: Belinda Warner, Finance Director
City of Richmond

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Audit Report

Summary

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

- Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2014;
- Traffic Congestion Relief Fund allocations recorded in its Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2014; and
- Proposition 1B Fund allocations recorded in its Transportation Fund for the period of July 1, 2008, through June 30, 2014.

Our audit found that although the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, the city understated the fund balance by $1,861,769 as of June 30, 2014. The city understated the fund balance because it charged the Special Gas Tax Street Improvement Fund unallowable debt service payments for the period of July 1, 2006, through June 30, 2012. In addition, our audit found that the city accounted for and expended its Proposition 1B Fund allocations in compliance with requirements for the period of July 1, 2008, through June 30, 2014.

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.

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 Transportation 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 allocation in compliance with Government Code section 8879.23. We conducted our review 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 the 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 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 a sample of 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 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 Richmond 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, 2006, through June 30, 2014, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding requires an adjustment of $1,861,769 to the city's accounting records.

- Traffic Congestion Relief Fund allocations recorded in its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue Taxation Code section 7104 for the period of July 1, 2006, through June 30, 2014.
- Proposition 1B Fund allocations recorded in its Transportation Fund in compliance with Government Code section 8879.23 for the period of July 1, 2008, through June 30, 2014.

Follow-Up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report, issued on June 25, 2002.

Views of Responsible Officials

We issued a draft audit report on June 21, 2016. Belinda Warner, Finance Director, responded by letter dated July 13, 2016. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is intended for the information and use of the City of Richmond's management 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 29, 2016

Schedule 1—
Reconciliation of Fund Balance
July 1, 2013, through June 30, 2014

	Special Gas Tax Street Improvement Fund [1, 2, 3]
Beginning fund balance per city	$ 2,214,313
Revenues	3,309,706
Total funds available	5,524,019
Expenditures	(3,967,951)
Ending fund balance per city	1,556,068
SCO adjustment: [4]	
Finding—Unallowable debt service payments	1,861,769
Total SCO adjustment	1,861,769
Ending fund balance per audit	$ 3,417,837

[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. The audit period was July 1, 2006, through June 30, 2014; however, this schedule includes only the period of July 1, 2013, through June 30, 2014.

[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, 2006, through June 30, 2014. The city did not receive any Traffic Congestion Relief Fund revenues and did not incur any Traffic Congestion Relief Fund expenditures during FY 2013-14, 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 allocations in its Transportation Fund. The audit period was July 1, 2008, through June 30, 2014. The city did not receive any Proposition 1B Fund revenues and did not incur any Proposition 1B Fund expenditures during FY 2013-14; therefore it is not included in this schedule.

[4] See the Finding and Recommendation section.

Finding and Recommendation

FINDING—
Unallowable debt service payments

The city charged unallowable bond debt service payments (principal and interest) of $1,861,769 to the Special Gas Tax Street Improvement Fund for the period of July 1, 2006, through June 30, 2012. The unallowable debt service payments were for the Richmond Joint Powers Financing Authority (Authority) Refunding Revenue Bonds Series 1995A – Original Issue Series A for $17,320,000.

On September 1, 1992, the city entered into an Installment Purchase Agreement (Agreement) with the Authority to purchase the street improvements of the 23rd Street Grade Separation Project with Gas Tax revenue. The Authority financed the project with bond proceeds and used the Gas Tax revenue to pay bondholders.

On November 1, 1995, the city and Authority amended the agreement and revised the payment schedule by issuing Refunding Revenue Bonds Series 1995A to acquire the prior bonds to lower the city's payments.

The Gas Tax payments made under this agreement, a total of $1,861,769 during the audit period, are not allowable according to Streets and Highways Code section 2107.4, which states:

> Not more than one-quarter of the funds allocated to a city or county from the Highway Users Tax Account in the Transportation Tax Fund for the construction of Streets therein may be used to make principal and interest payments on bonds issued for such construction, if the issuance of such bonds is authorized by a proposition approved by a majority of the votes cast thereon. The term of any such bonds shall not exceed 25 years.

The city did not obtain the required voter approval for payments of principal and interest from the Special Gas Tax Street Improvement Fund. Therefore, the city did not comply with the Street and Highways Code requirement.

As a result, the following debt service charges to the Special Gas Tax Street Improvement Fund are unallowable:

Debt service payments	Total
FY 2011-12	407,312
FY 2010-11	420,014
FY 2009-10	373,031
FY 2008-09	418,316
FY 2007-08	130,931
FY 2006-07	112,165
Audit Adjustments	1,861,769

Recommendation

The city should reimburse the Special Gas Tax Street Improvement Fund for unallowable bond debt service payments totaling $1,861,769 for the period of July 1, 2006, through June 30, 2012. In the future, the city should ensure that all bond debt service payments charged to the Special Gas Tax Street Improvement Fund are for voter-approved bonds, that the debt service payments do not exceed one-quarter of the annual gas tax allocations, and that the terms of the bonds do not exceed 25 years.

City's Response

The city responded by letter dated July 13, 2016 (attached).

SCO's Comment

The city wishes to repay the amount over six years. The SCO will follow-up on the repayment during the next audit.

Attachment—
City of Richmond's Response to Draft Audit Report

July 13, 2016

Christopher Lek, Interim Chief
Local Government Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Lek,

Per your draft audit dated June 21, 2016, the audit found that the City understated the fund balance by $1,861,769 because it charged the Special Gas Tax Street Improvement Fund unallowable debt service payments for the period of July 1, 2006 to June 30, 2012. The City wishes to repay the amount over six years starting in fiscal year 2018 and completion of repayment no later than fiscal year 2023.

Please let me know if this is acceptable. I can be reached at 510-621-1272 or Belinda_Warner@ci.richmond.ca.us.

Thank you,

Belinda Warner, Finance Director
City of Richmond

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

http://www.sco.ca.gov

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