TOWN OF PARADISE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2014, through June 30, 2015

BETTY T. YEE

California State Controller

August 2016

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California State Controller

August 3, 2016

The Honorable Jody Jones
Mayor of the Town of Paradise
5555 Skyway
Paradise, CA 95969

Dear Mayor Jones:

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

Our audit found that the town accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required.

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: Gina Will, Finance Director
Town of Paradise

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Audit Report

Summary

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

Our audit found that the town accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required.

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 town'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 town 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 town'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 town'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, 2004 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 town ledger to the amounts reported in the SCO's apportionment schedule for FY 2014-15 to determine whether HUTA apportionments received by the town were completely accounted for;
- Reviewed town 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 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):
    - Services and Supplies – We tested $91,704 of $774,679 in total services and supplies expenditures.
    - Labor – We tested $28,895 of $340,089 in total labor costs.
    - Indirect – We tested $100,857 of $166,681 in total indirect costs.
    - Transfers – We tested $126,961 of $206,816 in total transfers.

We did not audit the town's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the town accounted for and expended its Special Gas Tax Street Improvement Fund in accordance with the criteria above. We considered the town'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 Town of Paradise 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.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on December 23, 2005, disclosed no findings.

Views of Responsible Officials

We discussed the audit results with town representatives during an exit conference on June 27, 2016. Gina Will, Finance Director, agreed with the audit results. Ms. Will 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 Town of Paradise 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

August 3, 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 town	$ 503,632
Revenues	709,320
Total funds available	1,212,952
Expenditures	(774,679)
Ending fund balance per town	438,273
Ending fund balance per audit	$ 438,273

[1] The town 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 town must record its HUTA apportionments in its Special Gas Tax Street Improvement Fund.

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