

# **CITY OF SAN JUAN BAUTISTA**

Audit Report

## **SPECIAL GAS TAX STREET IMPROVEMENT FUND**

*July 1, 2014, through June 30, 2015*



**BETTY T. YEE**  
California State Controller

September 2016



**BETTY T. YEE**  
California State Controller

September 12, 2016

The Honorable Rick Edge  
Mayor of the City of San Juan Bautista  
P.O. Box 1420  
San Juan Bautista, CA 95045

Dear Mayor Edge:

The State Controller's Office audited the City of San Juan Bautista'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 \$5,186 as of June 30, 2015, because it charged ineligible expenditures of \$4,928 and did not allocate interest income of \$258.

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: Roger Grimsley, City Manager  
San Juan Bautista

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of San Juan Bautista'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 \$5,186 as of June 30, 2015, because it charged ineligible expenditures of \$4,928 and did not allocate interest income of \$258.

## 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, 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 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 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 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, reviewed, and recalculated \$18,080 of \$31,855 in total services and supplies expenditures.
  - Labor – We tested, reviewed, and recalculated \$65,140 of \$65,397 in total labor 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 compliance with requirements. 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 Juan Bautista 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 Findings and Recommendations section of this report. The findings require an adjustment of \$5,186 to the city's accounting records.

**Follow-Up on Prior Audit Findings**

Our prior audit report, issued on May 19, 2006, disclosed no findings.

**Views of Responsible Officials**

We discussed the audit results with city representatives during an exit conference on August 3, 2016. Roger Grimsley, City Manager; Connie Schobert, City Clerk; and Wendy Cumming, Consultant, agreed with the audit results. Mr. Grimsley 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 San Juan Bautista 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

September 12, 2016

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

	Special Gas Tax Street Improvement Fund <sup>1</sup>
Beginning fund balance per city	\$ 200,802
Revenues	<u>52,362</u>
Total funds available	253,164
Expenditures	<u>(97,252)</u>
Ending fund balance per city	<u>155,912</u>
SCO adjustments: <sup>2</sup>	
Finding 1—Ineligible expenditures	4,928
Finding 2—Unallocated interest income	<u>258</u>
Total SCO adjustments	<u>5,186</u>
Ending fund balance per audit	<u><u>\$ 161,098</u></u>

<sup>1</sup> 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-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 record its HUTA apportionments in its Special Gas Tax Street Improvement Fund.

<sup>2</sup> See the Findings and Recommendations section.

# Findings and Recommendations

**FINDING 1—  
Ineligible expenditures**

During FY 2014-15, the city improperly charged \$4,928 to the Special Gas Tax Street Improvement Fund for “One Cluster Slant Trash Bin,” a non-street-related cost.

Streets and Highways Code section 2101 states, in part, “...all moneys in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriated for ... (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways...”

As a result, the trash bin cost of \$4,928 is unallowable. The city agreed with the finding and reimbursed the Special Gas Tax Street Improvement Fund by Journal Entry No. 28855 dated August 1, 2016.

Recommendation

In the future, the city should establish adequate procedures to ensure that all costs charged to the Special Gas Tax Street Improvement Fund are for street-related costs.

**FINDING 2—  
Unallocated interest  
income**

During FY 2014-15, the city’s Special Gas Tax Street Improvement Fund balance was understated by \$258 because the city did not allocate interest income.

Streets and Highways Code section 2113 states, in part, “... Interest received by a city from the investment of money in its special gas tax street improvement fund shall be deposited in the fund and shall be used for street purposes.”

The SCO auditor calculated the interest earned and concluded that the Special Gas Tax Street Improvement Fund should have been allocated \$258 in interest income.

The city agreed with the finding and transferred \$258 into the Special Gas Tax Street Improvement Fund by Journal Entry No. 28856 dated August 1, 2016.

Recommendation

In the future, the city should establish procedures to ensure that interest income is allocated to the Special Gas Tax Street Improvement Fund.

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

**<http://www.sco.ca.gov>**