

CITY OF WILLITS

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2002, through June 30, 2014

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2002, through June 30, 2014

PROPOSITION 1B FUND

July 1, 2007, through June 30, 2014



BETTY T. YEE
California State Controller

November 2015



BETTY T. YEE
California State Controller

November 20, 2015

The Honorable Bruce Burton
Mayor of the City of Willits
111 East Commercial Street
Willits, CA 95940

Dear Mayor Burton:

The State Controller's Office audited the City of Willits' Special Gas Tax Street Improvement Fund for the period of July 1, 2002, through June 30, 2014. However, we were unable to review the records for the period of July 1, 2002 through June 30, 2006 because these records were not available. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2002, through June 30, 2014, and the Proposition 1B Fund for the period of July 1, 2007, 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, except that it understated the fund balance by \$21,074 as of June 30, 2014. The city understated the fund balance because of a negative fund balance of \$20,321, and ineligible expenditures of \$753.

In addition, our audit found that the city accounted for and expended its Proposition 1B fund in compliance with requirements.

If you have any questions, please contact Mike Spalj, Chief, Local Government Audits Bureau, at (916) 324-6984.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: Susie Holmes, Finance Director
City of Willits

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Audit Report

Summary

The State Controller's Office audited the City of Willits':

- Special Gas Tax Street Improvement Fund for the period of July 1, 2002, through June 30, 2014. However, we were unable to review the records for the period of July 1, 2002 through June 30, 2006, because these records were not available.
- Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2002, through June 30, 2014.
- Proposition 1B Fund for the period of July 1, 2007, 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, except that the city understated the fund balance by \$21,074 as of June 30, 2014. The city understated the fund balance because of a negative fund balance of \$20,321, and ineligible expenditures of \$753.

In addition, our audit found that the city accounted for and expended its Proposition 1B Fund in compliance with requirements.

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 TCRF allocations in the Special Gas Tax Street Improvement Fund. We conducted our audit of the city's TCRF 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 shall 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 the Proposition 1B Fund. A city also is required to 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 under the authority of Government Code section 12410.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund, TCRF allocations, and Proposition 1B Fund 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 sample 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 (TCRF) Allocations

- Reconciled the TCRF revenue recorded in the city ledger to confirm that the TCRF allocations received by the city agreed with the SCO's apportionment schedule.

- Judgmentally selected sample 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 (MOE) requirement.

Proposition 1B Fund

- Reconciled the Proposition 1B revenue recorded in the city ledger to confirm that the Proposition 1B allocations received by the city agreed with the SCO's apportionment schedule.
- Judgmentally selected sample 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 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 Willits 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, 2002, through June 30, 2014, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$21,074 to the city's accounting records.
- TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2002, through June 30, 2014.

- Proposition 1B Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2014.

**Follow-Up on Prior
Audit Findings**

Our prior audit report, issued on November 26, 2004, disclosed no findings.

**Views of
Responsible
Officials**

We discussed the audit results with city representatives during an exit conference on May 27, 2015. Bruce Burton, Mayor; Adrienne Moore, City Manager; Susie Holmes, Finance Director; and Rod Wilburn, Public Works Director, agreed with the audit results. Ms. Holmes 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 Willits' 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

November 20, 2015

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

	Special Gas Tax Street Improvement Fund Highway Users Tax Allocations ^{1, 2, 3.}
Beginning fund balance per city	\$ —
Revenues	388,368
Total funds available	388,368
Expenditures	(408,689)
Ending fund balance per city	(20,321)
Timing adjustment:	
Accrual of June 2014 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	5,134
SCO adjustments: ⁴	
Finding 1—Negative fund balance	20,321
Finding 2—Ineligible expenditures	753
Total SCO adjustments	21,074
Ending fund balance per audit	\$ 5,887

¹ The city receives apportionments from the State Highway Users Tax Account, 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 audit period was July 1, 2002, 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 (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Special Gas Tax Street Improvement Fund. The audit period was July 1, 2002, through June 30, 2014. The city did not receive any TCRF revenues and did not incur any TCRF 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 audit period was July 1, 2007, through June 30, 2014. The city did not receive any Proposition 1B revenues and did not incur any Proposition 1B expenditures during FY 2013-14; therefore, it is not included in this schedule.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Negative Fund balance**

During fiscal year 2013-14, the city’s Special Gas Tax Street Improvement Fund had a negative fund balance of \$20,321. This resulted from the city inadvertently charging more street expenditures to the Fund than there were funds available.

The practice of funding one fiscal year’s expenditures with Highway Users Tax apportionments of the following fiscal year violates Article 16, Section 18, of the California Constitution, and is contrary to established municipal budgetary and accounting practice.

As a result, the negative balance of \$20,321 is unallowable.

Recommendation

The city should transfer \$20,321 to the Special Gas Tax Street Improvement Fund to eliminate the negative fund balance. In addition, the city should establish procedures to ensure that there are sufficient funds in the Special Gas Tax Street Improvement Fund prior to charging expenditures.

The city agreed with our recommendation and created Journal Entry #J-12-29, dated May 27, 2015, to transfer funds from its General Fund to its Special Gas Tax Street Improvement Fund to correct the negative fund balance.

**FINDING 2—
Ineligible expenditures**

During fiscal year 2013-14, the city improperly charged \$753 to its Special Gas Tax Street Improvement Fund for various non-street-related costs.

Streets and Highways Code section 2101 specifies that gas tax revenue may only be expended for street-related purposes.

As a result, the following non-street-related expenditures are unallowable:

1) Sewer gasket	515
2) Decorative lights	238
	<u>\$ 753</u>

Recommendation

The city should transfer \$753 into the Special Gas Tax Street Improvement Fund. In the future, the city should ensure that all costs charged to the Fund are street-related.

The city agreed with our recommendation and created Journal Entry #J-12-29, dated May 27, 2015, to transfer funds from its General Fund to the Special Gas Tax Street Improvement Fund.

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

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