

CITY OF INGLEWOOD

Audit Report

SPECIAL GAS TAX STREET FUND

October 1, 2017, through September 30, 2018



BETTY T. YEE
California State Controller

March 2020



BETTY T. YEE
California State Controller

March 25, 2020

David L. Esparza, Assistant City Manager/Chief Financial Officer
City of Inglewood
1 Manchester Boulevard
Inglewood, CA 90301

Dear Mr. Esparza:

The State Controller's Office audited the City of Inglewood's Special Gas Tax Street Fund to determine whether the city accounted for and expended its Special Gas Tax Street Fund in compliance with requirements for the period of October 1, 2017, through September 30, 2018. The State Controller's Office also reviewed the city's Annual Street Report for the period of October 1, 2017, through September 30, 2018 to determine whether the report was adequate and accurate.

Our audit found that the city accounted for and expended its Special Gas Tax Street Fund in compliance with requirements, and that no adjustment to the fund is required. Our audit also found that the city's Annual Street Report was adequate and accurate. However, we identified a deficiency in internal control that is significant to the audit objective and warrants the attention of management.

If you have any questions, please contact Efren Lose, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: The Honorable James T. Butts Jr., Mayor
City of Inglewood
Artie Fields, City Manager
City of Inglewood
Sharon Koike, Assistant Finance Director
City of Inglewood

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Inglewood's Special Gas Tax Street Fund to determine whether the city accounted for and expended its Special Gas Tax Street Fund in compliance with requirements for the period of October 1, 2017, through September 30, 2018 (fiscal year [FY] 2017-18). The SCO also reviewed the city's FY 2017-18 Annual Street Report (ASR) to determine whether the report was adequate and accurate.

Our audit found that the city accounted for and expended its Special Gas Tax Street Fund in compliance with requirements, and that no adjustment to the fund is required. Our audit also found that the city's ASR was adequate and accurate. However, we identified a deficiency in internal control that is significant to the audit objective and warrants the attention of management.

Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) in the Transportation Tax Fund to cities¹ 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 Streets and Highways Code, cities must establish individual Special Gas Tax Street Funds for the deposit of their HUTA fund apportionments. Additionally, cities must expend their HUTA fund apportionments only for street-related purposes in accordance with Article XIX of the California Constitution and Streets and Highways Code. We conducted our audit of the city's Special Gas Tax Street Fund under the authority of Government Code section 12410.

Cities are also required to file a report with the SCO, on or before December 1 of each year, detailing revenues and expenditures for street-related purposes during the preceding fiscal year. We performed our review of the city's ASR under the authority of Streets and Highways Code section 2153.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended its Special Gas Tax Street Fund in compliance with Article XIX of the California Constitution and Streets and Highways Code; and whether the city's ASR was adequate and accurate.

The audit period was October 1, 2017, through September 30, 2018.

To achieve our objective, we:

- 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 Fund by interviewing key personnel, completing an

¹Includes towns.

internal control questionnaire, and reviewing the city's organization chart;

- 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 fund balances by performing a fund balance reconciliation for the period of October 1, 2006, through September 30, 2017, and by recalculating the trial balance for the period of October 1, 2017, through September 30, 2018;
- Verified that the components of and changes to fund balances were properly computed, described, classified, and disclosed by scheduling and analyzing the Special Gas Tax Street Fund account balances;
- Reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule for FY 2017-18 to determine whether HUTA apportionments received by the city were completely accounted for;
- Analyzed the system used to allocate interest and determined whether the interest revenue allocated to the Special Gas Tax Street Fund was fair and equitable, by interviewing key personnel and recalculating all interest allocations for the audit period;
- Reviewed the fund cash and receivables accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures and protected from impairment;
- Verified that the expenditures incurred during the audit period were supported by proper documentation and eligible in accordance with the applicable criteria, by testing all expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and judgmentally selecting non-statistical samples of other transactions for the following categories:
 - Services and Supplies – We tested \$2,587,387 of \$3,581,277.
 - Labor – We tested \$26,561 of \$275,925.
 - Indirect – We tested \$13,925 of \$83,552.

For the selected samples, errors found, if any, were not projected to the intended (total) population; and

- Interviewed key personnel to gain an understanding of citywide street-related funds and activities and the ASR reporting process, and to verify whether the city accounted for all of its HUTA apportionments; reported and properly classified all of its street-related expenditures, revenues, and year-end fund balances; and filed its ASR in a timely manner.

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 Fund in accordance with the criteria. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

Our audit found that the City of Inglewood accounted for and expended its Special Gas Tax Street Fund in compliance with Article XIX of the California Constitution and Streets and Highways Code for the period of October 1, 2017, through September 30, 2018. Our audit also found that the city's ASR was adequate and accurate.

However, we identified a deficiency in internal control that is significant to the audit objective and warrants the attention of management. This deficiency is described in the Finding and Recommendation section of this audit report.

Follow-up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report for the period of October 1, 2005, through September 30, 2006, issued on August 8, 2008.

Views of Responsible Officials

We issued a draft audit report on January 24, 2020. David L. Esparza, Assistant City Manager/Chief Financial Officer, responded by letter dated February 20, 2020, agreeing with the audit results. The city's response is included in this final audit report as an attachment.

Restricted Use

This audit report is solely for the information and use of the City of Inglewood 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 audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

March 25, 2020

Schedule—
Reconciliation of Fund Balance
October 1, 2017, through September 30, 2018

| | Special Gas Tax Street Fund ¹ |
|---------------------------------|--|
| Beginning fund balance per city | \$ 1,859,660 |
| Revenues | <u>2,154,796</u> |
| Total funds available | 4,014,456 |
| Expenditures | <u>(3,940,754)</u> |
| Ending fund balance per city | <u>\$ 73,702</u> |
| Ending fund balance per audit | <u>\$ 73,702</u> |

¹Cities receive 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. Cities must establish individual Special Gas Tax Street Funds for the deposit of their HUTA fund apportionments.

Finding and Recommendation

**FINDING—
Failure to comply with
city’s Accounts
Receivable Policies
and Procedures**

During our review of the Special Gas Tax Street Fund’s cash and receivables accounts for FY 2017-18, we noted that the city did not make efforts to collect past due Accounts Receivable for Traffic and Lighting Damages owed to the city. The city’s Accounts Receivable Customer Aging by Fund report identified \$15,833 of uncollected reimbursements over 120 days past due as of September 30, 2018. The balance consisted of 12 amounts for damages to city property, caused primarily by traffic collisions occurring in 2016 and 2017. Each of the 12 incidents resulted in the city’s Public Works Department repairing city property and incurring street-related repair costs charged to the city’s Special Gas Tax Street Fund. Subsequent to the completion of repair work, the city created Accounts Receivable with the respective customer number and incident date to recover the cost of the damages to city property.

However, our review of supporting documents and discussions with city personnel revealed that the city made no efforts to collect on the Accounts Receivable for Traffic and Lighting Damages, contrary to the city’s Accounts Receivable Policies and Procedures.

The city’s Accounts Receivable Policies and Procedures (updated September 12, 2017), section 2.4, The Collections Process, states, in part:

The Senior Account Clerk will send 3 follow-up invoices and letters for collection. Senior Account Clerk will attempt to contact the customer to gain payment if proper contact information is on file. If we do not get a response, the customer will be forwarded to a collection agency.

Furthermore, section 2.5, Write Offs for Bad Debt, states, in part:

The Finance Department will recognize bad debts arising from accounts receivables after all appropriate, internal and external collection efforts have proven unsuccessful.

- 1) A debt will be deemed to be a bad debt after having given the collection agency a 6 month period to collect.
- 2) The Finance Supervisor will identify accounts that cannot be collected by the collection agency and create a list that will be presented to City Council.
- 3) Once the list is ratified, the Finance Supervisor is responsible for forwarding them to Accounting to record the appropriate write-off.
- 4) The debt will be moved out of account # 001.10610 (Accounts Receivable in Collections) and written-off. All accounts that have been written off will also be removed from the master collection file.

Due to a lack of oversight, the city made no efforts to collect the past due Accounts Receivable totaling \$15,833 as of September 30, 2018. In failing to properly manage its Accounts Receivable for Traffic and Lighting Damages, the city is potentially overstating the balance of the Special Gas Tax Street Fund if the past-due receivables are not written off as uncollectible.

Recommendation

We recommend that the city:

- Establish oversight procedures to ensure timely collection of Accounts Receivable; and
- Follow its Accounts Receivable Policies and Procedures for the collection process and bad debt write-offs.

City's Response

The Finance department has established an updated collection policy that applies to all account receivables. This policy includes the initial invoicing and several follow up notices sent out on all accounts. The collection policy was revised and updated on 9/12/2017 and includes a process to submit outstanding accounts to a collection agency after city staff have made several attempts to collect the account.

At this time, the Finance department is scheduled to request the authorization from City Council to write off all old outstanding receivables that have been deemed to be uncollectible. This request is scheduled to be presented at the April 7, 2020 Council meeting. Going forward, the Finance department will continue to review all outstanding receivables on a regular basis, send out notifications, and for those accounts that receive no response or payment, the account will be submitted to a collection agency.

**Attachment—
City of Inglewood's Response to Draft Audit Report**



CITY OF INGLEWOOD
FINANCE DEPARTMENT



February 20, 2020

Mr. Efren Loste, Chief
Local Government Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, CA 94250

Dear Mr. Loste,

This letter is in response to your audit of the City of Inglewood's Special Gas Tax Street Fund for the period of October 1, 2017 through September 30, 2018. We are submitting our response to the finding you have identified in this report.

SCO Finding: Failure to comply with City's Account Receivable Policies and Procedures

City's Response: The Finance department has established an updated collection policy that applies to all account receivables. This policy includes the initial invoicing and several follow up notices sent out on all accounts. The collection policy was revised and updated on 9/12/2017 and includes a process to submit outstanding accounts to a collection agency after city staff have made several attempts to collect the account.

At this time, the Finance department is scheduled to request the authorization from City Council to write off all old outstanding receivables that have been deemed to be uncollectible. This request is scheduled to be presented at the April 7, 2020 Council meeting. Going forward, the Finance department will continue to review all outstanding receivables on a regular basis, send out notifications, and for those accounts that receive no response or payment, the account will be submitted to a collection agency.

If you have any further questions, please do not hesitate to contact Sharon Kolke, Assistant Finance Director, at (310) 412-8724.

Sincerely,



David L. Esparza
Assistant City Manager/CFO

Cc: Sharon Kolke, Assistant Finance Director
City of Inglewood

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

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