

# **CITY OF AZUSA**

Audit Report

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

*July 1, 2015, through June 30, 2016*



**BETTY T. YEE**  
California State Controller

April 2019



**BETTY T. YEE**  
California State Controller

April 29, 2019

Sergio Gonzalez, City Manager  
City of Azusa  
213 East Foothill Boulevard  
Azusa, CA 91702

Dear Mr. Gonzalez:

The State Controller's Office audited the City of Azusa's Special Gas Tax Street Improvement Fund to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements for the period of July 1, 2015, through June 30, 2016.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required. However, we identified a deficiency in internal control that is not significant to the audit objective but 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 Joseph Romero Rocha, Mayor  
City of Azusa  
Talika Johnson, Finance Director  
City of Azusa  
Henry Quintero, Senior Accountant  
City of Azusa

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Azusa's Special Gas Tax Street Improvement Fund to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements for the period of July 1, 2015, through June 30, 2016.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required. However, we identified a deficiency in internal control that is not significant to the audit objective but warrants the attention of management.

## Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) in the Transportation Tax Fund to cities<sup>1</sup> 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 Improvement 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 Improvement Fund under the authority of Government Code (GC) 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 in compliance with Article XIX of the California Constitution and Streets and Highways Code.

The audit period was July 1, 2015, through June 30, 2016.

To achieve our objective, we:

- Gained a limited understanding of internal control 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, 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;

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<sup>1</sup> Includes towns.

- Verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2012, through June 30, 2015, and by recalculating the trial balance for the period of July 1, 2015, through June 30, 2016;
- Verified that 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 fiscal year (FY) 2015-16 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 Improvement 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; and
- 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 of the 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 \$132,019 of \$373,740.
  - Labor – We tested \$57,489 of \$772,521.

For the selected sample, errors found, if any, were not projected to the intended (total) population.

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 accordance with the criteria. We considered the city's internal control 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 Azusa accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and Streets and Highways Code for the period of July 1, 2015, through June 30, 2016. However, we identified a deficiency in internal controls that is not significant to the audit objective but warrants the attention of management. This deficiency is described in the Observation and Recommendation section of this audit report.

**Follow-up on Prior Audit Findings**

Our prior audit report for the period of July 1, 2004, through June 30, 2012, issued on April 9, 2013, disclosed no findings.

**Views of Responsible Officials**

We issued a draft audit report on March 11, 2019. Henry Quintero, Senior Accountant, responded by email on March 18, 2019, agreeing with the audit results.

**Restricted Use**

This audit report is solely for the information and use of the City of Azusa 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](http://www.sco.ca.gov).

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

April 29, 2019

**Schedule—**  
**Reconciliation of Fund Balance**  
**July 1, 2015, through June 30, 2016**

	Special Gas Tax Street Improvement Fund <sup>1</sup>
Beginning fund balance per city	\$ 17,355
Revenues	<u>1,128,906</u>
Total funds available	1,146,261
Expenditures	<u>(1,146,261)</u>
Ending fund balance per city	<u>\$ —</u>
Ending fund balance per audit	<u>\$ —</u>

<sup>1</sup>Cities 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 Improvement Funds for the deposit of their HUTA fund apportionments.

# Observation and Recommendation

**OBSERVATION—  
Non-compliance with  
GC section 41004**

The city did not comply with GC section 41004 for FY 2015-16. This section requires the City Treasurer to submit to the City Clerk a monthly written report and an accounting of all receipts, disbursements, and fund balances.

Compliance with GC section 41004 increases the accountability of receipts, disbursements, and fund balances.

We identified this error when reviewing the city’s cash and fund balance controls. The city did not have procedures in place to ensure compliance with the above requirement. The city’s non-compliance with this requirement does not affect the Special Gas Tax Street Improvement Fund’s compliance with Article XIX of the California Constitution and Streets and Highways Code.

Subsequent to the audit fieldwork, the city implemented a process to comply with GC section 41004. The City Treasurer began submitting a monthly Statement of Cash and Investment Balances via an agenda item in City Council meetings starting in July 2017.

Recommendation

We recommend that the city monitor its implementation process to ensure compliance with GC section 41004.

City’s Response

The city agreed with the observation.



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