

CITY OF MONTEREY PARK

Audit Report

SPECIAL GAS TAX STREET FUND

July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

July 2022



BETTY T. YEE
California State Controller

July 11, 2022

Martha Garcia, Director of Management Services
City of Monterey Park
320 West Newmark Avenue
Monterey Park, CA 91754

Dear Ms. Garcia:

The State Controller's Office audited the City of Monterey Park'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 July 1, 2019, through June 30, 2020.

Our audit found an instance of non-compliance. The city understated the fund balance by \$4,683 as of June 30, 2020, because it under-allocated interest income to the Special Gas Tax Street Fund in fiscal year 2019-20.

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

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/lis

cc: The Honorable Henry Lo, Mayor
City of Monterey Park
Ron Bow, City Manager
City of Monterey Park
Natalia Lo, Senior Accountant, Management Services
City of Monterey Park

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Monterey Park'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 July 1, 2019, through June 30, 2020.

Our audit found an instance of non-compliance. The city understated the fund balance by \$4,683 as of June 30, 2020, because it under-allocated interest income to the Special Gas Tax Street Fund in fiscal year 2019-20.

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 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.

Audit Authority

We conducted our audit of the city's Special Gas Tax Street 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 Fund in compliance with Article XIX of the California Constitution and Streets and Highways Code.

The audit period was July 1, 2019, through June 30, 2020.

To achieve our objective, we performed the following procedures:

- We gained an understanding of internal controls that are significant to the audit objective by interviewing key personnel, completing an internal control questionnaire, and reviewing the city's organization chart.
- We assessed the reliability of computer-processed data by reviewing existing information about the data and the system that produced it; by interviewing city officials knowledgeable about the data; and by tracing data to source documents based on auditor judgment and non-statistical sampling. We determined that the data was sufficiently reliable for the purposes of achieving our audit objective.
- We conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- We performed analytical procedures to determine and explain the existence of unusual or unexpected account balances.

- We verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2013, through June 30, 2019, and by recalculating the trial balance for the period of July 1, 2019, through June 30, 2020.
- We 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.
- We reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule for fiscal year 2019-20 to determine whether HUTA apportionments received by the city were completely accounted for.
- We reviewed city accruals and adjustments for validity and eligibility.
- We 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.
- We 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.
- We 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 \$375,164 of \$433,549.
 - Labor – We tested \$16,680 of \$762,277.
 - Indirect – We tested \$161,036 of \$447,988.

For the selected samples, 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 Fund in accordance with the criteria.

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 an instance of non-compliance for the period of July 1, 2019, through June 30, 2020, as quantified in the Schedule and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$4,683 to the city’s accounting records.

Follow-up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report for the period of July 1, 2009, through June 30, 2013, issued on April 25, 2014.

Views of Responsible Officials

We issued a draft audit report on March 25, 2022. The City of Monterey Park’s representatives responded by email dated May 10, 2022, agreeing with the audit results.

Restricted Use

This audit report is solely for the information and use of the City of Monterey Park 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

KIMBERLY TARVIN, CPA
Chief, Division of Audits

July 11, 2022

**Schedule—
Reconciliation of Fund Balance
July 1, 2019, through June 30, 2020**

	Special Gas Tax Street Fund ¹
Beginning fund balance per city	\$ 1,058,721
Revenues	1,339,334
Total funds available	2,398,055
Expenditures	(1,646,102)
Ending fund balance per city	751,953
SCO adjustment: ²	
Finding – Under-allocated interest income	4,683
Ending fund balance per audit	\$ 756,636

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.

²See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Under-allocated
interest income**

During our recalculation of interest allocations for the audit period, we found that the city had under-allocated the interest income to the Special Gas Tax Street Fund by \$4,683. The city allocated a total interest income of \$8,207 to the fund; however, based on our recalculation, the interest income allocable to the fund was \$12,890. The under-allocation occurred because the city used the cash balance recorded in the last month of each quarter to calculate allocable interest instead of using the average quarterly cash balance. Interest should be calculated based on the average quarterly cash balance, not on the cash balance in the last month of each quarter.

Streets and Highways Code section 2113(e) requires that interest received by a city from the investment of money in its Special Gas Tax Street Fund be deposited in the fund and be used for street purposes.

At the exit conference on September 7, 2021, the city concurred with the finding. In addition, the city provided documentation showing that it made an accounting adjustment to credit the Special Gas Tax Street Fund by \$4,683 for the additional interest income.

Recommendation

We recommend that the city ensure that interest income allocated to the Special Gas Tax Street Fund is equitable.

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

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