

CITY OF IRWINDALE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2016, through June 30, 2017



BETTY T. YEE
California State Controller

September 2019



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California State Controller

September 30, 2019

William Tam, City Manager
City of Irwindale
5050 North Irwindale Avenue
Irwindale, CA 91706

Dear Mr. Tam:

The State Controller's Office audited the City of Irwindale'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, 2016, through June 30, 2017.

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 Loste, 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 Albert Ambriz, Mayor
City of Irwindale
Eva Carreon, Finance Director
City of Irwindale

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Follow-up on Prior Audit Findings.....	3
Views of Responsible Officials.....	3
Restricted Use	3
Schedule—Reconciliation of Fund Balance.....	4
Observation and Recommendation	5
Attachment—City of Irwindale’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the City of Irwindale'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, 2016, through June 30, 2017.

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 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 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, 2016, through June 30, 2017.

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 Improvement Fund by interviewing key personnel, completing an 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;

¹Includes towns.

- Verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2011, through June 30, 2016, and by recalculating the trial balance for the period of July 1, 2016, through June 30, 2017;
- 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 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 2016-17 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 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 \$6,557 in expenditures.

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 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 Irwindale 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, 2016, through June 30, 2017. However, we identified a deficiency in internal control 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, 2006, through June 30, 2011, issued on May 9, 2012, disclosed no findings.

Views of Responsible Officials

We issued a draft report on July 26, 2019. William Tam, City Manager, responded by letter dated May 2, 2019, disagreeing with the observation. 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 Irwindale 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

September 30, 2019

Schedule—
Reconciliation of Fund Balance
July 1, 2016, through June 30, 2017

	Special Gas Tax Street Improvement Fund ¹
Beginning fund balance per city	\$ 110,714
Revenues	<u>32,660</u>
Total funds available	143,374
Expenditures	<u>(6,557)</u>
Ending fund balance per city	<u>\$ 136,817</u>
Ending fund balance per audit	<u>\$ 136,817</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 Improvement Funds for the deposit of their HUTA fund apportionments.

Observation and Recommendation

**OBSERVATION—
Non-compliance
with Government Code
section 41004**

The city did not comply with GC section 41004 for fiscal year 2016-17. 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 internal controls 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 the Streets and Highways Code.

Recommendation

We recommend that the city establish internal controls to ensure compliance with GC section 41004.

City's Response

In its response, the city stated, in part:

- With respect to disbursements, the City actually provides a report to the legislative body twice per month, at every City Council Meeting. These reports include a detailed listing of all vendor checks, payroll disbursements, and electronic payments.
- The City also presents an investment report to the legislative body every three months. This report provides a summary of the City's receipts and cash balances for all City funds and agencies. A more detailed presentation of the City's cash and budget positions is presented by the City during its Mid-Year Financial Report to the legislative body.

Therefore, in response to the draft audit report observation noted, the City respectfully requests that it be revised to more accurately reflect that the City is at least in partial compliance with GC Section 41004. The City will revise its procedures to provide the report of receipts and cash balances on a monthly basis to be in full compliance.

SCO Comment

Our observation remains unchanged.

The city indicated that it provides to the legislative body, twice per month, a report that includes a detailed listing of all vendor checks, payroll disbursements, and electronic payments; however, the report excludes receipts and fund balances.

The city also indicated that it presents to the legislative body, every three months, an investment report summarizing the city's receipts and cash balances for all city funds and agencies. However, the report, which is intended to meet requirements of GC section 53646(b)(1), excludes disbursement and fund balance information required by GC section 41004.

Individually or in combination, the two reports noted by the city in its response do not meet the criteria set forth in GC section 41004, which requires the city treasurer to submit to the city clerk a monthly written report and an accounting of all receipts, disbursements, and fund balances.

**Attachment—
City of Irwindale’s
Response to Draft Audit Report**



August 7, 2019

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

Dear Mr. Loste,

The City of Irwindale has received the draft audit report for the Special Gas Tax Street Improvement Fund for the period of July 1, 2016 through June 30, 2017. The City is pleased the audit found the City of Irwindale accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with all requirements.

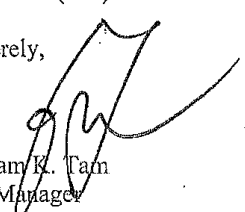
The City also reviewed the Observation and Recommendation section of the draft audit report where the auditor noted the City did not comply with California Government Code Section 41004. GC Section 41004 requires a reporting to the legislative body of all disbursements, receipts and fund balances at least once each month.

- With respect to disbursements, the City actually provides a report to the legislative body twice per month, at every City Council Meeting. These reports include a detailed listing of all vendor checks, payroll disbursements, and electronic payments.
- The City also presents an investment report to the legislative body every three months. This report provides a summary of the City's receipts and cash balances for all City funds and agencies. A more detailed presentation of the City's cash and budget positions is presented by the City during its Mid-Year Financial Report to the legislative body.

Therefore, in response to the draft audit report observation noted, the City respectfully requests that it be revised to more accurately reflect that the City is at least in partial compliance with GC Section 41004. The City will revise its procedures to provide the report of receipts and cash balances on a monthly basis to be in full compliance.

Thank you for your consideration of our response. If you have any questions or require additional information, please don't hesitate to contact me at (626) 430-2217, or our Finance Director, Eva Carreon at (626) 430-2221.

Sincerely,


William K. Tam
City Manager



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

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