

# **CITY OF WALNUT**

Audit Report

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

*July 1, 2016, through June 30, 2017*



**BETTY T. YEE**  
California State Controller

October 2018



**BETTY T. YEE**  
California State Controller

October 19, 2018

Robert Wishner, City Manager  
City of Walnut  
21201 La Puente Road  
P.O. Box 682  
Walnut, CA 91789

Dear Mr. Wishner:

The State Controller's Office audited the City of Walnut'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*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/as

cc: Karen Ogawa, Director of Administrative Services  
City of Walnut  
The Honorable Nancy Tragarz, Mayor  
City of Walnut

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Walnut'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 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.

We audited the city's Special Gas Tax Street Improvement Fund for the period of July 1, 2016, through June 30, 2017.

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 and accounting policies and procedures;
- 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, 2011, through June 30, 2016, and by recalculating the trial balance for the period of July 1, 2016, through June 30, 2017;
- Verified whether 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 (FY) 2016-17 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 liabilities accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures and protected from impairment; and
- Verified whether 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 (non-statistically) selecting samples of other transactions for the following category:
  - Services and Supplies – We tested \$148,534 of \$830,254.

For the selected sample, errors found, if any, were not projected to the intended 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.

<b>Conclusion</b>	Our audit found that the City of Walnut 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 report.
<b>Follow-up on Prior Audit Findings</b>	Our prior audit report for the period of July 1, 2008, through June 30, 2011, issued on August 1, 2012, disclosed no findings.
<b>Views of Responsible Officials</b>	We issued a draft audit report on June 26, 2018. Jessica Cortez, Finance Officer, responded by letter dated July 5, 2018, agreeing with the audit results. The city's response is included in this final audit report as an attachment.
<b>Restricted Use</b>	This audit report is solely for the information and use of the City of Walnut 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.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

October 19, 2018

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

	Special Gas Tax Street Improvement Fund <sup>1</sup>
Beginning fund balance per city	\$ 416,878
Revenues	<u>578,194</u>
Total funds available	995,072
Expenditures	<u>(830,254)</u>
Ending fund balance per city	<u>164,818</u>
Ending fund balance per audit	<u>\$ 164,818</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—  
Noncompliance with  
Government Code  
section 41004**

The city did not comply with GC section 41004 for FY 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 procedures in place to ensure compliance with the above requirement. The city's noncompliance with this requirement does not affect the Special Gas Tax Street Improvement Fund compliance with Article XIX of the California Constitution and Streets and Highways Code.

Recommendation

We recommend that the city establish procedures to ensure that it complies with GC section 41004.

City's Response

We agree with the auditors' recommendation, and the following action was taken. The City Treasurer has implemented a fund balance summary worksheet beginning July 2017. This worksheet is now included within the City of Walnut Investment Report which complies with GC section 41004.

SCO Comment

The city stated that it has implemented procedures to comply with GC section 41004. We further recommend that the city monitor its implementation process.



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

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## CITY OF WALNUT

7/5/2018

Efren Loste, Chief  
Local Government Audits Bureau,  
State Controller's Office  
Division of Audits,  
P.O. Box 942850,  
Sacramento, CA 94250-5874

**Subject: Observation: Non-compliance with Government Code section 41004**

### Management's Response

We agree with the auditors' recommendation, and the following action was taken. The City Treasurer has implemented a fund balance summary worksheet beginning June 2017. This worksheet is now included within the City of Walnut Investment Report which complies with GC section 41004.

Sincerely,

Jessica Cortez  
Finance Officer  
21201 La Puente Road  
Walnut, CA 91789

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

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