

CITY OF LA VERNE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

November 2018



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California State Controller

November 13, 2018

Bob Russi, City Manager
City of La Verne
3360 D Street
La Verne, CA 91750

Dear Mr. Russi:

The State Controller's Office audited the City of La Verne'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.

If you have any questions, please contact Efren Lose, 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: The Honorable Don Kendrick, Mayor
City of La Verne
Christy Lopez, Accountant (via email)
City of La Verne

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Audit Report

Summary

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

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 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, 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 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;
- Verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2009, through June 30, 2015,

¹Includes towns.

- and by recalculating the trial balance for the period of July 1, 2015, through June 30, 2016;
- 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 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 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 categories:
 - Services and Supplies – We tested \$674,908 of \$684,808.
 - Transfers – We tested \$330,848 of \$360,159.

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 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 La Verne 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.

**Follow-up on Prior
Audit Findings**

Our prior audit report for the period of July 1, 2008, through June 30, 2009, issued on June 25, 2010, disclosed no findings.

**Views of
Responsible
Officials**

We discussed the audit results with city representatives during a telephone exit conference on October 16, 2018. Christy Lopez, Accountant, agreed with the audit results. Ms. Lopez further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This audit report is solely for the information and use of the City of La Verne 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

November 13, 2018

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

	Special Gas Tax Street Improvement Fund ¹
Beginning fund balance per city	\$2,060,885
Revenues	<u>740,880</u>
Total funds available	2,801,685
Expenditures	<u>(1,044,967)</u>
Ending fund balance per city	<u>1,756,718</u>
Ending fund balance per audit	<u>\$1,756,718</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.

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