

LAKE COUNTY

Audit Report

ROAD FUND

July 1, 2010, through June 30, 2011



JOHN CHIANG
California State Controller

February 2014



JOHN CHIANG
California State Controller

February 3, 2014

Debra Chapman, Chair
Board of Supervisors
Lake County
255 North Forbes Street
Lakeport, CA 95453

Dear Ms. Chapman:

The State Controller's Office (SCO) audited Lake County's Road Fund for the period of July 1, 2010, through June 30, 2011.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2004, through June 30, 2010. The results of this review are included in our audit report.

The county accounted for and expended Road Fund money in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and the SCO's Accounting Standards and Procedures for Counties manual, except for our adjustment of \$4,445. We made the adjustment because the county did not reimburse the Road Fund for the expenditures of non-road work. In addition, we identified a procedural finding affecting the Road Fund in this audit report.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, by phone at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/mh

cc: The Honorable Cathy Saderlund, Auditor-Controller
Lake County
Scott DeLeon, Director of Public Works
Lake County

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Audit Report

Summary

The State Controller's Office (SCO) audited Lake County's Road Fund for the period of July 1, 2010, through June 30, 2011.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2004, through June 30, 2010. This review was limited to performing inquiries and analytical procedures to ensure that (1) highway users tax apportionments and road-purpose revenues were properly accounted for and recorded in the Road Fund; (2) expenditure patterns were consistent with the period audited; and (3) unexpended fund balances were carried forward properly.

Our audit and review found that the county accounted for and expended Road Fund money in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and the SCO's Accounting Standards and Procedures for Counties manual, except for our adjustment of \$4,445 and a procedural finding identified in this report.

Background

We conducted an audit of the county's Road Fund in accordance with Government Code section 12410. The Road Fund was established by the county boards of supervisors in 1935, in accordance with Streets and Highways Code section 1622, for all amounts paid to the county out of money derived from the highway users tax fund. A portion of the Federal Forest Reserve revenue received by the county is also required to be deposited into the Road Fund (Government Code section 29484). In addition, the county board of supervisors may authorize the deposit of other sources of revenue into the Road Fund. Once money is deposited into the Road Fund, it is restricted to expenditures made in compliance with Article XIX of the California Constitution and Streets and Highways Code Sections 2101 and 2150.

Objectives, Scope, and Methodology

The objectives of our audit of the Road Fund was to determine whether:

- Highway users tax apportionments received by the county were accounted for in the Road Fund, a special revenue fund;
- Expenditures were made exclusively for authorized purposes or safeguarded for future expenditure;
- Reimbursements of prior Road Fund expenditures were identified and properly credited to the Road Fund;
- Non-road-related expenditures were reimbursed in a timely manner;
- The Road Fund cost accounting is in conformance with the SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A; and
- Expenditures for indirect overhead support service costs were within the limits formally approved in the Countywide Cost Allocation Plan.

Our audit objectives were derived from the requirements of Article XIX of the California Constitution, the Streets and Highways Code, the Government Code, and the SCO's Accounting Standards and Procedures for Counties manual. To meet the objectives, we:

- Gained a basic understanding of the management controls that would have an effect on the reliability of the accounting records of the Road Fund, by interviewing key personnel and testing the operating effectiveness of the controls;
- Verified whether all highway users tax apportionments received were properly accounted for in the Road Fund, by reconciling the county's records to the State Controller's payment records;
- Analyzed the system used to allocate interest and determined whether the interest revenue allocated to the Road Fund was fair and equitable, by interviewing key personnel and testing a sample of interest calculations;
- Verified that unauthorized borrowing of Road Fund cash had not occurred, by interviewing key personnel and examining the Road Fund cash account entries; and
- Determined, through testing, whether Road Fund expenditures were in compliance with Article XIX of the California Constitution and with the Streets and Highways Code, and whether indirect cost allocation plan charges to the Road Fund were within the limits approved by the SCO's Division of Accounting and Reporting, County Cost Plan Unit.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the county's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, we examined transactions on a test basis to determine whether they complied with applicable laws and regulations and were properly supported by accounting records. We considered the county's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit and review found that the county accounted for and expended Road Fund money in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and the SCO's Accounting Standards and Procedures for Counties manual, except for the item shown in Schedule I and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$4,445 to the county's accounting records.

**Follow-up on Prior
Audit Findings**

Our prior audit report, issued on December 23, 2005, disclosed no findings.

**Views of
Responsible
Officials**

We discussed the audit results with county representatives during an exit conference on February 22, 2012, and a telephone conversation on December 19, 2013. Scott DeLeon, Public Works Director and Louise Olney, Public Works Analyst, agreed with the audit results. Mr. DeLeon and Ms. Olney further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This report is solely for the information and use of Lake County, the Lake County Board of Supervisors, 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 report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

February 3, 2014

**Schedule 1—
Reconciliation of Road Fund Balance
July 1, 2010, through June 30, 2011**

	<u>Amount</u>
Beginning fund balance per county	\$ 3,011,829
Revenues	<u>12,144,647</u>
Total funds available	15,156,476
Expenditures	<u>(7,764,729)</u>
Ending fund balance per county	<u>7,391,747</u>
SCO adjustment:	
Finding 1—Non-road reimbursable	4,445
Total SCO audit adjustment	<u>4,445</u>
Ending fund balance per audit	<u><u>\$ 7,396,192</u></u>

Findings and Recommendations

FINDING 1— Unreimbursed non- road expenditures

The county had not reimbursed the Road Fund \$4,445 for non-road expenditures performed during FY 2007-08. Based on the recommendation of the State Controller's Auditor, an interdepartmental charge was requested on February 15, 2012, and was deposited to the Road Fund on February 22, 2012.

Streets and Highways Code section 2101 states:

All money in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriate for all of the following: (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes.

Streets and Highways Code section 2150 states:

All amounts paid to each county of the Highway Users Tax Fund shall be deposited in its road fund. The board may deposit in said fund any other money available for roads. All money received by a county from the Highway Users Tax Fund and all money deposited by a county in its road fund shall be expended by the county exclusively for county roads for the purposes specified in Section 2101 or for other public street and highway purposes as provided by law.

The SCO has permitted expenditures of Road Fund money for non-road work as a convenience for counties, provided that the expenditures are billed and reimbursed in a timely manner (30-60 days after completion of the work).

Recommendation

The county should establish procedures to ensure that future non-road billings are collected and the Road Fund is reimbursed in a timely manner.

County's Response

The county concurs with our finding and recommendation.

**FINDING 2—
Equipment rental rate
for non-road
reimbursable work**

During the audit period, the county's Road Fund equipment rental rates did not include a depreciation factor used to bill other county departments and outside parties for non-road reimbursable work. The CAMS' Vehicle and Equipment Listing for FY 2010-11 presented the same equipment rate for regular road work and reimbursable work.

The SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A, section 32 requires a depreciation factor to recover all costs associated with performing non-road reimbursable work. In addition, Road Fund money can be expended only for road or road-related purposes as outlined in Streets and Highways Code sections 2101 and 2150.

Recommendation

The county should establish procedures to include a depreciation factor in its rates for Road Fund-owned equipment when billing other county departments and outside parties for non-road work.

County's Response

The county concurs with our finding and recommendation.

**State Controller's Office
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