

YOLO COUNTY

Audit Report

ROAD FUND

July 1, 2009, through June 30, 2010



JOHN CHIANG
California State Controller

April 2013



JOHN CHIANG
California State Controller

April 3, 2013

The Honorable Jim Provenza, Chair
Board of Supervisors
Yolo County
625 Court Street
Woodland, CA 95695

Dear Mr. Provenza:

The State Controller's Office (SCO) audited Yolo County's Road Fund for the period of July 1, 2009, through June 30, 2010.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2003, through June 30, 2009. 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 adjustments totaling \$846,907. We made the adjustments because the county did not reimburse the Road Fund for the Huff's Corner levee project and for non-road reimbursable expenditures. In addition, we identified a procedural finding affecting the Road Fund.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: The Honorable Howard Newens
Auditor-Controller/Treasurer-Tax Collector
Yolo County
John Bencomo, Director of Planning and Public Works
Yolo County

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Audit Report

Summary

The State Controller's Office (SCO) audited Yolo County's Road Fund for the period of July 1, 2009, through June 30, 2010.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2003, through June 30, 2009. 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 adjustments totaling \$846,907 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 were 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 items shown in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$846,907 to the county's accounting records.

Follow-up on Prior Audit Findings

Our prior audit report, issued on March 30, 2005, disclosed no findings.

Views of Responsible Officials

We discussed the audit results with county representatives during an exit conference on June 6, 2011. John Bencomo, Director, Planning and Public Works; Panos Kokkas, Assistant Director, Planning and Public Works; Mark Kruppenacker, Accounting Manager, Auditor-Controller; and Belinda Chee, Business Services Officer, Planning and Public Works, agreed with the audit results. In a supplemental exit on November 2, 2012, Mr. Bencomo further agreed that a draft audit report was not necessary and that the audit report could be issued as final. Ms. Chee provided responses to the audit findings and recommendations in an e-mail on November 2, 2012. The responses are included after each finding in this report.

Restricted Use

This report is solely for the information and use of Yolo County, the Yolo 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
Chief, Division of Audits

April 3, 2013

**Schedule 1—
Reconciliation of Road Fund Balances
July 1, 2009, through June 30, 2010**

	<u>Amount</u>
Beginning fund balance per county	\$ 8,700,154
Revenues	<u>15,494,551</u>
Total funds available	24,194,705
Expenditures	<u>(9,211,289)</u>
Ending fund balance per county	<u>14,983,416</u>
SCO adjustments:	
Finding 1—Huff’s Corner project	844,592
Finding 2—unreimbursed non-road expenditures	<u>2,315</u>
Total SCO audit adjustments	<u>846,907</u>
Ending fund balance per audit	<u>\$ 15,830,323</u>

Findings and Recommendations

FINDING 1— Huff's Corner unreimbursed project expenditures

The county did not reimburse the Road Fund \$844,592 for expenditures incurred on the Huff's Corner bank stabilization project on Cache Creek during fiscal years (FY) 2005-06 through 2009-10. The Huff's Corner project is considered a flood-control-purpose project and not eligible for funding from Highway Users Tax revenues. A total of \$2,042,189 was expended for work order numbers 3536 and 4548 during FY 2005-06 through FY 2009-10; actual reimbursements were \$1,197,597, leaving an unreimbursed amount of \$844,592.

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.

Recommendation

The county should reimburse the Road Fund \$844,592 for the outstanding Huff's Corner project expenditures incurred during FY 2005-06 through FY 2009-10.

County's Response

Huff's corner project – the County reimbursed the Road Fund a total of \$845,305.80 for the Huff's Corner project on June 6, 2011 for all charges incurred through May 2011. (JE005688).

**FINDING 2—
Unreimbursed non-
road expenditures**

The county did not reimburse the Road Fund \$2,315 for expenditures on non-road work for the Planning and Public Works division and an outside party for FY 2009-10 and FY 2008-09 (\$1,996 and \$319, respectively).

Streets and Highways Code sections 2101 and 2150 as stated above.

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 reimburse the Road Fund \$2,315 for the expenditures incurred for the Planning and Public Works division and an outside party. In addition, the county should establish procedures to ensure that future non-road invoices are collected and the Road Fund is reimbursed in a timely manner.

County's Response

Unreimbursed Non Road Expenditure – With the exception of \$319, all non-road expenditure had been reimbursed. The \$319 has been submitted to Yolo County Collection Services to collect.

**FINDING 3—
High clearing account
variances**

A review of the 2009-10 Annual Road Report, Schedule 7 (Clearing Account Activity) disclosed variances at year-end for labor, 12.96%; equipment, (109.6%); and general overhead, 14.69%.

The SCO's *Accounting Standards and Procedures for Counties Manual*, Chapter 9, Appendix A, sections 14-21 prescribes the method used in the development and operation of the labor, equipment, and general overhead clearing accounts. Per section 24, the acceptable range for the labor variance should be 5% and the equipment and general overhead variances should be 10%.

Recommendation

The county should analyze its clearing accounts and update the respective labor, equipment, and general overhead rates for the FY 2011-12.

County's Response

High Clearing Account Variance – The county will analyze its clearing accounts and update the respective labor, equipment, and general overhead rates for future years.

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