

# **TULARE COUNTY**

Audit Report

## **ROAD FUND**

*July 1, 2007, through June 30, 2012*



**BETTY T. YEE**  
California State Controller

April 2016



**BETTY T. YEE**  
California State Controller

April 26, 2016

The Honorable Mike Ennis, Chair  
Board of Supervisors  
Tulare County  
2800 West Burrel Avenue  
Visalia, CA 93291

Dear Mr. Ennis:

The State Controller's Office (SCO) audited Tulare County's Road Fund for the period of July 1, 2007, through June 30, 2012.

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 \$2,019,387. We made the adjustments because the county did not reverse the Highway Users Tax payments accrued in prior fiscal years. In addition, the county did not reimburse the Road Fund for negative interest and unsupported indirect overhead charges.

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits Bureau, at (916) 284-0120.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD, CPA**  
Chief, Division of Audits

JVB/rg

cc: The Honorable Rita A Woodard, Auditor-Controller  
Tulare County  
Benjamin Ruiz, Jr, Interim Assistant Director of Public Works  
Tulare County  
Sophia Almazan, Fiscal Manager  
Tulare County

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# Audit Report

## Summary

The State Controller's Office (SCO) audited Tulare County's Road Fund for the period of July 1, 2007, through June 30, 2012 (fiscal year (FY) 2007-08 through FY 2011-12).

Our audit 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 \$2,019,387 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 the Highway Users Tax Fund. A portion of the Federal Forest Reserve revenue received by the county also is 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 funds are 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 taken 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 audit 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 found that the county accounted for 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 \$2,019,387 to the county's accounting records.

**Follow-up on Prior  
Audit Findings**

Findings noted in our prior audit report, issued on December 2008, have been resolved satisfactorily by the county, except for Finding 2. The SCO's prior audit finding and recommendation were discussed during the exit conference.

**Views of  
Responsible  
Officials**

We issued a draft audit report on January 29, 2016. Sophia Almanza, Tulare County Fiscal Manager of Administration, responded by email on February 12, 2016, agreeing with the audit results. Additionally, the county has made the required adjustments.

**Restricted Use**

This report is solely for the information and use of Tulare County 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

April 26, 2016

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**Schedule 1—  
Reconciliation of Road Fund Balance  
July 1, 2011, through June 30, 2012**

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	<u>Amount</u>
Beginning fund balance per county	\$17,276,924
Revenues	<u>55,655,960</u>
Total funds available	72,932,884
Expenditures	<u>(57,257,344)</u>
Ending fund balance per county	<u>15,675,540</u>
SCO adjustments:	
Finding 1—Negative interest charges	188,821
Finding 2—Unsupported indirect overhead charges	170,419
Finding 3—Unadjusted Highway Users Tax accruals	<u>(2,378,627)</u>
Total SCO audit adjustments	<u>(2,019,387)</u>
Ending fund balance per audit	<u><u>\$13,656,153</u></u>

# Findings and Recommendations

## **FINDING 1— Negative interest charges**

The county charged interest expense to the Road Fund totaling \$188,821 during fiscal year (FY) 2007-08, FY 2008-09, FY 2009-10, FY 2010-11 and FY 2011-12.

The Streets and Highways Code sections 2101 and 2150 state that Road Fund money can be expended only for road or road-related purposes. Interest expense is not an eligible expenditure.

### Recommendation

The county should reimburse the Road Fund \$188,821 for interest expense charged from FY 2007-08 through FY 2011-12.

### County's Response

The county agrees with the recommendation that the Road Fund should be reimbursed for the interest expenses charges, and has implemented new measures to track the cash balances of the Road Fund. The reimbursement to the Road Fund was processed successfully in FY 2013-14 in the amount of \$188,821, for the interest expense charges during FY 2010-11.

### SCO's Comment

The county agreed with the finding.

## **FINDING 2— Unsupported indirect overhead charges**

The county charged unsupported indirect overhead costs to the Road Fund during FY 2010-11. The overhead amounts exceeded those formally approved by the State Controller's Office in the Countywide Cost Allocation Plan (A-87 Cost Plan) by \$170,419.

Charges assessed to the Road Fund pursuant to OMB Circular A-87 during a fiscal year may not exceed the amounts formally approved in the A-87 Cost Plan agreement between the county and the State.

### Recommendation

The county must reimburse the Road Fund \$170,419 for the excess A-87 Cost Plan charged during FY 2010-11.

### County's Response

The county agrees with the recommendation that the Road Fund must be reimbursed for excess A-87 Cost Plan charges, and has implemented new measures to track Cost Plan charges to the Road Fund. In FY 2013-14, reimbursement of \$170,419 to the Road Fund was processed successfully through a journal voucher for excess Cost Plan charges during FY 2010-11.

SCO's Comment

The county agreed with the finding.

**FINDING 3—  
Unadjusted Highway  
Users Tax accruals**

Our review of the Road Fund's asset account noted that the county did not properly reverse the Highway Users Tax (HUT) payments accrued in prior fiscal years. The county double-reported the payments, totaling \$2,378,627, during FY 2007-08, FY 2008-09 and FY 2009-10, in the amount of \$625,626, \$1,230,256, and \$522,745, respectively. These amounts were recorded within the "Due from Other Governments" but did not get adjusted when the county received the HUT payments from the State Controller's Office.

The SCO's *Accounting Standards and Procedures for Counties* manual and Governmental Accounting Standards Board (GASB) Statement No. 22 prescribe the modified accrual basis of accounting for the Road Fund, a special revenue fund. Revenues should be accrued when they become both measurable and available at the end of the fiscal year when using the modified accrual basis of accounting.

Recommendation

The county must adjust \$2,378,627 of the HUT payments accrued in prior fiscal years. A reverse journal entry should be posted to debit Unreserved Fund Balance and credit Due from Other Governments within the Road Fund. In addition, the county should establish policies and procedures to ensure future HUT allocations are properly accrued and reversed in following fiscal years.

County's Response

In FY 2015-16, the county successfully processed a journal entry to correct the Highways Users Tax (HUT) adjustments in the amount of \$2,378,626.38. These adjustments also were applied in the FY 2015 Annual Road Report. The County has established written policies and procedures to ensure that HUT allocations are accrued and reversed properly.

SCO's Comment

The county agreed with the finding.

**State Controller's Office  
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