

MONO COUNTY

Audit Report

ROAD FUND

July 1, 2001, through June 30, 2006



JOHN CHIANG
California State Controller

June 2008



JOHN CHIANG
California State Controller

June 25, 2008

The Honorable Vikki Magee-Bauer, Chairperson
Mono County Board of Supervisors
Post Office Box 554
Mammoth Lakes, CA 93546

Dear Supervisor Magee-Bauer:

The State Controller's Office (SCO) audited Mono County's Road Fund and Traffic Congestion Relief Fund (TCRF) allocations recorded in the Road Fund for the period of July 1, 2001, through June 30, 2006.

The county accounted for and expended Road Fund moneys and TCRF allocations recorded in the Road Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, the Revenue and Taxation Code, and the SCO's Accounting Standards and Procedures for Counties manual, except for a procedural finding affecting the Road Fund.

In addition, we audited Transportation Equity Act of the 21st Century (TEA-21) Matching and Exchange moneys for the period of July 1, 2001, through June 30, 2006, at the request of the California Department of Transportation (Caltrans). The TEA-21 funded projects were verified to be for road-related purposes and were eligible expenditures. The TEA-21 moneys received by the county were accounted for and expended in compliance with Article XIX of the California Constitution.

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: Brian Muir, Director of Finance
Mono County
Evan Nikirk, Director of Public Works
Mono County
Grace Kong, Chief
Local Program Accounting Branch
Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) audited Mono County's Road Fund for the period of July 1, 2001, through June 30, 2006 (fiscal year [FY] 2001-02 through FY 2005-06). We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Road Fund for the period of July 1, 2001, through June 30, 2006.

Our audit disclosed that the county accounted for and expended Road Fund moneys and TCRF allocations in compliance with Article XIX of the California Constitution, the Streets and Highways Code, the Revenue and Taxation Code, and the SCO's Accounting Standards and Procedures for Counties manual, except for a procedural finding identified in this report.

In addition, we audited Transportation Equity Act of the 21st Century (TEA-21) Matching and Exchange moneys for FY 2001-02 through FY 2005-06, at the request of the California Department of Transportation (Caltrans). The TEA-21 funded projects were verified to be for road-related purposes and were eligible expenditures. The TEA-21 moneys received by the county were accounted for and expended in compliance with Article XIX of the California Constitution.

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 board of supervisors in 1935, in accordance with Streets and Highways Code section 1622, for all amounts paid to the county out of moneys 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 moneys 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.

The Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 created a federal program designed to increase flexibility in federal funding for transportation purposes by shifting the funding responsibility to state and local agencies. The TEA-21 is a continuation of this program. The funds are restricted to expenditures made in compliance with Article XIX of the California Constitution. Caltrans requested that we audit these expenditures to ensure the county's compliance.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Counties must deposit funds received into the county Road Fund. We conducted our audit of the county's TCRF allocations under the authority of Streets and Highways Code section 2182 for

FY 2001-02 and FY 2002-03 and Revenue and Taxation Code section 7104 for fiscal years thereafter.

Objectives, Scope, and Methodology

The objectives of our audit of the Road Fund and TEA-21 exchange moneys were to determine whether:

- Highway users tax apportionments, TCRF allocations, and TEA-21 exchange moneys 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, TEA-21 exchange moneys and TCRF allocations received were properly accounted for in the Road Fund, by reconciling the county's records to the State Controller's and Caltrans' 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 the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 disclosed that Mono County accounted for and expended Road Fund moneys 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.

Our audit disclosed that the TCRF allocations received by the county were accounted for and expended in compliance with Streets and Highways Code section 2182 for FY 2001-02 and FY 2002-03, and Revenue and Taxation Code section 7104 for fiscal years thereafter.

Our audit also disclosed that the TEA-21-funded projects were for road-related purposes, and were eligible expenditures. The TEA-21 moneys received by the county were accounted for and expended in compliance with Article XIX of the California Constitution.

Follow-up on Prior Audit Findings

Findings noted in our prior audit report, issued on April 25, 2003, have been satisfactorily resolved by the county.

Views of Responsible Officials

We issued a draft audit report on February 27, 2008. Brian Muir, County Director of Finance, responded by letter dated March 17, 2008, disagreeing with the audit finding. The county's response is included as an attachment in this final audit report.

Restricted Use

This report is solely for the information and use of county management, the 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

June 25, 2008

**Schedule 1—
Reconciliation of Road Fund Balance
July 1, 2001, through June 30, 2006**

	<u>Amount</u>
Beginning fund balance per county	\$ 658,586
Revenues	<u>3,769,687</u>
Total funds available	4,428,273
Expenditures	<u>(3,878,917)</u>
Ending fund balance per county	549,356
SCO adjustment: ¹	<u>—</u>
Ending fund balance per audit	<u>\$ 549,356</u>

¹ See the Findings and Recommendations section.

**Schedule 2—
Reconciliation of TEA-21 Balance
July 1, 2001, through June 30, 2006**

	<u>Amount</u>
Beginning balance per county	\$ —
Revenues:	
TEA-21 Matching and Exchange funds	<u>1,318,900</u>
Total funds available	1,318,900
Expenditures:	
Maintenance	<u>(1,318,900)</u>
Ending balance per county	—
SCO adjustment	<u>—</u>
Ending balance per audit	<u>\$ —</u>

NOTE: The TEA-21 moneys have been accounted for and expended within the Road Fund.

Findings and Recommendations

FINDING 1— Interest expense charged to the Road Fund

The county charged the Road Fund with \$24,122 in interest expense during fiscal year (FY) 2005-06 and FY 2004-05 (\$20,336 and \$3,786, respectively).

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

Recommendation

The county should reimburse the Road Fund \$24,122 for the interest expense charged during the FY 2005-06 and FY 2004-05.

County's Response

The County appropriated General Fund money of \$530,000 each of the fiscal years 04/05 and 05/06 which far exceeds any statutory requirement. These funds were appropriated to fill the shortfall in funds provided by the State for the Road Fund including the financing of any negative interest charges. Accordingly, the interest expense charges were reimbursed in the year they were incurred.

SCO's Comment

Based on a review of the additional information provided by the county, we concur and have withdrawn the finding.

FINDING 2— Excessive clearing account variances

The county's FY 2005-06 Annual Road Report, Schedule 7 (Clearing Account Activity) reported excessive variances for labor clearing, equipment clearing, general road overhead, shop overhead, and inventory clearing—13.99%, (297.13)%, 51.37%, 74.25%, and 48.0%, respectively.

The SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A, sections 14 through 23, prescribes the method used in the development and operation of the Road Fund's clearing accounts. According to section 24, the acceptable ranges for labor variance should be +/-5%, and 10% for equipment, general road overhead, shop overhead, and inventory variances.

Recommendation

The county should analyze its clearing accounts and update the respective labor, equipment, and overhead rates for FY 2007-08 to minimize clearing account variances.

County's Response

The county did not respond to this finding.

**Attachment—
County's Response to
Draft Audit Report**



**DEPARTMENT OF FINANCE
COUNTY OF MONO**

STATE CONTROLLER'S OFFICE

BUREAU OF AUDITS

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*Rosemary Glazier
Assistant Finance Director
Treasurer-Tax Collector*

*Brian Muir
Finance Director*

*Roberta Reed
Assistant Finance Director
Auditor-Controller*

March 17, 2008

Steven Mar
Chief, Local Governments Audit Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Re: Draft Mono County Road Fund Audit Report Dated February 2008

Dear Mr. Mar:

As requested in the letter accompanying the draft audit report, the County has the following comment on finding # 1:

The County appropriated General Fund money of \$530,000 each of the fiscal years 04/05 and 05/06 which far exceeds any statutory requirement. These funds were appropriated to fill the shortfall in funds provided by the State for the Road Fund including the financing of any negative interest charges. Accordingly, the interest expense charges were reimbursed in the year they were incurred.

Sincerely,

Brian Muir
Director of Finance

Cc: Evan Nikirk, Director, Mono County Public Works

**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>