

SAN MATEO COUNTY

Audit Report

ROAD FUND

July 1, 2005, through June 30, 2006



JOHN CHIANG
California State Controller

June 2008



JOHN CHIANG
California State Controller

June 13, 2008

Adrienne J. Tissier, President
Board of Supervisors
San Mateo County
400 County Center, 1st Floor
San Mateo, CA 94063

Dear Ms. Tissier:

The State Controller's Office (SCO) audited San Mateo County's Road Fund for the period of July 1, 2005, through June 30, 2006. 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. In addition, we reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2001, through June 30, 2005. The results of this review are included in our audit report.

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 our adjustment of \$84,985. We made the adjustment because the county charged unsupported expenditures to the Road Fund during fiscal year (FY) 2005-06.

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. The TEA-21-funded projects have been verified to be for road-related purposes and are eligible expenditures. The TEA-21 moneys received by the county were accounted for and expended in compliance with Article XIX of the California Constitution and the Streets and Highways Code.

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 Tom Huening
Auditor-Controller
San Mateo County
James C. Porter
Director of Public Works
San Mateo 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 San Mateo County's Road Fund for the period of July 1, 2005, through June 30, 2006 (fiscal year (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. In addition, we reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2001, through June 30, 2005. 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 disclosed that 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 our adjustment of \$84,985 and procedural findings 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 have been verified to be for road-related purposes and are eligible expenditures. The TEA-21 moneys received by the county were accounted for and expended in compliance with Article XIX of the California Constitution and Streets and Highways Code section 182.6.

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 and the Streets and Highways Code. 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 allocation of 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 Matching and Exchange moneys were to determine whether:

- Highway users tax apportionments, TCRF allocations, and TEA-21 Matching and 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 conforms 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 and TEA-21 Matching and Exchange moneys 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 and review disclosed that San Mateo County accounted for and expended Road Fund moneys 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 the items shown in Schedule 1 and those described in the Findings and Recommendations section of this report. The findings require an adjustment of \$84,985 to the county's accounting records.

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 with Revenue and Taxation Code section 7104 for fiscal years thereafter.

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 and the Streets and Highways Code.

Follow-up on Prior Audit Findings

Findings noted in our prior audit report, issued on August 30, 2002, have been satisfactorily resolved by the county except for the finding relating to "old receivable balances." This finding is further described in Finding 3 of the Findings and Recommendations section of this report.

**Views of
Responsible
Official**

We issued a draft audit report on February 27, 2008. James Porter, Director, County Public Works, responded by letter dated April 7, 2008. Mr. Porter agrees with all of the findings except for Finding 1. Mr. Porter is requesting that the recommendation to reimburse the Road Fund for the variance of \$84,985 not be included in the audit report. 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 13, 2008

**Schedule 1—
Reconciliation of Road Fund Balance
July 1, 2005, through June 30, 2006**

	Amount
Beginning fund balance per county	\$ 3,001,041
Revenues	18,816,630
Total funds available	21,817,671
Expenditures	(16,746,985)
Ending fund balance per county	5,070,686
SCO adjustment: ¹	
Finding 1—Unsupported expenditures in FY 2005-06	84,985
Ending fund balance per audit	\$ 5,155,671

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>1,871,814</u>
Total funds available	1,871,814
Expenditures:	
Maintenance	<u>(1,871,814)</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— Unsupported expenditures in FY 2005-06

The county recorded \$84,985 more in Road Fund expenditures in its Interactive Financial Accounting System (IFAS) than it recorded in its Cost Accounting Management System (CAMS). These excess expenditures could not be supported by source documents. The CAMS is used for recording all road-related expenditures.

The State Controller's Office's (SCO) Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A, prescribes a periodic reconciliation between financial and cost accounting systems.

Recommendation

The county should reimburse the Road Fund \$84,985 for the unsupported expenditures during FY 2005-06. In addition, the county should implement procedures to ensure that CAMS Road Fund total project expenditures reconcile to IFAS's Road Fund totals.

County's Response

The report identified \$84,985 in Road Fund expenditures in the county's IFAS that were greater than what was reported in CAMS. The prior years' Annual Road Reports have also shown a variance between CAMS and IFAS expenditures, although less significant amounts. The direct charges in CAMS and IFAS have always reconciled. The \$84,985 variance can be attributed to the applied charges, where overhead rates and other non-direct charges are calculated based on projections, and credits that are used to reconcile CAMS and IFAS. This variance is due to system operations and reporting of CAMS data mostly resulting from difficulties encountered after a major system upgrade implemented in FY 2005-06. The change moved the county's CAMS structure away from a customized set up, and closer to the system standard. As a result it eliminated much of the customized programming that allowed our systems to properly function and relate to the IFAS information.

We are currently working with the programming staff of the software vendor to resolve these problems. Once the changes have been completed, we are confident that any future variances between IFAS and CAMS, if any, will be within a tolerable range. We expect to have these modifications fully tested and operational by the beginning of the next fiscal year, if not before the end of this year.

We have always been very diligent and careful in applying only allowable expenditures to the Road Fund, as evidenced by audits completed on prior years. Given that our direct charges are reconciled and supported with source documentation, and that the variance is due to data that could be inaccurate because of system inadequacies that are in the process of being corrected, we request that the recommendation for the county to reimburse the Road Fund for the variance of \$84,985 not be included in this audit report. We feel that a more appropriate recommendation would be to review the information again after the system corrections have been made to determine if the variance has been corrected.

SCO's Comments

As stated in the finding, the financial and cost accounting systems expenditures must be reconciled by the county. As the county did not provide us with a full accounting of the unsupported expenditures during FY 2005-06 in its response to the draft report, the finding remains as stated.

**FINDING 2—
Separate account for
State Matching and
Exchange revenues**

The county did not establish a separate revenue account within the Road Fund to deposit all State Matching and Exchange payments. During FY 2001-02 through FY 2005-06, the Matching and Exchange allocations were deposited in account #1781, "State-Roads and Bridges."

Pursuant to agreements X05-5935(033) and X04-5935(030) with the California Department of Transportation (Caltrans), the county agreed to set up a separate revenue account for the purpose of depositing all State Matching and Exchange funds. Using a separate and special revenue account facilitates the audit process and provides a mechanism by which to identify the use of funds and remaining balances.

Recommendation

The county should establish a separate account to deposit all future State Matching and Exchange allocations from Caltrans.

County's Response

Effective with FY 2007-08, we will assign a separate revenue account within the Road Fund to be used exclusively for recording deposit of State Matching and Exchange payments as recommended.

SCO's Comments

The county agreed with the finding and is implementing the SCO recommendation.

**FINDING 3—
Advances receivable
balance not collected**

Review of the Road Fund's Advances Receivable account disclosed a balance of \$22,492 as of June 30, 2006. The county set up a receivable for the temporary advancement of funds to the Bear Gulch and Portolla Isabella districts. This account balance has remained unchanged since the FY 1996-97 SCO audit. This finding was included in the FY 2000-01 SCO Road Fund audit.

The SCO's Accounting Standards and Procedures for Counties manual, Chapter 1, prescribes the modified accrual basis of accounting for the Road Fund, a special revenue fund. Under this method, revenue accruals should meet the measurable and available requirements.

Recommendation

The county should request that the Treasurer's Office collect the \$22,492 and transfer payments from the Bear Gulch and Portolla Isabella districts to the Road Fund.

County's Response

Full repayment of these advances will be made no later than June 30, 2008.

SCO's Comments

The county agreed with the finding and is making provisions for full repayment.

**FINDING 4—
CAMS cost center
structure**

Review of the CAMS cost center structure revealed that there are still difficulties with the cost centers and clearing accounts—specifically, the road equipment (shop) inventory clearing. The Department of Public Works has established cost centers for all the different Road Fund organizations: 45210-Road Administration, 45220-Road Capital Projects, 45230-Road Services Administration, 45240-Road Services Operations, 47210-Road Maintenance, 47240-Landscaping Maintenance, 47630-Road Equipment Maintenance, and 47640-Road Equipment and Plant Acquisition.

The SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A, sections 10 through 13, prescribes the necessary cost accounts, cost centers, and projects for the Road Fund.

When properly established, the cost centers of the Road Fund provide the necessary data for the Annual Road Report and meet the cost accounting requirements as stated in the SCO's accounting manual.

Recommendation

The county should fully integrate the cost center concept and work out any difficulties by obtaining necessary training from the CAMS vendor. In addition, the county should review and streamline the numerous Road Fund organizations presently in operation.

County's Response

As noted in the response to Finding 1, we are making modifications to our cost center structure, processes and any necessary programming changes in order to provide the necessary data that will facilitate the preparation of the Annual Road Report. These changes will be made within the framework of IFAS, the county's financial and job ledger system that CAMS interfaces with.

SCO's Comments

The county agreed with the finding and is making the recommended changes.

**FINDING 5—
High clearing account
variances**

The county's FY 2005-06 Annual Road Report, Schedule 7 (Clearing Account Activity) reported high variances for labor, equipment, general road overhead, and inventory of 10.42%, 20.21%, 60.18%, and 83.25%, 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, and inventory variances.

Recommendation

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

County's Response

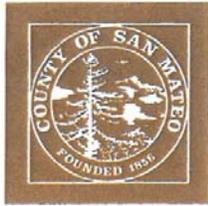
The report identified high variances for labor, equipment, general road overhead, and inventory. As part of the modifications that are being undertaken for CAMS, we will be reviewing all of the clearing accounts and updating the various rates in FY 2007-08.

SCO's Comments

The county agreed with the finding and is making the necessary changes.

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

Department of Public Works



COUNTY OF SAN MATEO

555 COUNTY CENTER, 5TH FLOOR • REDWOOD CITY • CALIFORNIA 94063-1665 • PHONE (650) 363-4100 • FAX (650) 361-8220

BOARD OF SUPERVISORS
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RICHARD S. GORDON
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ADRIENNE TISSIER

JAMES C. PORTER
DIRECTOR

April 7, 2008

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

**Re: SAN MATEO COUNTY ROAD FUND AUDIT FOR JULY 1, 2005 THROUGH
JUNE 30, 2006**

Dear Mr. Mar:

Thank you for the opportunity to respond to the draft Road Fund Audit Report. The following are our comments relating to the various findings in the Report.

Finding 1 -- Unsupported expenditures in FY 2005-06

The Report identified \$84,985 in Road Fund expenditures in the County's IFAS that were greater than what was supported in CAMS. The prior years' Annual Road Reports have also shown a variance between CAMS and IFAS expenditures, although less significant amounts. The direct charges in CAMS and IFAS have always reconciled. The \$84,985 variance can be attributed to the applied charges, where overhead rates and other non direct charges are calculated based on projections, and credits that are used to reconcile CAMS with IFAS. This variance is due to system operations and reporting of CAMS data mostly resulting from difficulties encountered after a major system upgrade implemented in FY 2005-06. The change moved the County's CAMS structure away from a customized set up, and closer to the system standard. As a result it eliminated much of the customized programming that allowed our systems to properly function and relate to the IFAS information.

We are currently working with the programming staff of the software vendor to resolve these problems. Once the changes have been completed, we are confident that any future variances between IFAS and CAMS, if any, will be within a tolerable range. We expect to have these modifications fully tested and operational by the beginning of next fiscal year, if not before the end of this year.

We have always been very diligent and careful in applying only allowable expenditures to the Road Fund, as evidenced by audits completed on prior years. Given that our direct charges are reconciled and supported with source documentation, and that the variance is due to data that could be inaccurate because of system inadequacies that are in the process of being corrected, we request that the recommendation for the County to reimburse the Road Fund for the variance of \$84,985 not be included in this audit report. We feel that a more appropriate recommendation would be to review the information again after the system corrections have been made to determine if the variance has been corrected.

Mr. Steven Mar, Chief
Local Government Audits Bureau
State Controller's Office, Division of Audits

**Re: SAN MATEO COUNTY ROAD FUND AUDIT FOR JULY 1, 2005 THROUGH
JUNE 30, 2006**

April 7, 2008

Page 2

Finding 2 – Separate Account for State Matching and Exchange Revenues

The Report identified that the County did not establish separate revenue accounts within the Road Fund to deposit State Matching and Exchange payments. Effective with FY 2007-08, we will assign a separate revenue account within the Road Fund to be used exclusively for recording deposits of State Matching and Exchange payments as recommended.

Finding 3 – Advances Receivable Balance Not Collected

The Report identified that a balance of \$22,492 in temporary advances of funds to the Bear Gulch and Portolla Isabella districts has not been returned to the Road Fund. Full repayment of these advances will be made to the Road Fund by no later than June 30, 2008.

Finding 4 – CAMS's Cost Center Structure

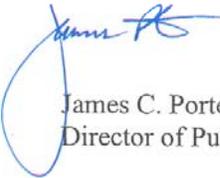
The Report identified difficulties with the CAMS cost centers and clearing accounts. As noted in the response to Finding 1, we are making modifications to our cost center structure, processes, and any necessary programming changes in order to provide the necessary data that will facilitate the preparation of the annual Road Report. These changes will be made within the framework of IFAS, the County's financial and job ledger system that CAMS interfaces with.

Finding 5 – High Clearing Account Variances

The Report identified high variances for labor, equipment, general road overhead, and inventory. As part of the modifications that are being undertaken for CAMS, we will be reviewing all of the clearing accounts and updating the various rates in FY 2007-08.

Again, thank you for the opportunity to respond to the draft Audit Report. I hope that the responses and additional information provide a satisfactory plan for how we intend to resolve the issues identified in the report. Thank you.

Sincerely,



James C. Porter
Director of Public Works

JCP:WM:sdd

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cc: The Honorable Tom Huening, San Mateo County Controller

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