MADERA COUNTY

Audit Report

ROAD FUND

July 1, 2008, through June 30, 2013

BETTY T. YEE
California State Controller

June 2016

BETTY T. YEE
California State Controller

June 6, 2016

Rick Farinelli, Chair
Board of Supervisors
Madera County
200 W. 4th Street
Madera, CA 93637

Dear Mr. Farinelli:

The State Controller's Office (SCO) audited Madera County's Road Fund for the period of July 1, 2008, through June 30, 2013.

The county accounted for and expended its 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 $271,927. We made the adjustments because of ineligible expenditures for human resources services, and non-road expenditures that were not reimbursed. In addition, we identified a procedural finding that affects the Road Fund.

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: Todd Miller, Auditor-Controller
Madera County
Ahmad Alkhayyat, Public Works Director
Madera County

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Audit Report

Summary

The State Controller's Office (SCO) audited Madera County's Road Fund for the period of July 1, 2008, through June 30, 2013.

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 $271,927 and a procedural finding.

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 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 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 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 $271,927 to the county's accounting records. In addition, we identified a procedural finding that affects the Road Fund.

Follow-up on Prior Audit Findings

Findings noted in our prior audit report, issued on February 9, 2011, have been satisfactorily resolved by the county.

Views of Responsible Officials

We issued a draft audit report on March 16, 2016. Denice Mosier, Madera County Public Works Administrative Analyst II, responded by email on April 5, 2016, with regards to Finding 3. The county disagreed with the amount noted in Finding 3 and provided documentation for the correct amount. Based on our review of the documentation, we agreed with the county. Additionally, we deemed the amount to be immaterial and removed the dollar finding from the final audit report.

Restricted Use

This report is solely for the information and use of Madera 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

June 6, 2016

Schedule 1—
Reconciliation of Road Fund Balance [1]
July 1, 2012, through June 30, 2013

	Amount
Beginning fund balance per county	$ 9,078,223
Revenues	14,013,824
Total funds available	23,092,047
Expenditures	(15,115,929)
Ending fund balance per county	7,976,118
SCO adjustments:	
Finding 1—Ineligible human resources service charge	13,567
Finding 2—Untimely reimbursement	258,360
Total SCO audit adjustments	271,927
Ending fund balance per audit	$ 8,248,045

[1] The audit period was July 1, 2008, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

Findings and Recommendations

FINDING 1—Ineligible human resources service charge

During fiscal year (FY) 2012-13, the Road Fund was charged for human resources services on August 30, 2013, in the budgeted amount of $20,000. In analyzing the transaction, we determined that the actual costs were $6,433. The budgeted amount exceeded the actual cost by $13,567.

Road Fund money can be expended only for road purposes, as outlined in Streets and Highways Code sections 2101 and 2150. Only actual expenditures incurred related to roads operations are eligible for reimbursement.

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.

Prior to the final exit conference, the county reimbursed the Road Fund for $13,567.

<u>Recommendation</u>

The county should establish procedures to ensure that only actual expenditures are charged to the Road Fund.

FINDING 2 — Untimely reimbursement

The Road Fund has not been reimbursed in a timely manner for expenditures on non-road work performed during FY 2012-13. The amount of unreimbursed non-road work at the end of the audit field work totaled $258,360.

Road Fund money can be expended only for road or road purposes, as outlined in Streets and Highways Code sections 2101 and 2150. The State Controller's Office 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).

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.

Prior to the final exit conference, the county reimbursed the Road Fund for $258,360.

Recommendation

The county should establish procedures to ensure that future non-road billings are collected and that the Road Fund is reimbursed in a timely manner (30-60 days after completion of the work).

FINDING 3 — Unsupported indirect costs

During FY 2010-11 and FY 2011-12, the Road Fund was charged for unsupported indirect cost overhead support service costs. The costs for FY 2010-11 and FY 2011-12 ($473,339) exceeded the county's approved A-87 Countywide Cost Allocation Plan in the amount of $1,215 ($696,709 – $695,494) and $46,560 ($473,339 – $426,779) for a total of $47,775.

Road Fund money can be expended only for road or road purposes, as outlined in Streets and Highways Code sections 2101 and 2150.

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 for $47,775 and establish procedures to ensure that future cost plan charges do not exceed the amounts approved in the A-87 Countywide Cost Allocation Plan.

County's Response

In an email response dated April 5, 2016, Denice Mosier, Madera County Public Works Administrative Analyst II, disagreed with the amount of the finding and provided additional documentation for the correct amount.

SCO's Response

After reviewing the county response concerning the FY 2011-12 cost plan charges, we agreed with the county's calculation of undercharged cost plan charges by $2,510.

However, for FY 2010-11 the cost plan charges to the Road Fund exceeded the approved A-87 Countywide Cost Allocation Plan. Overpayment of indirect charges are considered on a year-by-year basis and should not be calculated on a cumulative basis. As the amount is immaterial, we removed the dollar finding. However, in the future, the county should not charge the Road Fund for indirect overhead costs in excess of the approved A-87 Countywide Cost Allocation Plan for any given year.

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