

# **RIVERSIDE COUNTY**

Audit Report

## **ROAD FUND**

*July 1, 2005, through June 30, 2013*



**BETTY T. YEE**  
California State Controller

June 2016



**BETTY T. YEE**  
**California State Controller**

June 24, 2016

John J. Benoit, Chair  
Board of Supervisors  
Riverside County  
4080 Lemon Street, 5<sup>th</sup> Floor  
Riverside, CA 92502

Dear Mr. Benoit:

The State Controller's Office (SCO) audited Riverside County's Road Fund for the period of July 1, 2005, through June 30, 2013.

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 procedural findings identified in this report.

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

Sincerely,

*Original signed by*

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

JVB/rg

Attachment

cc: Paul Angulo, Auditor-Controller  
Riverside County  
Juan Perez, Director of Transportation and Land Management  
Riverside County

# Contents

## **Audit Report**

<b>Summary</b> .....	1
<b>Background</b> .....	1
<b>Objectives, Scope, and Methodology</b> .....	1
<b>Conclusion</b> .....	2
<b>Follow-Up on Prior Audit Findings</b> .....	2
<b>Views of Responsible Officials</b> .....	2
<b>Restricted Use</b> .....	3
<b>Schedule 1—Reconciliation of Road Fund Balance</b> .....	4
<b>Findings and Recommendations</b> .....	5

# Audit Report

## Summary

The State Controller's Office (SCO) audited Riverside County's Road Fund for the period of July 1, 2005, 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 procedural findings 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 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 described in the Findings and Recommendations section of this report.

## **Follow-up on Prior Audit Findings**

Findings noted in our prior audit report, issued on January 26, 2007, have been satisfactorily resolved by the county, except for the garage operations as a Road Fund sub-fund, noted as Finding 2 in this audit report.

## **Views of Responsible Officials**

We issued a draft audit report on March 16, 2016. The county did not respond to the draft audit report.

**Restricted Use**

This report is solely for the information and use of Riverside 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 24, 2016

**Schedule 1—  
Reconciliation of Road Fund Balance <sup>1</sup>  
July 1, 2012, through June 30, 2013**

	<u>Amount</u>
Beginning fund balance per county	\$ 81,643,506
Revenues	<u>153,425,246</u>
Total funds available	235,068,752
Expenditures	<u>(160,595,803)</u>
Ending fund balance per county	<u>74,472,949</u>
Ending fund balance per audit	<u><u>\$ 74,472,949</u></u>

<sup>1</sup> The audit period was July 1, 2005, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

# Findings and Recommendations

**FINDING 1—  
Unreconciled cost  
system versus financial  
system expenditures**

From fiscal year (FY) 2005-06 through FY 2012-13, there were expenditure differences between the Transportation Department's cost system and the Auditor-Controller's financial system. By the end of the field audit, the county was not able to reconcile the expenditure differences for all years under audit.

The State Controller's *Accounting Standards and Procedures for Counties* manual, Appendix 9A, recommends a period reconciliation of expenditures between the financial accounting system and the cost accounting system.

Recommendation

The county should establish procedures to ensure that the Road Fund expenditures recorded in the cost system agree with the expenditures recorded in the Auditor-Controller's financial accounting system.

**FINDING 2—  
Garage operations as a  
Road Fund sub-fund**

As noted in the prior audit, the county transferred the Garage Fund from an Internal Service Fund into a Special Revenue Fund. The assets and liabilities are recorded in Fund No. 20008, a sub-fund of Road Fund No. 20000. These accounting changes created a revenue-and-expenditure matching problem.

The SCO's *Accounting Standards and Procedures for Counties* manual, Chapter 13, Section 2, states that the "internal service funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of a primary government and its component units, or to other governments on a cost-reimbursement basis."

Recommendation

The county should consider reestablishing the Garage Fund as an Internal Service Fund to account for all operations of the garage including buildings, equipment, and vehicles used in garage operations.

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