

SAN BENITO COUNTY

Audit Report

ROAD FUND

July 1, 2007, through June 30, 2013



BETTY T. YEE
California State Controller

June 2016



BETTY T. YEE
California State Controller

June 17, 2016

The Honorable Robert Rivas, Chair
Board of Supervisors
San Benito County
481 Fourth Street, First Floor
Hollister, CA 95023

Dear Mr. Rivas:

The State Controller's Office (SCO) audited San Benito County's Road Fund for the period of July 1, 2007, 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 our adjustment of \$279,129. We made the adjustment because the county failed to expend fiscal year 2007-08 Proposition 1B Fund apportionments in full, within the required timeframe.

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/as

cc: Joe Paul Gonzalez, Clerk-Auditor-Recorder
San Benito County
Brent Barnes, Public Works Administrator
San Benito County

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Audit Report

Summary

The State Controller's Office (SCO) audited San Benito County's Road Fund for the period of July 1, 2007, 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 adjustment of \$279,129 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 item shown in Schedule 1 and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$279,129 to the county's accounting records.

**Follow-up on Prior
Audit Findings**

Our prior audit report, issued on July 29, 2009, disclosed no findings.

**Views of
Responsible
Officials**

We issued a draft audit report on March 16, 2016. The county did not respond to the draft audit report. We attempted to obtain a response by contacting Linda McElroy, Public Works Administrative Services Manager, through a telephone call on May 4, 2016, and through an email on May 12, 2016.

Restricted Use

This report is solely for the information and use of San Benito 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 17, 2016

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

	<u>Amount</u>
Beginning fund balance per county	\$ 3,472,828
Revenues	<u>4,855,505</u>
Total funds available	8,328,333
Expenditures	<u>(5,811,580)</u>
Ending fund balance per county	<u>2,516,753</u>
SCO adjustment:	
Finding—Unexpended Proposition 1B apportionments	<u>(279,129)</u>
Ending fund balance per audit	<u><u>\$ 2,237,624</u></u>

¹ The audit period was July 1, 2007, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

Finding and Recommendation

**FINDING—
Unexpended
Proposition 1B Fund**

The County of San Benito did not comply with the requirement to expend its Proposition 1B Fund allocation within four years following the end of the fiscal year in which the allocation was made. During fiscal year (FY) 2007-08, the county received a Proposition 1B Fund allocation in the amount of \$1,120,214 and deposited the revenues in the county Road Fund. The county expended Proposition 1B funds of \$405,511 during FY 2008-09 and \$435,574 during FY 2009-10. At June 30, 2013, \$279,129 of the Proposition 1B Fund allocation remained unexpended within the county Road Fund.

Government Code section 8879.65(d)(2) states, in part:

....a city or county shall have four fiscal years from the last day of the fiscal year in which the funds were allocated to it by the Controller to expend the funds.

Recommendation

The county must return the unexpended portion of Proposition 1B allocation of \$279,129 to the State Controller’s Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, CA 94250.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>