

SANTA BARBARA COUNTY

Audit Report

ROAD FUND

July 1, 2004, through June 30, 2013



BETTY T. YEE
California State Controller

June 2016



BETTY T. YEE
California State Controller

June 3, 2016

Steve Lavagnino, Chair
Board of Supervisors
Santa Barbara County
105 East Anapamu Street
Santa Barbara, CA 93101

Dear Mr. Lavagnino:

The State Controller's Office (SCO) audited Santa Barbara County's Road Fund for the period of July 1, 2004, 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 adjustment of \$136,700. We made the adjustment because the county charged the Road Fund for negative interest during fiscal year (FY) 2004-05, FY 2005-06, and FY 2007-08. In addition, we identified two procedural findings that affect 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/as

cc: Theo Fallati, Auditor-Controller
Santa Barbara County
Scott McGolpin, Public Works Director
Santa Barbara County

Contents

Audit Report

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

Audit Report

Summary

The State Controller's Office (SCO) audited Santa Barbara County's Road Fund for the period of July 1, 2004, through June 30, 2013 (fiscal year (FY) 2004-05 through FY 2012-13).

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 \$136,700 and two procedural findings.

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 Findings and Recommendations section of this report. Finding 1 requires an adjustment of \$136,700 to the county's accounting records. In addition, we identified two procedural findings that affect the Road Fund.

Follow-up on Prior Audit Findings

Findings noted in our prior audit report, issued on November 23, 2005, have been satisfactorily resolved by the county.

Views of Responsible Officials

We issued a draft audit report on March 28, 2016. The county did not respond to the draft audit report. We emailed county personnel inquiring about a formal draft response. The county prepared Journal Entry # 0134664 to reimburse the Road Fund for the negative interest (Finding 1).

Restricted Use

This report is solely for the information and use of Santa Barbara 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 3, 2016

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

	<u>Amount</u>
Beginning fund balance per county	\$ 21,186,388
Revenues	<u>30,064,007</u>
Total funds available	51,250,395
Expenditures	<u>(30,779,230)</u>
Ending fund balance per county	<u>20,471,165</u>
SCO adjustment:	
Finding 1—Negative interest charges	<u>136,700</u>
Ending fund balance per audit	<u><u>\$ 20,607,865</u></u>

¹ The audit period was July 1, 2004, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

Findings and Recommendations

FINDING 1— Negative interest charges

The county charged the Road Fund \$136,700 for negative interest during fiscal year (FY) 2004-05, FY 2005-06, and FY 2007-08. Negative interest charges are not considered road or road-related expenditures.

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 \$136,700 for the negative interest assessed during FY 2004-05, FY 2005-06, and FY 2007-08.

SCO Comment

The county reimbursed the Road Fund for the negative interest through Journal Entry # 0134664, dated April 21, 2016.

FINDING 2— Cost system structure

Review of the county's cost accounting system structure revealed that the county established activities and programs within funds 0015 (Roads-Operations), 0016 (Roads-Capital Maintenance), and 0017 (Roads-Capital Infrastructure) to capture all project costing expenditures. We noted that project 900900 "Operations" is too broad and includes too many activities that could be broken down into smaller projects.

The SCO *Accounting Standards and Procedures for Counties* manual, Chapter 9, Appendix A, prescribes proper cost accounts, projects, and cost centers for the cost accounting system.

Recommendation

The county should analyze its cost accounting system structure, especially project 900900, for proper cost accounting reporting.

SCO Comment

The county did not respond to the draft audit report.

**FINDING 3—
High equipment
clearing variance**

A review of the Schedule 7 (Clearing Account Activity) of the FY 2012-13 Annual Road Report presented a variance of 83.16% for equipment. Further research indicated that depreciation charges may not have been recorded as project 900900 expenditures.

The *SCO Accounting Standards and Procedures for Counties* manual, Chapter 9, Appendix A, section 17, prescribes the method used in the development and operation of the equipment clearing account. Equipment rental rates should be based on a three-year average of equipment/vehicle maintenance, repair, and operating costs by categories divided by the estimated usage for the upcoming fiscal year. Per section 24, the acceptable range for the equipment variances should be +/-10%.

Recommendation

The county should analyze its equipment clearing account and update the respective rental rates for FY 2015-16.

SCO Comment

The county did not respond to the draft audit report.

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

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