

# **SAN BENITO COUNTY**

Audit Report

## **ROAD FUND**

*July 1, 2006, through June 30, 2007*



**JOHN CHIANG**  
California State Controller

July 2009



**JOHN CHIANG**  
California State Controller

July 29, 2009

Anthony Botelho, Chair  
Board of Supervisors  
San Benito County  
481 Fourth Street, 2<sup>nd</sup> Floor  
Hollister, CA 95023

Dear Mr. Botelho:

The State Controller's Office (SCO) audited San Benito County's Road Fund for the period of July 1, 2006, through June 30, 2007. We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2001, through June 30, 2006. The results of this review are included in our audit report.

The county accounted for and expended Road Fund moneys 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 \$1,652. We made the adjustment because the county did not reimburse the Road Fund for non-road expenditures. In addition, we identified in this audit report procedural findings affecting the Road Fund.

The county accounted for and expended fiscal year (FY) 2001-02 through FY 2006-07 Transportation Equity Act of the 21<sup>st</sup> Century Matching and Exchange moneys and Senate Bill 1435 allocations from the regional transportation planning agency in compliance with Article XIX of the California Constitution and Streets and Highways Code section 182.6.

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: Joe Paul Gonzalez  
County Clerk Auditor-Recorder  
San Benito County  
Janelle Cox  
Acting Public Works Administrator  
San Benito County  
Gilbert Petrissans, Chief  
Local Program Accounting Branch  
Department of Transportation

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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, 2006, through June 30, 2007. We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2001, through June 30, 2006. 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 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 \$1,652 and procedural findings identified in this report.

In addition, at the request of the California Department of Transportation (Caltrans), we audited Transportation Equity Act of the 21<sup>st</sup> Century (TEA-21) Matching and Exchange moneys and Senate Bill (SB) 1435 allocations from the regional transportation planning agency (RTPA) for fiscal year (FY) 2001-02 through FY 2006-07. The TEA-21- and RTPA-funded projects were verified to be for road-related purposes and are eligible expenditures. The TEA-21 and RTPA 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 boards 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. Caltrans requested that we audit these expenditures to ensure the county's compliance.

## Objectives, Scope, and Methodology

The objectives of our audit of the Road Fund TEA-21 Matching and Exchange moneys, and RTPA revenues were to determine whether:

- Highway users tax apportionments TEA-21 Matching and Exchange moneys, and RTPA revenues 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 TEA-21 Matching and Exchange moneys, and RTPA revenues 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 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 and review disclosed that the county accounted for and expended Road Fund moneys 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. The findings require an adjustment of \$1,652 to the county's accounting records.

We verified that the TEA-21- and RTPA-funded projects were for road- and transportation-related purposes, and are eligible expenditures. The TEA-21 and RTPA 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 8, 2002, have been satisfactorily resolved by the county.

## **Views of Responsible Official**

We issued a draft audit report on March 27, 2009. Janelle Cox, the county's Acting Public Works Administrator, responded June 23, 2009, agreeing with the audit results. The county's response is included as an attachment in this final audit report. Subsequent to our review, the county made the required adjustments.

**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

July 29, 2009

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**Schedule 1—  
Reconciliation of Road Fund Balance  
July 1, 2006, through June 30, 2007**

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	<u>Amount</u>
Beginning fund balance per county	\$ 3,765,977
Revenues	<u>8,188,616</u>
Total funds available	11,954,593
Expenditures	<u>(8,264,836)</u>
Ending fund balance per county	3,689,757
SCO adjustment:	
Finding 1—Unreimbursed non-road expenditures	<u>1,652</u>
Ending fund balance per audit	<u>\$ 3,691,409</u>

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**Schedule 2—  
Reconciliation of TEA-21 and RTPA Balances  
July 1, 2001, through June 30, 2007**

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	<u>Amount</u>
Beginning balance per county	\$ 1,673,182
Revenues:	
TEA-21 Matching and Exchange funds	1,464,604
RTPA funds	<u>782,869</u>
Total revenues	<u>2,247,473</u>
Total funds available	3,920,655
Expenditures:	
Construction	<u>(1,733,144)</u>
Ending balance per audit	<u><u>\$ 2,187,511</u></u>

NOTE: The TEA-21 and RTPA moneys have been accounted for and expended within the ISTEPA trust Fund.

# Findings and Recommendations

## **FINDING 1— Unreimbursed non-road expenditures**

The county did not reimburse the Road Fund \$1,652 for reimbursable expenditures for fiscal year (FY) 2006-07. The Road Fund performed creek cleanup for another county department but was not reimbursed in a timely manner.

Streets and Highways Code section 2101 states:

All moneys 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 out 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.

The SCO 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 to 60 days after completion of the work).

### Recommendation

The county should reimburse the Road Fund \$1,652 for the expenditures incurred for the other county department. In addition, the county should establish procedures to ensure that future non-road billings are prepared in a timely manner and the Road Fund is reimbursed.

### County's Response

Unreimbursed Non-Road Expenditures, was addressed and reimbursed by inter-department transfer to the Road Fund Program.

### SCO's Comment

The county resolved this finding.

**FINDING 2—  
Expenditure difference  
between cost and  
financial accounting  
systems**

Our audit disclosed expenditure differences between the Department of Public Works' cost accounting system and the County Clerk-Auditor-Recorder's financial accounting system. We reconciled these differences during the current audit. This observation was reported in the prior SCO audit.

The SCO's *Accounting Standards and Procedures for Counties* manual, Chapter 9, Appendix A, prescribes periodic expenditure reconciliations between the financial and the cost accounting systems.

Recommendation

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

County's Response

The county did not respond to this finding.

**FINDING 3—  
High clearing account  
variances**

Our review of the FY 2006-07 Annual Road Report, Schedule 7 (Clearing Account Activity) disclosed high variances for labor, equipment, general overhead, shop overhead, and inventory of 17.84%, 16.94%, 28.67%, (36.40)%, and 20.96%, respectively.

The SCO's *Accounting Standards and Procedures for Counties* manual, Chapter 9, Appendix A, sections 14 through 23, prescribe the method used in the development and operation of the Road Fund's clearing accounts. Per section 24, the acceptable ranges for labor variance should be 5% and 10% for equipment, general overhead, shop overhead, and inventory variances.

Recommendation

The county should analyze its clearing accounts periodically and update the respective applied labor, equipment, and overhead rates for FY 2008-09.

County's Response

Department of Public Works underwent a review, which developed and updated applied labor, equipment, and overhead rates relative to Fiscal Year 2008-09.

SCO's Comment

The county resolved this finding.

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

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County of San Benito  
DEPARTMENT OF PUBLIC WORKS

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Hollister CA 95023  
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Janelle L. Cox  
Acting Public Works Administrator  
Phone: 831-636-4170  
Fax: 831-636-4176

June 23, 2009

State Controller's Office  
Division of Audits/Road Fund Program  
P.O. Box 942850  
Sacramento, CA 94250-5874

Re: Road Audit Response

Dear Representative:

The San Benito County Department of Public Works (DPW) would like to inform the Division of Audits/Road Fund Program that the recommended adjustment of \$1,652, as identified within Fiscal Year 2006-07 Annual Road Report; Finding 1 – Unreimbursed Non-Road Expenditures, was addressed and reimbursed by inter-department transfer to the Road Fund Program. Additionally, as recommended within Finding 3 – High Clearing Account Variance, DPW underwent a review, which developed and updated applied labor, equipment, and overhead rates relative to Fiscal Year 2008-09.

If you have any questions or require additional information, feel free to contact me at 636-4170.

Sincerely,

Janelle Cox,  
Acting Public Works Administrator

Cc: Linda McElroy, Administrative Services Manager  
Larry Chapin, Assistant Auditor

**State Controller's Office  
Division of Audits  
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