# MENDOCINO COUNTY

Audit Report

## ROAD FUND

*July 1, 2002, through June 30, 2008*

JOHN CHIANG
California State Controller

July 2011

JOHN CHIANG
California State Controller

July 29, 2011

John Pinches, Chair
Board of Supervisors
Mendocino County
501 Low Gap Road, Room 1090
Ukiah, CA 95482

Dear Mr. Pinches:

The State Controller's Office (SCO) audited Mendocino County's Road Fund for the period of July 1, 2002, through June 30, 2008.

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 $5,433. We made the adjustment because the county did not reimburse the Road Fund for non-road expenditures. In addition, we identified procedural findings affecting the Road Fund.

The county accounted for and expended fiscal year (FY) 2002-03 through FY 2007-08 Transportation Equity Act of the 21st 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: Meredith Ford, Auditor-Controller
Mendocino County
Howard N. Dashiell, Director of Transportation
Mendocino County
Gilbert Petrissans, Chief
Local Program Accounting Branch
Department of Transportation

# Contents

# Audit Report

## Summary

The State Controller's Office (SCO) audited Mendocino County's Road Fund for the period of July 1, 2002, through June 30, 2008 (fiscal year [FY] 2002-03 through FY 2007-08).

Our audit 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 $5,433 and procedural findings identified in this report.

In addition, we audited Transportation Equity Act of the 21st Century (TEA-21) Matching and Exchange moneys and Senate Bill (SB) 1435 allocations from the regional transportation planning agency (RTPA) for FY 2002-03 through FY 2007-08, at the request of the California Department of Transportation (Caltrans). 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 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 finding requires an adjustment of $5,433 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 May 27, 2003, have been satisfactorily resolved by the county.

## Views of Responsible Official

We issued a draft audit report on February 14, 2011. Howard N. Dashiell, the county's Director of Transportation, responded by letter dated March 9, 2011, agreeing with the audit results. The county's response is included as an attachment in this final audit report.

## Restricted Use

This report is solely for the information and use of Mendocino County, the Mendocino 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, 2011

# Schedule 1—
# Reconciliation of Road Fund Balance
# July 1, 2002, through June 30, 2008

| | Amount |
|---|---|
| Beginning fund balance per county | $ 3,153,317 |
| Revenues | 14,439,942 |
| Total funds available | 17,593,259 |
| Expenditures | (12,681,254) |
| Ending fund balance per county | 4,912,005 |
| SCO adjustment: [1] | |
| Finding 1—Unreimbursed non-road expenditures | 5,433 |
| Ending fund balance per audit | $ 4,917,438 |

[1] See Finding and Recommendation section.

# Schedule 2—
# Reconciliation of TEA-21 and RTPA Balances
# July 1, 2002, through June 30, 2008

| | Amount |
|---|---|
| Beginning balance per county | $ — |
| Revenues: | |
| TEA-21 Matching and Exchange funds | 3,614,340 |
| Other | 446,067 |
| Total revenues | 4,060,407 |
| Total funds available | 4,060,407 |
| Expenditures: | |
| Maintenance | (4,060,407) |
| Ending balance per county | — |
| SCO adjustment | — |
| Ending balance per audit | $ — |

Note: The TEA-21 and RTPA moneys have been accounted for and expended within the Road Fund.

# Findings and Recommendations

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

The county had not reimbursed the Road Fund $5,433 for expenditures on non-road work for other county departments and outside parties for fiscal year (FY) 2006-07 and FY 2007-08 ($373 and $5,060, respectively).

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.

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 $5,433 for the expenditures incurred for the county departments and outside parties. In addition, the county should establish procedures to ensure that future non-road billings are collected and the Road Fund is reimbursed in a timely manner.

County’s Response

> The audit identified four separate unreimbursed expenditures. MCDoT staff members are researching why these reimbursements have not been received. We anticipate receiving these reimbursements from the two agencies outside the County and two County budget units.
>
> In order to prevent reoccurrence of unreimbursed non-road expenditures, new MCDoT staff members have been trained on the established procedures. In addition, MCDoT staff members are developing new procedures to improve MCDoT’s ability to track receivables and identify unpaid reimbursement requests.

**FINDING 2—
Differences between the cost accounting system and the financial accounting system**

During FY 2006-07 and FY 2007-08, there were expenditure differences between the Department of Transportation's cost accounting system and the Auditor-Controller's financial accounting system. Differences of $12,130 for FY 2006-07 and $(5,561) for FY 2007-08 were reconciled during the current audit.

The SCO's 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 system agree with the expenditures recorded in the Auditor-Controller's financial accounting system.

County's Response

> The audit identified expenditure differences between CAMS, the cost accounting system used by MCDoT, and the County financial accounting system for FY 2006/07 in the amount of $12,130, and FY 2007/08 in the amount of ($5,561). MCDoT staff members are continuing to research these descrepancies.
>
> FY 2006/07 and FY 2007/08 are the years during which the Auditor/Controller's Office implemented MUNIS, a new financial accounting system. MCDoT procedures require balancing between the CAMS and MUNIS systems before closing the fiscal year as of June 30. In addition, MCDoT procedures require that MCDoT staff members balance employee payroll costs with each pay period, and non-payroll related expenditures to the extent possible on a monthly basis.
>
> In order to prevent a reoccurrence of discrepancies between CAMS and MUNIS, new MCDoT staff members have been trained on the established procedures.

**FINDING 3—
No separate revenue account for RTPA exchange funds**

The county did not establish a separate account within the Road Fund to deposit all Regional Transportation Planning Agency (RTPA) exchange revenues from the Mendocino Council of Governments (MCOG). During the years audited, the RTPA allocations were deposited in account number 821501, Local Transportation Funds; however, other reimbursements from MCOG were also recorded there.

Caltrans' Local Assistance Program Guidelines, Chapter 18, section 5, Financial Controls, states that cities and counties must establish a separate revenue account for payments allocated by an RTPA. Using a separate and special revenue account facilitates the audit process and provides a mechanism to identify the use of funds and remaining balances.

Recommendation

The county should establish a separate revenue account in which to deposit all future RTPA exchange payments from MCOG.

County's Response

> Pursuant to the recommendation of the SCO auditors and at the request of MCDoT, in FY 2009/10 the County Auditor/Controller's Office set up a new revenue account, RO 82-5180 Trans STPd(1), for the RTPA exchange funds.

**FINDING 4— High clearing account variance**

A review of the 2007-08 Annual Road Report, Schedule 7 (Clearing Account Activity) disclosed a high variance for equipment, 18.56%, at year-end. For equipment clearing, we identified that the county did not analyze and update the rental rates for FY 2007-08.

The SCO's manual (Chapter 9, Appendix A, sections 16-17) prescribes the method used in the development and operation of the equipment clearing accounts. Per section 24, the acceptable range for the equipment variance should be 10%.

Recommendation

The county should analyze the equipment clearing account and update the respective equipment rental rates for FY 2009-10.

County's Response

> The FY 2007/08 Annual Road Report variance for equipment was 18.56%, which exceeds the SCO's manual acceptable range of variance of 10%. While MCDoT agrees with the finding that the equipment account variance exceeds the SCO's acceptable range of 10%, MCDoT disagrees with the statement in the finding that "the county did not analyze and update the rental rates for FY 2007-08."
>
> MCDoT procedures require that at the beginning of the fiscal year labor and equipment rates be reviewed. The rates are revised, if necessary, based on an analysis of the prior year expenditures and projections of expenditures in the new fiscal year.
>
> For FY 2007/08 MCDoT staff analyzed the equipment rental rates and made a determination that the equipment rates being used would adequately allocate the costs expected to be incurred. However, during FY 2007/08 repair costs on several older pieces of equipment were higher than expected.
>
> An analysis of the annual variances for equipment for FY 2001/02 through FY 2009/10 shows that equipment rate variances have fluctuated greatly. MCDoT staff members are researching to identify why there have been such large fluctuations in these variances. The age of the MCDoT fleet and the high costs of repairing the older vehicles is likely to be a major contributing factor.

# Attachment— County's Response to Draft Audit Report

HOWARD N. DASHIELL
DIRECTOR OF TRANSPORTATION

**COUNTY OF MENDOCINO**
**DEPARTMENT OF TRANSPORTATION**

340 LAKE MENDOCINO DRIVE
UKIAH, CALIFORNIA 95482-9432
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**FUNCTIONS**

Administration & Business Services
Airports
County Surveyor
Engineering
Land Improvement
Roads and Bridges
Solid Waste

March 9, 2011

Mr. Steven Mar, Chief
Local Government Audits Bureau
State Controller's Office
Division of Audits
P. O. Box 942850
Sacramento, CA 94250-5874

RE: Draft Audit Report of Mendocino County Road Fund
for the period July 1, 2002 through June 30, 2008

Dear Mr. Mar:

Attached is the Mendocino County Department of Transportation response to the Findings and Recommendations in the draft audit report of the Mendocino County Road Fund for the period July 1, 2002 through June 30, 2008.

My staff and I very much appreciate the courtesy and assistance extended to us by the staff from the State Controller's Office. We have a better understanding of the reporting requirements for the Annual Road Fund Report as a result of the audit, and we have implemented many of the suggestions of the auditors.

Sincerely,

Howard N. Dashiell
Director of Transportation

Attachment

cc: Meredith Ford, Auditor/Controller
Patti Black, Deputy Director of Transportation
File: Annual Road Fund Report

**Mendocino County Department of Transportation**
**Response to State Controller's Office Audit Report**
**Mendocino County Road Fund**
**for the period**
**July 1, 2002 through June 30, 2008**

During the period of the audit Mendocino County transitioned to a new financial accounting system, MUNIS. MUNIS was implemented in two phases:

- December 17, 2006 the payroll-related modules were implemented; and
- July 1, 2007 the remaining modules were implemented.

This period of transition with MUNIS was exacerbated by personnel changes in the Administration and Business Services Division of the Mendocino County Department of Transportation (MCDoT).

FINDING 1: Unreimbursed non-road expenditures

RESPONSE: The audit identified four separate unreimbursed expenditures. MCDoT staff members are researching why these reimbursements have not been received. We anticipate receiving these reimbursements from the two agencies outside the County and two County budget units.

In order to prevent reoccurrence of unreimbursed non-road expenditures, new MCDoT staff members have been trained on the established procedures. In addition, MCDoT staff members are developing new procedures to improve MCDoT's ability to track receivables and identify unpaid reimbursement requests.

FINDING 2: Differences between the cost accounting system and the financial accounting system.

RESPONSE: The audit identified expenditure differences between CAMS, the cost accounting system used by MCDoT, and the County financial accounting system for FY 2006/07 in the amount of $12,130, and FY 2007/08 in the amount of ($5,561). MCDoT staff members are continuing to research these discrepancies.

FY 2006/07 and FY 2007/08 are the years during which the Auditor/Controller's Office implemented MUNIS, a new financial accounting system. MCDoT procedures require balancing between the CAMS and MUNIS systems before closing the fiscal year as of June 30. In addition, MCDoT procedures require that MCDoT staff members balance employee payroll costs with each pay period, and non-payroll related expenditures to the extent possible on a monthly basis.

In order to prevent a reoccurrence of discrepancies between CAMS and MUNIS, new MCDoT staff members have been trained on the established procedures.

**Mendocino County Department of Transportation**
**Response to State Controller's Office Audit Report**
**Mendocino County Road Fund**
**for the period**
**July 1, 2002 through June 30, 2008**

FINDING 3: No separate revenue account for RTPA exchange funds.

RESPONSE: Pursuant to the recommendation of the SCO auditors and at the request of MCDoT, in FY 2009/10 the County Auditor/Controller's Office set up a new revenue account, RO 82-5180 Trans STPd(1), for the RTPA exchange funds.

FINDING 4: No separate revenue account for TCRF allocations.

RESPONSE: Pursuant to the recommendation of the SCO auditors and at the request of MCDoT, in FY 2009/10 the County Auditor/Controller's Office set up a new revenue account, RO 82-5160 State Prop 42, for the TCRF allocations.

FINDING 5: High clearing account variance.

RESPONSE: The FY 2007/08 Annual Road Report variance for equipment was 18.56%, which exceeds the SCO's manual acceptable range of variance of 10%. While MCDoT agrees with the finding that the equipment account variance exceeds the SCO's acceptable range of 10%, MCDoT disagrees with the statement in the finding that "the county did not analyze and update the rental rates for FY 2007-08."

MCDoT procedures require that at the beginning of the fiscal year labor and equipment rates be reviewed. The rates are revised, if necessary, based on an analysis of the prior year expenditures and projections of expenditures in the new fiscal year.

For FY 2007/08 MCDoT staff analyzed the equipment rental rates and made a determination that the equipment rates being used would adequately allocate the costs expected to be incurred. However, during FY 2007/08 repair costs on several older pieces of equipment were higher than expected.

An analysis of the annual variances for equipment for FY 2001/02 through FY 2009/10 shows that equipment rate variances have fluctuated greatly. MCDoT staff members are researching to identify why there have been such large fluctuations in these variances. The age of the MCDoT fleet and the high costs of repairing the older vehicles is likely to be a major contributing factor.

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