

EL DORADO COUNTY

Audit Report

ROAD FUND

July 1, 2008, through June 30, 2009



JOHN CHIANG
California State Controller

July 2013



JOHN CHIANG
California State Controller

July 3, 2013

The Honorable Ron Briggs, Chair
Board of Supervisors
El Dorado County
330 Fair Lane
Placerville, CA 95667

Dear Mr. Briggs:

The State Controller's Office (SCO) audited El Dorado County's Road Fund for the period of July 1, 2008, through June 30, 2009.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2003, through June 30, 2008. The results of this review are included in our audit report.

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 \$32,654. We made the adjustment because the county did not reimburse the Road Fund for outstanding non-road expenditures of \$32,654.

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, CPA
Chief, Division of Audits

JVB/kw

cc: Kim Kerr, Interim Director of Transportation
El Dorado County
Joe Harn, Auditor-Controller
El Dorado County

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Audit Report

Summary

The State Controller's Office (SCO) audited El Dorado County's Road Fund for the period of July 1, 2008, through June 30, 2009.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2003, through June 30, 2008. 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 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 \$32,654 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 is 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 and review 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 \$32,654 to the county's accounting records.

**Follow-up on Prior
Audit Findings**

Our prior audit report, issued on August 18, 2004, disclosed no findings.

**Views of
Responsible
Official**

We discussed the audit results with county representatives during an exit conference on July 20, 2010. Ruth Young, Chief Fiscal Officer, Department of Transportation, agreed with the audit results. In a supplemental exit conference on April 18, 2013, Ms. Young further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This report is solely for the information and use of El Dorado County, the El Dorado 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, CPA
Chief, Division of Audits

July 3, 2013

**Schedule 1—
Reconciliation of Road Fund Balance
July 1, 2008, through June 30, 2009**

	<u>Amount</u>
Beginning fund balance per county	\$ 10,773,675
Revenues	<u>60,036,783</u>
Total funds available	70,810,458
Expenditures	<u>(59,499,833)</u>
Ending fund balance per county	11,310,625
SCO adjustment:	
Finding—Unreimbursed non-road expenditures	<u>32,654</u>
Ending fund balance per audit	<u><u>\$ 11,343,279</u></u>

Finding and Recommendation

**FINDING —
Unreimbursed non-
road expenditures**

The county did not reimburse the Road Fund \$32,654 for expenditures for non-road work during fiscal year (FY) 2004-05 and FY 2008-09. In addition, the county did not have follow-up procedures for the collection of non-road billings.

Road Fund revenues can be expended only for road or road-related purposes as outlined in Streets and Highways Code sections 2101 and 2150. 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 (30-60 days after completion of the work).

Recommendation

The county should reimburse the Road Fund \$32,654 for the expenditures incurred for the county departments and outside parties. In addition, the county should establish procedures to ensure that future outstanding non-road invoices are collected and the Road Fund is reimbursed in timely manner.

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