

# **INYO COUNTY**

Audit Report

## **ROAD FUND**

*July 1, 2001, through June 30, 2011*



**JOHN CHIANG**  
California State Controller

November 2014



**JOHN CHIANG**  
**California State Controller**

November 26, 2014

Rick Pucci, Chairperson  
Board of Supervisors  
Inyo County  
P.O. Box N  
Independence, CA 93526

Dear Mr. Pucci:

The State Controller's Office (SCO) audited Inyo County's Road Fund for the period of July 1, 2001, through June 30, 2011.

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 \$12,633. We made the adjustment because the county did not reimburse the Road Fund for expenditures of non-road work. In addition, we identified a procedural finding affecting the Road Fund.

If you have any questions, please contact Mike Spalj, Acting Chief, Local Government Audits Bureau, by telephone at (916) 324-6984.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD, CPA**  
Chief, Division of Audits

JVB/sk

cc: The Honorable Amy Shepherd, Auditor-Controller  
Inyo County  
Clint Quilter, Director of Public Works  
Inyo County

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# Audit Report

## Summary

The State Controller's Office (SCO) audited Inyo County's Road Fund for the period of July 1, 2001, through June 30, 2011 (fiscal year (FY) 2001-02 through FY 2010-11).

Our audit found that 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 \$12,633 and a procedural finding 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 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 the item shown in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires an adjustment of \$12,633 to the county's accounting records.

## **Follow-up on Prior Audit Findings**

Findings noted in our prior audit report, issued on March 13, 2003, have been satisfactorily resolved by the county, except for Finding 6, in which the general road overhead variance is high. The high variance is reported as Finding 2 in the current audit report.

**Views of  
Responsible  
Officials**

We issued a draft audit report on May 15, 2014. Shannon Williams, Management Analyst, Inyo County Public Works, responded by email on June 26, 2014, agreeing with the findings.

**Restricted Use**

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

November 26, 2014

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**Schedule 1—  
Reconciliation of Road Fund Balance  
July 1, 2010, through June 30, 2011**

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	<u>Amount</u>
Beginning fund balance per county	\$ 3,504,239
Revenues	<u>8,880,921</u>
Total funds available	12,385,160
Expenditures	<u>(7,104,222)</u>
Ending fund balance per county	<u>5,280,938</u>
SCO adjustment:	
Finding 1—Unreimbursed non-road expenditures	<u>12,633</u>
Total SCO audit adjustment	<u>12,633</u>
Ending fund balance per audit	<u><u>\$ 5,293,571</u></u>

# Findings and Recommendations

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

The county did not reimburse the Road Fund \$12,633 for non-road reimbursable work for other county departments and outside parties for fiscal year (FY) 2006-07 through FY 2010-11.

*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 permits 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 \$12,633 for non-road reimbursable work incurred for other 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 county agreed with the finding.

**FINDING 2—  
High clearing account  
variances**

A review of the FY 2010-11 Annual Road Report (clearing Account Activity) reveals high variances in which Shop Overhead was under-distributed by \$35,582, or 14.45%; Road Overhead was under-distributed by \$69,212, or 15.72%; and Inventory was under-distributed by \$380,872, or 49.94%.

According to the SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A, section 24, the acceptable ranges for shop, general overhead, and inventory variances should not exceed 10%.

Recommendation

The county should research the causes for the excessive variances. Also, the county should analyze and update the shop and general overhead in accordance with the SCO's Accounting Standards and Procedures for Counties manual.

County's Response

The county agreed with the finding.

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