

MARIPOSA COUNTY

Audit Report

ROAD FUND

July 1, 2006, through June 30, 2007



JOHN CHIANG
California State Controller

December 2008



JOHN CHIANG
California State Controller

December 31, 2008

The Honorable Lyle Turpin, Chair
Board of Supervisors
Mariposa County
5100 Bullion Street
Mariposa, CA 95338

Dear Mr. Turpin:

The State Controller's Office (SCO) audited Mariposa 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 net adjustments totaling \$33,286. The adjustments resulted primarily from unreimbursed non-road expenditures. In addition, we identified 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 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: Dana S. Hertfelder
Public Works Director
Mariposa County
The Honorable Christopher Ebie
County Auditor
Mariposa County
Grace Kong, Chief
Local Program Accounting Branch
Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) audited Mariposa County's Road Fund for the period of July 1, 2006, through June 30, 2007 (fiscal year [FY] 2006-07). 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 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 net adjustments totaling \$33,286 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 2000-01 through FY 2006-07 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 were 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 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 expenditures;
- 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 was 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. 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 Mariposa 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 items shown in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require a net adjustment of \$33,286 to the county's accounting records.

We verified that the TEA-21- and RTPA-funded projects were for road- and transportation-related purposes and were 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 June 26, 2002, have been satisfactorily resolved by the county, except for the lack of written inventory procedures and lack of designation for equipment replacement account within the Internal Service Fund. These findings are further described in the Findings and Recommendations section of this report, in Findings 6 and 7, respectively.

Views of Responsible Officials

We issued a draft report on June 12, 2008. Dana Hertfelder, P.E. Director of Public Works, responded by letter dated July 18, 2008. Ms. Hertfelder objects to Findings 1 and 2 of the draft audit report of the Road Fund. 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 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

December 31, 2008

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

	<u>Amount</u>
Beginning fund balance per county	\$ 1,013,104
Revenues	<u>4,210,989</u>
Total funds available	5,224,093
Expenditures	<u>(4,060,927)</u>
Ending fund balance per county	<u>1,163,166</u>
SCO adjustments:	
Finding 3—Unreimbursed non-road expenditures	33,853
Finding 5—Law library revenue	<u>(567)</u>
Total net audit adjustments	<u>33,286</u>
Ending fund balance per audit	<u><u>\$ 1,196,452</u></u>

**Schedule 2—
Reconciliation of TEA-21 and RTPA Balance
July 1, 2006, through June 30, 2007**

	<u>Amount</u>
Beginning balance per county	\$ <u> —</u>
Revenues:	
TEA-21 Matching and Exchange funds	1,419,438
RTPA funds	<u>522,868</u>
Total revenues	<u>1,942,306</u>
Total funds available	1,942,306
Expenditures:	
Maintenance	<u>(1,942,306)</u>
Ending balance per audit	<u><u>\$ —</u></u>

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

Findings and Recommendations

FINDING 1— Deficit fund balances

The recorded fund balance in the Road Fund was a deficit \$33,100 as of June 30, 2002.

By definition, each fund is an independent fiscal and accounting entity with a self-balancing set of accounts. A fund with a deficit fund balance is insolvent. The SCO's *Accounting Standards and Procedures for Counties* manual, Chapter 8, Section 33, states that negative fund balances are not permitted. In addition, encumbering future highway users tax apportionments to finance current and prior-year expenditures is contrary to generally accepted accounting principles.

Recommendation

The county should replenish the Road Fund with \$33,100 to eliminate the deficit fund balance. In addition, the county should adopt a balanced budget that limits expenditures to the amount of funds available.

County's Response

Finding 1 states that the fund balance in the Road Fund was a deficit \$33,100 as of June 30, 2002. This negative fund balance was largely the result of a negative cash balance. The County General Fund supplied the Road fund with the necessary cash to continue normal operations during that time. It seems highly unreasonable for the State to request that six years later the General Fund make a payment to the Road Fund of \$33,100 for a temporary cash flow problem. One of the common circumstances that causes cash flow problems in the Road Fund is when we pay contractors for work done on STIP projects and are waiting for reimbursement from the State. If State and Federal funding for the Road Fund are inadequate to maintain a positive cash balance in the Road Fund the County General Fund provides money to continue routine operations without interruption. Penalizing the County General Fund seems counterproductive when this Fund is already providing assistance to the Road Fund.

SCO's Comment

Because the county provided General Fund money in fiscal year (FY) 2001-02 over the required maintenance-of-effort (MOE) related to the Traffic Congestion Relief Fund (TCRF) program, we are withdrawing the finding. However, please be advised that each fiscal year stands on its own and the county should not obligate future highway users tax revenues for current year expenses. Additionally, the county should ensure that expenditures do not exceed the available fund balance.

**FINDING 2—
Interest expense
charged to the Road
Fund**

The county charged to the Road Fund interest expense totaling \$25,182 during FY 2003-04, FY 2002-03, and FY 2001-02 (\$302, \$14,307, and \$10,573, respectively).

Streets and Highways Code sections 2101 and 2150 state that Road Fund moneys can be expended only for road or road-related purposes. Interest expense is not an eligible expenditure per the Streets and Highways Code.

Recommendation

The county should reimburse the Road Fund \$25,182 for the interest expense charged during FY 2003-04, FY 2002-03, and FY 2001-02.

County's Response

Finding 2 states that the County charged interest expense to the Road Fund totaling \$25,182 during fiscal years 2001-02, 2002-03 and 2003-04. It is a commonly accepted accounting principle that the use of money over time has value, generally referred to as interest. During periods when the Road Fund has a positive cash balance it is earning interest income. Is it reasonable to say that when the Road Fund has a negative cash balance that it should not be charged interest expense? If the State expects the Road Fund to never have a negative cash balance it would need to change the procedures for the STIP program so we could request funding in advance of paying the contractors for doing the work. As an example, the Road Fund paid George Reed, Inc. \$651,315 on November 19, 2007 for an asphalt overlay on Darrah Road (a STIP project). The Public Works Director signed the Cal Trans agreement for the project which was mailed out on November 27, 2007. On March 18, 2008 Cal Trans stated that agreement was being voided and we needed to sign a new one that included updates to Cal Trans guidelines. We signed the new agreement right away and once the completed copy came back from Cal Trans we were able to send in a reimbursement claim on April 15, 2008 for work done on Darrah Road. We received payment from the State on May 29, 2008. The Road Fund essentially had to front this \$651,315 for a period of six months.

SCO's Comment

Because the county provided General Fund money in FY 2002-03 and FY 2003-04 over the required MOE related to the TCRF program, we are withdrawing the finding. However, the county should not charge the Road Fund future interest expense in accordance with the Streets and Highways Code.

**FINDING 3—
Unreimbursed
non-road expenditures**

The county did not reimburse the Road Fund \$33,853 for reimbursable expenditures for FY 2006-07, FY 2004-05, and FY 2003-04. In addition, the county did not collect non-road reimbursable transactions in a timely manner in some instances.

Road Fund moneys can be expended only for road or road-related purposes as outlined in Streets and Highways Code sections 2101 and 2150.

Recommendation

The county should reimburse the Road Fund \$33,853 for expenditures incurred for county departments and outside parties. In addition, the county should establish procedures to ensure that future non-road billings are prepared and the Road Fund is reimbursed in a timely manner.

County’s Response

The county concurred with this finding.

**FINDING 4—
Differences between
cost system and
financial system**

We noted differences between the Department of Public Works’ cost accounting system and the Auditor-Controller’s financial accounting system. These differences were subsequently reconciled, but not in a timely manner. This observation was reported in a prior SCO audit.

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

Recommendation

The county should ensure that Road Fund expenditures recorded in the cost system agree with the expenditures recorded in the Auditor-Controller’s financial system.

County’s Response

The county concurred with this finding.

**FINDING 5—
Law library revenue
deposited in error**

The county deposited Law Library of Mariposa revenue of \$567 into the Road Fund on January 12, 2007. The revenues was deposited in account 305.74-16, State-Traffic Congestion Relief (AB2928).

Streets and Highways Code sections 1622 and 2101 state that road-related revenues must be deposited in the Road Fund.

Recommendation

The county should reimburse the Law Library \$567.

County’s Response

The county concurred with this finding.

**FINDING 6—
Lack of written
inventory procedures**

The county does not have written procedures for the year-end physical count of road materials. Road material inventory totaled \$100,844, or 7.994% of total Road Fund assets, as of June 30, 2007. This observation was reported in a prior SCO audit report.

Proper internal control for determining the existence and valuation of inventory items includes written procedures for a year-end physical inventory count. The instructions should include, at a minimum: (a) timing of the count, (b) listing of the participants, and (c) counting method.

Recommendation

The county should establish written procedures for the year-end physical count of road materials.

County's Response

The county concurred with this finding.

**FINDING 7—
No designation for
equipment replacement
account**

The county did not establish a Net Assets-Designation for equipment replacement within account #704, Heavy Equipment Internal Service Fund (ISF). This observation was reported in the prior two SCO audits.

Government Code section 25262 and the SCO's Accounting Standards and Procedures for Counties manual, Chapter 13, Section 17, authorize the establishment of an Equipment Replacement Reserve (Designation) based on estimated replacement costs. In general, vehicle replacement charges from the Heavy Equipment ISF to the Road Fund do not constitute actual expenditures. The replacement charges are allowed only if the Road Fund contributions are retained and identified in a separate equity (Net Assets) account for equipment replacement.

Recommendation

The county should establish a separate Designation for Equipment Replacement in the Heavy Equipment ISF to account for Road Fund accumulated replacement contributions.

County's Response

The county concurred with this finding.

**FINDING 8—
Clearing account
variances**

The FY 2006-07 Annual Road Report, Schedule 7 (Clearing Account Activity) presented high variances for labor clearing, equipment clearing, general road overhead, and inventory clearing (16.35%, 29.51%, 31.30%, and 30.51%, respectively).

The SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A, sections 14 through 23, prescribes 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 road overhead, and inventory variances.

Recommendation

The county should analyze its clearing accounts and update the respective labor, equipment, and overhead rates for FY 2007-08.

County's Response

The county concurred with this finding.

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

COUNTY of MARIPOSA



Dana S. Hertfelder
Director

4639 Ben Hur Road
Mariposa, CA 95338
Phone: (209) 966-5356
Fax: (209) 966-2828

DEPARTMENT OF PUBLIC WORKS

Divisions of:

Administration	Airport
Cemeteries	County Surveyor
Design & Construction	Engineering
Facilities	Parks & Rec.
Roads	Solid Waste
Transportation	Fleet Maintenance

July 18, 2008

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

Dear Mr. Mar:

This letter is in response to the Draft Audit Report on the Mariposa County Road Fund for the period of July 1, 2001 through June 30, 2007.

Finding 1 states that the fund balance in the Road Fund was a deficit \$33,100 as of June 30, 2002. This negative fund balance was largely the result of a negative cash balance. The County General Fund supplied the Road Fund with the necessary cash to continue normal operations during that time. It seems highly unreasonable for the State to request that six years later the General Fund make a payment to the Road Fund of \$33,100 for a temporary cash flow problem. One of the common circumstances that causes cash flow problems in the Road Fund is when we pay contractors for work done on STIP projects and are waiting for reimbursement from the State. If State and Federal funding for the Road Fund are inadequate to maintain a positive cash balance in the Road Fund the County General Fund provides money to continue routine operations without interruption. Penalizing the County General Fund seems counterproductive when this Fund is already providing assistance to the Road Fund.

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essentially had to front this \$651,315 for a period of six months.

During the period of time covered by the Road Fund audit, from FY 2001-02 through FY 2006-07, the Mariposa County General Fund contribution to the Road Fund ranged from 23.00% to 40.91% of total revenues available in the Road Fund. This level of support places Mariposa County as one of the top Counties in the State when it comes to General Fund contributions to the Road Fund. The Department of Public Works finds it very discouraging that despite this high level of support the State wishes to penalize the County General Fund by \$58,282 for issues that basically stem from cash flow problems.

Mariposa County objects to Findings 1 and 2 of the Draft Audit Report of the Road Fund. In light of the information presented above, we ask that the State remove these two findings from the Final Audit Report.

We appreciate your consideration of this matter. Please let us know if there is any further information you need on these issues.

Sincerely,



Dana Hertfelder, P.E.
Director of Public Works

cc: Rick Benson, County Administrative Officer
Chris Ebie, County Auditor

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

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