

TULARE 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 Phillip Cox
Vice Chairman of the Board of Supervisors
Tulare County
2800 West Burrel Avenue
Visalia, CA 93291

Dear Mr. Cox:

The State Controller's Office (SCO) audited Tulare 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 \$1,936. 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 in this audit report.

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/sk:vb

cc: The Honorable Rita A. Woodard
Auditor-Controller/Treasurer-Tax Collector
Tulare County
Henry Hash, Director of Transportation
Resource Management Agency
Tulare 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 Tulare 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 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 \$1,936 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 2001-02 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 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 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. 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 \$1,936 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 the county received 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

Our prior audit report, issued on March 12, 2003, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on July 30, 2008. Phu Le, Administrative Services Officer, the county's Resource Management Agency, responded by letter dated November 26, 2008, 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 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	\$ 4,050,614
Revenues	<u>27,944,388</u>
Total funds available	31,995,002
Expenditures	<u>(28,919,815)</u>
Ending fund balance per county	3,075,187
SCO adjustment:	
Finding 1—Unreimbursed non-road expenditures	<u>1,936</u>
Ending fund balance per audit	<u>\$ 3,077,123</u>

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

	Amount
Beginning balance per county	\$ 1,446,859
Revenues:	
TEA-21 Matching and Exchange funds	5,926,704
RTPA funds	6,610,105
Total revenues	12,536,809
Total funds available	13,983,668
Expenditures:	
Maintenance	(13,983,668)
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 did not reimburse the Road Fund \$1,936 for non-road work performed for other county departments and outside parties. The amount totaled \$540 in fiscal year (FY) 2006-07 and \$1,396 in FY 2005-06.

Road Fund moneys 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 such moneys for non-road work as a convenience to counties, provided that the costs are billed and reimbursed within 30 to 60 days after completion of work.

Recommendation

The county should reimburse the Road Fund \$1,936 for expenditures incurred on non-road work performed for other county departments and outside parties. The county should also establish procedures to ensure that the Road Fund is reimbursed in a timely manner for non-road work.

County's Response

The County agrees with the SCO's recommendation that the Roads Fund should be reimbursed \$1,936 for expenditures incurred on non-road work performed for other County departments and outside parties. The County will reimburse the Roads Fund \$1,936 during the reimbursement process in Fiscal Year 2008/2009. The County will also establish procedures to ensure that the Roads Fund is reimbursed in a timely manner for non-road work. Additionally, efforts will be placed in preventing expenditures that are non-road purposes.

FINDING 2— 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 Tulare County Association of Governments (TCAG). During the years audited, the county deposited all TCAG Exchange allocations in account #5400–State Other; however, other State project reimbursements were also recorded in the account.

Caltrans' Local Assistance Program Guidelines, section 18.5, Financial Controls, states that cities and counties must establish a revenue account for payments allocated by an RTPA. Using separate and special revenue accounts facilitates the audit process and provides a mechanism by which to identify the receipt of funds.

Recommendation

The county should establish a separate revenue account to deposit all future RTPA Exchange payments from TCAG.

County's Response

The County agrees with Finding 2 and has established a separate revenue account number 5401-Roads Exchange Fund within the Roads Fund, to specifically deposit revenues from Regional Transportation Planning Agency Exchange revenues from Tulare County Association of Governments.

**FINDING 3—
Incorrect recording of
costs**

The county is currently recording the Workers' Compensation and General Liability charges as Administration-Direct Charges in the cost system. As the Workers' Compensation charges are used in the calculation of weighted labor rates, they should be recorded in the Labor Clearing account. Similarly, the general liability charges should be recorded as General Road Overhead rather than as Administration.

The SCO's *Accounting Standards and Procedures for Counties* manual, Chapter 9A, section 15, prescribes the methodology for the computation of the applied labor rates. Also, section 21 states that general liability premiums are to be classified under General Road Overhead, because they apply to all road activity, rather than to a specific cost center.

Recommendation

The county should record future Workers' Compensation charges in the Labor Clearing account and the general liability charges in the General Road Overhead account.

County's Response

The County agrees with the recommendation for Finding 3 and will record future Workers' Compensation charges in the Labor Clearing account and the general liability charges in the General Road Overhead account.

**FINDING 4—
High clearing account
variances**

The FY 2006-07 Annual Road Report for Tulare County presented high year-end variances of 20.91% for General Road Overhead, 69.46% for Shop Overhead, and 37.75% for Inventory.

The SCO's *Accounting Standards and Procedures for Counties* manual, Chapter 9A, section 14-23 prescribes the method used in the development and operation of the General Overhead, Shop Overhead and Inventory clearing accounts. Per section 24, the acceptable variance range for General Overhead, Shop Overhead, and Inventory is +/- 10%.

Recommendation

The county should analyze the above clearing accounts, update the respective overhead accounts and record all of the road inventory purchases and usage transactions for the upcoming fiscal year.

County's Response

The County agrees with the recommendation for Finding 4. The County will analyze the above clearing accounts, update the respective overhead accounts and record all roads inventory purchases and use transactions for the upcoming fiscal year.

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



RESOURCE MANAGEMENT AGENCY

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VISALIA, CA. 93277
PHONE (559) 733-6291
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Drill L. Fuesel	Engineering
William Hayler	Comm. & Dev. Services
Jean H. Brou	Transportation
Jake Raper	Planning
Hal Cyfert	Support Services
Roger Hunt	Administrative Services

HENRY HASH, DIRECTOR

November 26, 2008

Steve Mar
Local Governmental Audits Bureau
State Controller's Office, Division of Audits
P.O. Office Box 942850
Sacramento, California 94250-5874

Dear Mr. Mar:

Thank you for the opportunity to respond to the audit of Tulare County Roads Fund. The following are Responses to the Findings during the State Controller's Office audit of the Tulare County's Roads Fund for the period of July 1, 2006 through June 30, 2007:

Finding 1: *The County did not reimburse the Roads Fund \$1,936 for non-road roadwork performed for other County departments and outside parties. The amount totaled \$540 during fiscal year 2006/07 and \$1,396 during fiscal year 2005/2006.*

Roads Fund moneys can be expended only for road or road-related purposes outlined in Street and Highways Code Sections 2101 and 2150. The State Controller's Office has permitted expenditures of such moneys for non-road work as a convenience to the Counties, provided that the costs are billed and reimbursed within 30 to 60 day after the work is completed.

Response: The County agrees with SCO's recommendation that Roads Fund should be reimburse \$1,936 for expenses incurred on non-road work performed for other County departments and outside parties. The County will reimburse the Roads Fund \$1,936 during the reimbursement process in Fiscal Year 2008/2009. The County will also establish procedures to ensure that the Roads Fund is reimbursed in a timely manner for non-road work. Additionally, efforts will be placed in preventing expenditures that are non-roads purposes.

Finding 2: *The County did not establish a separate account within the Roads Fund to deposit all Regional Transportation Planning Agency (RTPA) Exchange revenues from the Tulare County Association of Governments (TCAG). During the years audited, the County deposited all TCAG exchange allocations into account # 5400 - State Other; however, other State project reimbursement were also recorded into this account.*

Caltrans' Local Assistance Program Guidelines, Sections 18.5, Financial Controls, states that cities and counties must establish a revenue account for payments allocated by an RTPA. Using a separate revenue account facilitates the audit process and provides a mechanism by which to identify the receipt of funds.

Response: The County agrees with Finding 2 and has established a separate revenue account number 5401-Roads Exchange Fund within the Roads Fund, to specifically deposit revenues from Regional Transportation Planning Agency Exchange revenues from Tulare County Association of Governments.

Finding 3: *The County is currently recording the Worker's Compensation and General Liability charges as Administrative-Direct Charge in the cost system. As Workers' Compensation charges are used in the calculation of weighted labor rates, they should be recorded in the Labor Clearing account. Similarly, the general liability charges should be recorded as General Roads Overhead rather than as Administration.*

The SCO's Accounting Standards and Procedures for Counties Manual Chapter 9A, Section 15, prescribes the methodology for computation of the applied labor rates. Also, section 21 states that general liability premiums are to be classified under General Road Overhead, because they apply to all road activities, rather than to a specific cost center.

Response: The County agrees with the recommendation for Finding 3 and will record future Workers' Compensation charges in the Labor Clearing account and the general liability charges in the General Overhead account.

Finding 4: *The Fiscal Year 2006/07 Annual Roads Report for Tulare County presented high year-end variances of 21% for General Roads Overhead, 69% for Shop Overhead and 38% for shop inventory.*

The SCO's Accounting Standards and Procedures for Counties Manual Chapter 9A, Section 14-23 prescribes the methods used in the development and operation of the General Overhead and inventory variances should be +/- 10%.

Response: The County agrees with the recommendation for Finding 4. The County will analyze the above clearing accounts, update the respective overhead accounts and record all roads inventory purchases and use transactions for the upcoming fiscal year.

Please contact me (559) 733-6291 if you have any questions or need additional information.

Thank You,



Phu Le, Administrative Services Officer

CC: Henry Hash, Director of Transportation
Rita Woodard – Auditor-Controller/Treasurer-Tax Collector
Jean Brou, Assistant Director – Roads
Roger Hunt, Assistant Director – Administration

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