

LOS ANGELES COUNTY

Audit Report

ROAD FUND

July 1, 2000, through June 30, 2005



JOHN CHIANG
California State Controller

February 2007



JOHN CHIANG
California State Controller

February 9, 2007

The Honorable J. Tyler McCauley
Auditor-Controller
Los Angeles County
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, CA 90012

Donald L. Wolfe
Public Works Director
Los Angeles County
900 South Fremont Avenue
Alhambra, CA 91803-1331

Dear Mr. McCauley and Mr. Wolfe:

The State Controller's Office (SCO) audited Los Angeles County's Road Fund for the period of July 1, 2000, through June 30, 2005.

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 adjustments totaling \$853,986. The adjustments occurred because the county did not provide fair market value in the sale, for \$628,299, of San Dimas Road Yard, and because it charged non-road expenditures of \$275,687. In addition, we identified in this audit report a procedural finding affecting the Road Fund.

The county accounted for and expended fiscal year (FY) 2000-01 through FY 2004-05 Transportation Equity Act of the 21st Century matching and exchange moneys in compliance with Article XIX of the California Constitution and *Streets and Highways Code* Section 182.6.

If you have any questions, please contact Paul R. Criss, Chief, Financial-Related Audits Bureau, at (916) 322-4941.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/ssa:wm:vb

cc: Grace Kong, Chief
Local Program Accounting Branch
Department of Transportation

Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	1
Conclusion	3
Follow-Up on Prior Audit Findings	3
Views of Responsible Officials	3
Restricted Use	3
Schedule 1—Reconciliation of Road Fund Balance	4
Schedule 2—Reconciliation of TEA-21 Balance	5
Findings and Recommendations	6
Attachment—County’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited Los Angeles County's Road Fund for the period of July 1, 2000, through June 30, 2005 (fiscal year [FY] 2000-01 through FY 2004-05). The last day of fieldwork was May 18, 2006.

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 adjustments totaling \$853,986 and a procedural finding identified in this report.

In addition, we audited Transportation Equity Act of the 21st Century (TEA-21) matching and exchange moneys for FY 2000-01 through FY 2004-05, at the request of the California Department of Transportation (Caltrans). The TEA-21-funded projects have been verified to be for road-related purposes and are eligible expenditures. The TEA-21 moneys received by the county were accounted for and expended in compliance with Article XIX of the California Constitution.

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, and TEA-21 matching and exchange were to determine whether:

- Highway users tax apportionments and TEA-21 matching and exchange moneys 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, and TEA-21 matching and exchange moneys 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 were within the limits approved by the SCO's Division of Accounting and Reporting, County Cost Plan Unit.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 items shown in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$1,095,904 to the county's accounting records.

We verified that the TEA-21-funded projects were for road-related purposes, and are eligible expenditures. The TEA-21 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

The county has satisfactorily resolved the findings noted in our prior audit report, issued on November 27, 2001.

Views of Responsible Officials

We issued a draft audit report on October 31, 2006. Donald L. Wolfe, Director of Public Works, responded by letter dated December 28, 2006. Mr. Wolfe agrees with Findings 1 and 3, but believes Finding 2 should be reduced by \$241,918 to allow street lighting expenditures. The county's response is included as an attachment to 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

**Schedule 1—
Reconciliation of Road Fund Balance
July 1, 2000, through June 30, 2005**

	Amount
Beginning fund balance per county	\$ 64,415,221
Revenues	170,111,859
Total funds available	234,527,080
Expenditures	(173,205,741)
Ending fund balance per county	61,321,339
SCO adjustments: ¹	
Finding 1—Unstated fair market value in sale of San Dimas Road Yard	628,299
Finding 2—Unreimbursed non-road expenditures	225,687
Total audit adjustments	853,986
Ending fund balance per audit	\$ 62,175,325

¹ See the Findings and Recommendations section.

**Schedule 2—
Reconciliation of TEA-21 Balance
July 1, 2000, through June 30, 2005**

	<u>Amount</u>
Beginning balance per county	\$ 8,406,504
Revenues:	
TEA-21 exchange funds	<u>5,254,065</u>
Total funds available	13,660,569
Expenditures:	
Construction	<u>(1,264,414)</u>
Ending balance per audit	<u>\$ 12,396,155</u>

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

Findings and Recommendations

FINDING 1— Understated fair market value in sale of San Dimas

During fiscal year (FY) 2003-04, the county did not provide adequate fair market value (FMV) to the Road Fund for the sale of the San Dimas Road Yard to Los Angeles County Flood Control (Flood Control). The Road Fund received \$557,000, the amount established through an appraisal on October 23, 1997, and subsequently on June 24, 1999. We estimated that the transaction between the Road Fund and Flood Control took place in June 2002. We calculated the estimated FMV of \$1,185,299 (median price per square feet in 2002 of \$14.07 × 84,243 square feet) minus the \$557,000 actual proceeds, resulting in an understated FMV of \$628,299. Article XIX of the State Constitution and the *Streets and Highways Code* state that Road Fund assets should be utilized for road purposes. Road Fund excess right of way or properties should be disposed and sold at fair market value and the proceeds deposited in the Road Fund.

Recommendation

The county should reimburse the Road Fund \$628,299 for the understated FMV for the sale of the San Dimas Road Yard.

County's Response

We agree and will reimburse the Road Fund.

FINDING 2— Unreimbursed non- road expenditures

During FY 2004-05, the county did not reimburse the Road Fund \$467,605 for non-road expenditures performed for two outside parties. At the end of fieldwork, reimbursements for work performed for the Los Angeles County Metropolitan Transportation Authority (projects X2100285 and X2100777) for \$225,687 and Track 47657-01 (project T8000250) for \$241,918 remained outstanding. Also, the county did not make reimbursements in a timely manner to the Road Fund for non-road transactions.

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 \$467,605 for the outstanding non-road expenditures. In addition, the county should establish procedures to ensure that future non-road billings are reimbursed to the Road Fund in a timely manner.

County's Response

We agree that the Road Fund should be reimbursed \$225,687 for services provided to the Los Angeles County Metropolitan Transportation Authority (MTA). Reimbursement from the MTA was billed, collected, and deposited into the Road Fund in July 2006.

However, we believe that the remaining \$241,918 expenditures for street lighting activities are allowable uses of Road Fund moneys as outlined in Streets and Highways Code Sections 2101 and consistent with the "Guidelines Relating to Gas Tax Expenditures for Cities and Counties" developed by the State Controller's Office.

SCO's Comment

We agree and have modified the audit report accordingly.

**FINDING 3—
ARR schedules not
prepared**

The county did not prepare schedule 7 (Clearing Account Activity) of the 2004-05 Annual Road Report (ARR). Variance analysis for the Public Works Internal Service Fund should include labor and benefits, equipment, department overhead, and road maintenance overhead. We discussed this observation with the county during the previous Road Fund audit.

In addition, the county did not prepare an adjustment on schedule I (Balance Sheet) to bring the estimated accrual to the actual Highway Users Tax (HUT) July receipt under column 2 (ARR adjustments). *Streets and Highways Code* Section 2153 states that the State Controller's Office must take steps to ensure that the ARR is adequate and accurate.

Recommendation

The county should prepare schedule 7 of the ARR and present the variance analysis for labor and benefits, equipment, department overhead, and road maintenance overhead accounts. In addition, the county should prepare an adjustment on schedule I to reconcile the estimated HUT accrual to the actual July HUT receipt.

County's Response

We agree.

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



DONALD L. WOLFE, Director

COUNTY OF LOS ANGELES

DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"

900 SOUTH FREMONT AVENUE
ALHAMBRA, CALIFORNIA 91803-1331
Telephone: (626) 458-5100
www.ladpw.org

ADDRESS ALL CORRESPONDENCE TO:
P.O. BOX 1460
ALHAMBRA, CALIFORNIA 91802-1460

IN REPLY PLEASE
REFER TO FILE: FI-2

December 28, 2006

Mr. Paul R. Criss
State Controller's Office
Division of Audits
Financial-Related Audits Bureau
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Criss:

STATE ROAD FUND AUDIT REPORT – JULY 2000 THROUGH JUNE 2005

As requested, below is our response to the draft report.

Finding 1 – Understated Fair Market Value – San Dimas

The State Controller's office recommends that the County reimburse the Road Fund \$628,299 for the understated fair market value for the sale of the San Dimas Road Yard.

Response

We agree and will reimburse the Road Fund.

Finding 2 – Unreimbursed Non-Road Expenditures

The State Controller's office recommends that the County reimburse the Road Fund \$467,605.

Response

We agree that the Road Fund should be reimbursed \$225,687 for services provided to the Los Angeles County Metropolitan Transportation Authority (MTA). Reimbursement from the MTA was billed, collected, and deposited into the Road Fund in July 2006.

Mr. Paul R. Criss
December 28, 2006
Page 2

However, we believe that the remaining \$241,918 expenditures for street lighting activities are allowable uses of Road Fund moneys as outlined in Streets and Highways Code Sections 2101 and consistent with the "Guidelines Relating to Gas Tax Expenditures For Cities and Counties" developed by the State Controller's Office.

Finding 3 – Annual Road Report Schedules Not Prepared

The State Controller's found that the County should prepare a Schedule 7 (Clearing Account Activity) and prepare an adjustment on Schedule I for the 2004-05 Annual Road Report.

Response

We agree.

If you have questions, please contact Mr. Raymond Low of our Internal Audit Group at (626) 458-6950 or rlow@dpw.lacounty.gov.

Very truly yours,

DONALD L. WOLFE
Director of Public Works



CHARLES W. ADAMS
Deputy Director

RWL:dbm
P:\FDPUB\INTAUDIT\RLW\STATE ROAD AUDIT RESPONSE 2006

cc: Auditor-Controller (J. Tyler McCauley, Connie Yee)

bc: Internal Audit (Low)

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

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