

# MARIN COUNTY

Reissued Audit Report

## ROAD FUND

*July 1, 2015, through June 30, 2016*



**BETTY T. YEE**  
California State Controller

April 2018



**BETTY T. YEE**  
California State Controller

April 5, 2018

Roy Given, Director of Finance  
Marin County  
3501 Civic Center Drive, Room 205  
San Rafael, CA 94903

Dear Mr. Given:

This report is a reissuance of the July 10, 2017 report; it is intended to correct the audit period and to revise for clarity the following sections: Summary; Objectives, Scope, and Methodology; Conclusion; Follow-up on Prior Audit Findings; Schedule 1; and Findings and Recommendations.

The State Controller's Office (SCO) audited Marin County's Road Fund for the purpose of determining whether 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 for the period of July 1, 2015, through June 30, 2016.

Our audit found instances of non-compliance totaling \$600,017. The county overcharged the fund \$473,844 for the Countywide Cost Allocation Plan (Finding 1) and did not reimburse the fund \$126,173 for non-road expenditures (\$64,350 for the current audit period [Finding 2] and \$61,823 from the prior audit period).

If you have any questions, please contact Efren Lose, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

*Original signed by*

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

JVB/ljs

cc: The Honorable Judy Arnold, President  
Marin County Board of Supervisors  
Raul Rojas, Public Works Director  
Marin County  
Anu Bagchi, Finance Division Chief  
Marin County

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## Reissued Audit Report

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# Reissued Audit Report

## Summary

The State Controller's Office (SCO) audited Marin County's Road Fund for the purpose of determining whether 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 for the period of July 1, 2015, through June 30, 2016.

Our audit found instances of non-compliance totaling \$600,017. The county overcharged the fund \$473,844 for the Countywide Cost Allocation Plan (Finding 1) and did not reimburse the fund \$126,173 for non-road expenditures (\$64,350 for the current audit period [Finding 2] and \$61,823 from the prior audit period).

## 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 apportioned to the county out of money from the Highway Users Tax Account (HUTA) in the Transportation Tax Fund. The highway users tax derives from state taxes on the sale of motor vehicle fuels. A portion of the Federal Forest Reserve revenue received by the county also is 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

Our audit objectives were to determine whether:

- HUTA 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.

We audited the county's Road Fund for the period of July 1, 2015, through June 30, 2016.

To meet the objectives, we:

- Gained a limited understanding of internal controls that would have an effect on the reliability of the accounting records of the Road Fund, by interviewing key personnel, completing the internal control questionnaire, reviewing the county's organization chart, noting the controls over various transactions through narratives and flowcharts, and testing the operating effectiveness of these controls;
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing;
- Performed analytical procedures to determine and explain the existence of unusual or unexpected account balances;
- Verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2008, through June 30, 2015, and by recalculating the trial balance for the period of July 1, 2015, through June 30, 2016;
- Verified whether the components of and changes to the fund balances were properly computed, described, classified, and disclosed, by scheduling and analyzing the Road Fund account balances;
- Analyzed the cost accounting system to determine proper project costing and the use of clearing accounts for labor, equipment, shop overhead, general overhead, and inventory;
- Reviewed county accruals and adjustments for validity and eligibility;
- Verified whether all HUTA apportionments received by the county were properly accounted for in the Road Fund, by reconciling the county's records to the SCO's payment records;
- Verified that unauthorized borrowing of Road Fund cash did not occur by interviewing key personnel and examining the cash account entries for the audit period;
- Verified whether the expenditures incurred during the audit period were supported by proper documentation and were eligible in accordance with the applicable criteria by:
  - Testing all expenditure transactions equal to or greater than the significant item amount (calculated based on materiality threshold). We tested a total of \$1,204,120 in significant expenditures; and
  - Judgmentally selecting as a part of test of controls, samples of other transactions for the following categories (for the selected sample, errors found, if any, were not projected to the intended population):
    - Vendor Payments – We tested \$549,594 of \$1,680,145.
    - Labor – We tested \$16,696 of \$5,337,116.
    - Inventory – We tested \$25,467 of \$115,386.
    - Equipment – We tested \$1,874 of \$527,229.

- Tested all reimbursable non-road transactions during the audit period to verify that all amounts were reimbursed to the Road Fund in a timely manner. (Due to unreimbursed amounts noted during FY 2015-16, we expanded our testing of the non-road transactions to include FY 2011-12 through FY 2014-15); and
- Analyzed the Countywide Cost Allocation Plan charges to the Road Fund.

We did not audit the county's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the county accounted for and expended its Road Fund in accordance with the requirements of Article XIX of the California Constitution and the Streets and Highways Code. We considered the county's internal controls only to the extent necessary to plan the audit.

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.

## **Conclusion**

Our audit found instances of non-compliance for the period of July 1, 2015, through June 30, 2016, as shown in Revised Schedule 1 and described in the Revised Findings and Recommendations section of this report. The findings require a total adjustment of \$600,017 to the county's accounting records.

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

The county has satisfactorily resolved the findings noted in our prior audit report, covering the period of July 1, 2002, through June 30, 2008, issued on July 29, 2011, except for Finding 1 of that audit report – Unreimbursed non-road expenditures totaling \$61,823. This was a prior-year, unresolved finding as of the initial audit report issuance. The county has since reimbursed the Road Fund \$61,823, through Journal Entry No. 5382.

## **Views of Responsible Officials**

We issued a draft audit report on May 18, 2017. Anu Bagchi, Finance Division Chief, Department of Finance, responded by email on June 23, 2017, agreeing to finalize the audit report. We issued a final audit report on July 10, 2017. We discussed the reason for reissuance in a November 12, 2017 email to Ms. Bagchi.

## **Reason for Reissuance**

We reissued this report to correct the audit period and to revise for clarity the following sections: Summary; Objectives, Scope, and Methodology; Conclusion; Follow-up on Prior Audit Findings; Schedule 1; and Findings and Recommendations.

**Restricted Use**

This report is solely for the information and use of Marin County 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

April 5, 2018

**Revised Schedule 1—  
Reconciliation of Road Fund Balance  
July 1, 2015, through June 30, 2016**

|                                                                      | Amount       |
|----------------------------------------------------------------------|--------------|
| Beginning fund balance per county                                    | \$ 5,744,164 |
| Revenues                                                             | 8,031,643    |
| Total funds available                                                | 13,775,807   |
| Expenditures                                                         | (9,410,101)  |
| Ending fund balance per county                                       | 4,365,706    |
| SCO adjustments:                                                     |              |
| Finding 1—Excess Countywide Cost Allocation Plan charge <sup>1</sup> | 473,844      |
| Finding 2—Unreimbursed non-road expenditures <sup>1</sup>            | 64,350       |
| Prior-year Finding—Unreimbursed non-road expenditures <sup>2</sup>   | 61,823       |
| Total SCO audit adjustments                                          | 600,017      |
| Ending fund balance per audit                                        | \$ 4,965,723 |

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> See the Follow-up on Prior Audit Findings section.



# Revised Findings and Recommendations

**FINDING 1—  
Excess Countywide  
Cost Allocation Plan  
charge**

During our reconciliation of fund balances, we noted that in FY 2008-09, the Countywide Cost Allocation Plan charges to the Road Fund exceeded the amount formally approved by the SCO by \$473,844. The county charged the Road Fund \$568,853, but the approved amount was only \$95,009.

Costs for indirect and support service charges cannot exceed those costs formally approved within the Countywide Cost Allocation Plan negotiated agreement between the county and the SCO.

Subsequent to the issuance of the initial final audit report, the county reimbursed the Road Fund \$473,844 for the excess Countywide Cost Allocation Plan charges though Journal Entry No. 5933, dated July 27, 2017.

Recommendation

We recommend that the county ensure that costs for indirect and support services charged to the Road Fund do not exceed the amount formally approved within the Countywide Cost Allocation Plan.

**FINDING 2—  
Unreimbursed non-  
road expenditures  
(repeated finding)**

The county did not reimburse the Road Fund \$64,350 for expenditures on non-road work performed for other county departments and outside parties. This is also a repeated finding noted in prior audit (see Follow-up on Prior Audit Findings section).

During our testing of reimbursable non-road transactions for the audit period, we noted unreimbursed amounts. Therefore, we expanded our testing to include FY 2011-12 through FY 2014-15. We noted unreimbursed amounts for all years except for FY 2012-13.

The breakdown of the unreimbursed non-road expenditures is as follows:

| <u>Unreimbursed<br/>non-road<br/>expenditures</u> | <u>Amount</u>    |
|---------------------------------------------------|------------------|
| FY 2011-12                                        | \$ 3,517         |
| FY 2013-14                                        | 54,015           |
| FY 2014-15                                        | 1,888            |
| FY 2015-16                                        | <u>4,930</u>     |
| Total                                             | <u>\$ 64,350</u> |

Streets and Highways Code section 2101 states, in part:

...all money in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriate for ... (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways....

Streets and Highways Code section 2150 states:

All amounts paid to each county 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.

Subsequent to the issuance of the initial final audit report, the county reimbursed the Road Fund \$64,350 through various journal entries.

Recommendation

We recommend that the county establish procedures to ensure that future outstanding non-road billings are collected and the Road Fund is reimbursed in a timely manner.

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