

SAN JOAQUIN COUNTY

Audit Report

ROAD FUND AND ROAD MAINTENANCE AND REHABILITATION PROGRAM

July 1, 2021, through June 30, 2022



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

April 2025



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April 1, 2025

The Honorable Jeffery Woltkamp, Auditor-Controller
San Joaquin County
44 North San Joaquin Street, Suite 550
Stockton, CA 95205

Fritz Buchman, Public Works Director
San Joaquin County
1810 East Hazelton Avenue
Stockton, CA 95205

Dear Auditor-Controller Woltkamp and Mr. Buchman:

The State Controller's Office audited San Joaquin County's Road Fund and its Road Maintenance and Rehabilitation Program for the period of July 1, 2021, through June 30, 2022.

Our audit found an instance of non-compliance. San Joaquin County understated the fund balance by \$138,376 as of June 30, 2022, because it did not reimburse the Road Fund for expenditures incurred for non-road reimbursable work from fiscal year 2018-19 through fiscal year 2021-22. However, we found that the county complied with Road Maintenance and Rehabilitation Program maintenance-of-effort requirements.

If you have any questions regarding this report, please contact Efren Lose, Chief, Local Government Audits Bureau, by telephone at 916-324-7226. Thank you.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/rs

Copy: The Honorable Miguel Villapudua, Chair
San Joaquin County Board of Supervisors
Dionna Pancoast, Accounting Manager
San Joaquin County Department of Public Works

Contents

Audit Report

Summary	1
Background	1
Audit Authority	1
Objectives, Scope, and Methodology	1
Conclusion	3
Follow-up on Prior Audit Findings	4
Views of Responsible Officials	4
Restricted Use	4
Schedule—Reconciliation of Road Fund Balance	5
Finding and Recommendation	6
Appendix—Summary of Prior Audit Findings	A1
Attachment—San Joaquin County’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited San Joaquin County's (the county's) Road Fund and the county's Road Maintenance and Rehabilitation Program (RMRP) for the period of July 1, 2021, through June 30, 2022.

Our audit found an instance of non-compliance. The county understated the fund balance by \$138,376, as of June 30, 2022, because it did not reimburse the Road Fund for expenditures incurred for non-road reimbursable work from fiscal year (FY) 2018-19 through FY 2021-22. However, we found that the county complied with RMRP maintenance-of-effort requirements.

Background

Streets and Highways Code (SHC) section 2100 created the Highway Users Tax Account (HUTA) in the Transportation Tax Fund. In accordance with Article XIX of the California Constitution, revenues from gasoline taxes are deposited in the HUTA. The State apportions funds monthly from the HUTA to cities and counties for the construction, maintenance, and operation of local streets and roads. SHC section 1622 requires each county to establish a Road Fund for the deposit of its HUTA apportionments. In addition, Government Code (GC) section 29484 requires counties to deposit a portion of their Federal Forest Reserve revenues in the Road Fund. Each county's board of supervisors may authorize the deposit of revenue from other sources into the county's Road Fund. Article XIX of the California Constitution and SHC sections 2101 and 2150 provide that counties may expend money in their Road Funds only for road-related purposes.

Senate Bill 1 (Chapter 5, Statutes of 2017), known as the Road Repair and Accountability Act of 2017, created the RMRP to address deferred maintenance on the state highway system and the local street and road systems. Program funds are apportioned by formula to eligible cities and counties pursuant to SHC section 2032. Article XIX of the California Constitution and SHC sections 2030 through 2038 provide the requirements for RMRP funding. The county deposits its RMRP funds within its Road Fund.

Audit Authority

We conducted this audit in accordance with GC section 12410, which provides the SCO with general authority to audit the disbursement of state money for correctness, legality, and sufficient provisions of law for payment.

Objectives, Scope, and Methodology

Our audit objectives were to determine whether the county:

- Accounted for and expended its Road Fund and RMRP funds in compliance with Article XIX of the California Constitution and the Streets and Highways Code;

- Was in compliance with the RMRP maintenance-of-effort requirements; and
- Conformed with Appendix D, “Road Fund Accounting,” of the SCO’s *Accounting Standards and Procedures for Counties* for its cost accounting.

The audit period was July 1, 2021, through June 30, 2022.

To achieve our objectives, we completed the following procedures:

- We gained an understanding and evaluated the effectiveness of the county’s internal controls that are significant to the audit objective by reviewing policies and procedures, interviewing key personnel, completing an internal control questionnaire, reviewing the county’s organization chart, and inspecting documents and records.
- We assessed the reliability of computer-processed data by reviewing existing information about the data and the system that produced it; by interviewing city officials knowledgeable about the data; and by tracing data to source documents, based on auditor judgment and non-statistical sampling. We determined that the data was sufficiently reliable for the purposes of achieving our audit objectives.
- We conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- We performed analytical procedures to determine and explain the existence of any unusual or unexpected account balances.
- We verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2021, through June 30, 2022, and by recalculating the trial balance for the period of July 1, 2021, through June 30, 2022.
- We verified that the components of and changes to fund balances were properly computed, described, classified, and disclosed by scheduling and analyzing the Road Fund account balances.
- We reconciled the revenues recorded in the county’s Road Fund to the balance reported in the SCO’s apportionment schedule for the period of July 1, 2021, through June 30, 2022, to determine whether the county completely accounted for HUTA apportionments that it received.
- We 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 recalculating all interest allocations for the audit period.
- We reviewed the fund cash and receivable accounts for unauthorized borrowing to determine whether unexpended road funds were available for future road-related expenditures and protected from impairment.
- We reviewed the county’s Road Fund assets to ensure that the county had properly recorded and identified them.

- We reviewed county accruals and adjustments for validity and eligibility.
- We analyzed the county's cost accounting system to determine whether the county had performed a project cost analysis and properly used clearing accounts for labor, equipment, shop overhead, general overhead, and inventory.
- We selected and tested all non-road reimbursable transactions to verify that all amounts were reimbursed to the Road Fund on time.
- We compared the city's RMRP project list with the list submitted to the California Transportation Commission to ensure that actual RMRP expenditures were for program projects approved by the California Transportation Commission.
- We recalculated the city's maintenance-of-effort contributions to verify that the city was in compliance with RMRP maintenance-of-effort requirements.
- We verified that the expenditures incurred during the audit period were supported by proper documentation and eligible in accordance with the applicable criteria by testing all expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and judgmentally selecting non-statistical samples of other transactions in the following categories:
 - Services and supplies – We tested \$22,368,746 of \$30,552,858.
 - Labor – We tested \$21,937 of \$8,032,784.
 - Equipment – We tested \$25,293 of \$2,789,628.

For the selected samples, errors found, if any, were not projected to the intended (total) population.

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 criteria.

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, 2021, through June 30, 2022, as quantified in the Schedule and described in the Finding and Recommendation section. The finding requires an adjustment of \$138,376 to the county's accounting records. However, we found that the county complied with RMRP maintenance-of-effort requirements.

**Follow-up on Prior
Audit Findings**

The county has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2010, through June 30, 2011, issued on April 29, 2014. The implementation status of corrective actions is described in the Appendix.

**Views of
Responsible
Officials**

We issued a draft audit report on December 10, 2024. The county's representative responded by letter dated December 20, 2024, agreeing with the audit results. This final audit report includes the county's response as an attachment.

Restricted Use

This audit report is solely for the information and use of the 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 and is available on the SCO website at www.sco.ca.gov.

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

April 1, 2025

Schedule—
Reconciliation of Road Fund Balance
July 1, 2021, through June 30, 2022

Reconciliation of Fund Balance	Road Fund Amount
Beginning fund balance, per county	\$ 64,641,112
Revenues	<u>53,972,512</u>
Total funds available	118,613,624
Less: Expenditures	<u>47,859,282</u>
Ending fund balance, per county	70,754,342
Audit adjustment:	
Finding – Unreimbursed nonroad expenditures	<u>138,376</u>
Ending fund balance, per audit	<u><u>\$ 70,892,718</u></u>

Finding and Recommendation

FINDING— Unreimbursed non- road expenditures

The county did not reimburse the Road Fund for expenditures incurred on non-road reimbursable work performed for county departments and outside parties from FY 2018-19 through FY 2021-22. We found that the county was not reimbursed for at least \$138,376 in non-road reimbursable expenditures. We tested the non-road reimbursable costs incurred during FY 2021-22 and found that the Road Fund had not been reimbursed for expenses related to other county departments and other government agencies.

As a result, we expanded our review of the non-road reimbursable costs to FY 2011-12 through FY 2020-21. We found that a total of \$138,376 in non-road reimbursable work had not been reimbursed to the Road Fund, resulting in an understatement of the Road Fund balance. The following table shows total, reimbursed, and unreimbursed non-road expenditures for FY 2018-19 through FY 2021-22:

Fiscal Year	Non-road Expenditures Total	Non-road Expenditures Reimbursed	Non-road Expenditures Unreimbursed
2018-19	\$ 2,929,004	\$ 2,898,294	\$ 30,710
2019-20	2,109,864	2,061,985	47,879
2020-21	1,667,434	1,631,739	35,695
2021-22	1,686,673	1,662,581	24,092
	<u>\$ 8,392,975</u>	<u>\$ 8,254,599</u>	<u>\$ 138,376</u>

The errors occurred because the county lacked policies and procedures to ensure that Road Fund expenditures for non-road reimbursable work are reimbursed to the Road Fund in a timely manner.

SHC section 2150 states, in part:

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 streets and highway purposes as provided by law. . . .

Recommendation

We recommend that the county:

- Reimburse the Road Fund \$138,376; and
- Establish follow up policies and procedures to ensure that Road Fund expenditures for non-road reimbursable work are reimbursed to the Road Fund in a timely manner.

County's Response

The County agrees with the instance noted and has prioritized training of staff to help minimize future instances of this nature. Additionally, a step has been added to our workflows to annually review/audit the procedures and processes to ensure [that] the Road Fund is reimbursed timely and at the close of projects. Finally, the Road Fund was reimbursed for a total amount of \$138,376 in FY 2023 to address the instance noted above.

SCO Comment

Our finding and recommendation remain unchanged. The county did not provide documentation to support the reimbursements referred to in its response. In an attempt to verify these reimbursements, we subsequently requested supporting documentation; however, the county did not provide it. We will verify corrective actions during audit follow-up.

Appendix— Summary of Prior Audit Findings

The following table shows the implementation status of San Joaquin County's corrective actions related to the findings contained in our prior audit report, dated April 29, 2014.

Prior Audit Finding	Status
Finding 1— Unreimbursed non-road expenditures	Fully implemented
Finding 2— Expenditures not allocated between divisions within the Public Works Department	Fully implemented
Finding 3— High equipment clearing account variance	Fully implemented
Finding 4— Cost center recording error	Fully implemented
Finding 5— Expenditure differences between cost and financial accounting systems	Fully implemented

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



SAN JOAQUIN
COUNTY
Greatness grows here.



Department of Public Works

Fritz Buchman, Director

Alex Chetley, Deputy Director - Development

Kristi Rhea, Deputy Director - Administration

David Tolliver, Deputy Director - Operations

Najee Zarif, Deputy Director - Engineering

December 20, 2024

Mr. Efren Loste, Chief
Local Government Audits Bureau/Division of Audits
State Controller's Office
P. O. Box, Sacramento, CA 94250

RE: S23RFA0001 Draft Audit Report

Dear Mr. Loste:

Please consider this letter as our response to the San Joaquin County Audit Draft Report (Report) for the Road Fund and Road Maintenance and Rehabilitation Program audit for the period of July 1, 2021, through June 30, 2022. In the Report, the following was noted:

"Our audit found an instance of non-compliance. The county understated the fund balance by \$138,376, as of June 30, 2022, because it did not reimburse the Road Fund for expenditures incurred for non-road reimbursable work from fiscal year (FY) 2018-19 through FY 2021-22. However, we found that the county complied with RMRP maintenance-of-effort requirements."

County's Response/Action Taken:

The County agrees with the instance noted and has prioritized training of staff to help minimize future instances of this nature. Additionally, a step has been added to our workflows to annually review/audit the procedures and processes to ensure the Road Fund is reimbursed timely and at the close of projects. Finally, the Road Fund was reimbursed for a total amount of \$138,376 in FY 2023 to address the instance noted above.

If you have any questions, please contact Ms. Dionna Pancoast, Management Services Administrator, at 209-468-3007 or dpancoast@sigov.org.

Sincerely,

Fritz Buchman, C.E., T.E., CFM
Director of Public Works

c: Jeffery Woltkamp, Auditor-Controller
Dionna Pancoast, Management Services Administrator

**State Controller's Office
Division of Audits
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