

SAN BENITO COUNTY

Audit Report

ROAD FUND

July 1, 2020, through June 30, 2021



MALIA M. COHEN
California State Controller

November 2023



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

November 20, 2023

The Honorable Joe Paul Gonzalez
Clerk-Auditor-Recorder
San Benito County
481 Fourth Street, 2nd Floor
Hollister, CA 95023

Steve Loupe, Public Works Administrator
Resource Management Agency
San Benito County
2301 Technology Parkway
Hollister, CA 95023

Dear Mr. Gonzalez and Mr. Loupe:

The State Controller's Office audited San Benito County's Road Fund for the period of July 1, 2020, through June 30, 2021.

Our audit found instances of non-compliance. The county understated the fund balance by at least \$257,987 as of June 30, 2021, because it did not reimburse the Road Fund for expenditures incurred for non-road reimbursable work, and it did not include an administrative overhead factor in its billings for non-road reimbursable work during fiscal year (FY) 2017-18 through FY 2020-21.

We also found that between FY 2013-14 and FY 2020-21, the county did not claim a total of \$1,368,537 in Regional Surface Transportation Program Exchange revenues to which it was entitled.

In addition, we identified internal control deficiencies and accounting irregularities.

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

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/am

Mr. Joe Paul Gonzalez
Mr. Steve Loupe
November 20, 2023
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cc: Mindy Sotelo, Chair
Board of Supervisors
San Benito County
Kevin Kimura, Fiscal Officer
Resource Management Agency
San Benito County

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Audit Report

Summary

The State Controller's Office (SCO) audited San Benito County's Road Fund to determine whether the county accounted for and expended its Road Fund in compliance with requirements for the period of July 1, 2020, through June 30, 2021.

Our audit found instances of non-compliance. The county understated the fund balance by at least \$257,987 as of June 30, 2021, because it did not reimburse the Road Fund for expenditures incurred for non-road reimbursable work, and it did not include an administrative overhead factor in its billings for non-road reimbursable work during fiscal year (FY) 2017-18 through FY 2020-21.

We also found that between FY 2013-14 and FY 2020-21, the county did not claim a total of \$1,368,537 in Regional Surface Transportation Program Exchange revenues to which it was entitled.

In addition, we identified internal control deficiencies and accounting irregularities.

Background

Streets and Highways Code 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 into 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. Streets and Highways Code section 1622 requires each county to establish a Road Fund for the deposit of its HUTA apportionments. In addition, Government Code 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 Road Fund. Article XIX of the California Constitution and sections 2101 and 2150 of Streets and Highways Code provide that counties may expend money in their Road Funds only for road-related purposes.

Audit Authority

We conducted our audit of San Benito County's Road Fund in accordance with Government Code 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 San Benito County accounted for and expended its Road Fund in compliance with Article XIX of the California Constitution and sections 2101 and 2150 of Streets and Highways Code; and whether its cost accounting was in conformance with Appendix D "Road Fund Accounting" of the SCO's *Accounting Standards and Procedures for Counties*.

The audit period was July 1, 2020, through June 30, 2021.

To achieve our objectives, we performed the following procedures:

- We interviewed key personnel, completed an internal control questionnaire, and reviewed the county's organization chart to obtain an understanding of internal controls to the extent necessary to plan the audit. We deemed all components of internal control significant to our audit objectives.
- We assessed the reliability of computer-processed data by reviewing existing information about the data and the system that produced it; by interviewing county officials knowledgeable about the data; and by tracing data to source documents, based on auditor judgement 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 unusual or unexpected account balances.
- We verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2001, through June 30, 2020, and by recalculating the trial balance for the period of July 1, 2020, through June 30, 2021.
- 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 fund revenue recorded in the county ledger to the balance reported in the SCO's apportionment schedule for FY 2020-21 to determine whether HUTA apportionments received by the county were completely accounted for.
- 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 receivables 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 they were properly recorded and identified.
- We reviewed county accruals and adjustments for validity and eligibility.
- We analyzed the county's cost accounting system to determine proper project costing and the use of 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 had been promptly reimbursed to the Road Fund.
- 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 for the following categories:
 - Services and supplies – We tested \$9,816,604 of \$13,114,392.
 - Labor – We tested \$8,628 of \$744,507.
 - Equipment – We tested \$4,647 of \$165,319.

For the selected samples, errors found 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, 2020, through June 30, 2021, as quantified in the Schedule and described in the Findings and Recommendations section. Findings 1 and 2 require an adjustment of at least \$257,987 to San Benito County's accounting records because the county did not reimburse the Road Fund for non-road reimbursable expenditures, and it did not include an administrative overhead factor in its billings for non-road reimbursable work during FY 2017-18 through FY 2020-21. The county will need to determine the administrative overhead costs incurred and record adjustments to the Road Fund.

We also found that between FY 2013-14 and FY 2020-21, the county did not claim a total of \$1,368,537 in Regional Surface Transportation Program Exchange revenues to which it was entitled (Finding 3).

In addition, we identified internal control deficiencies and accounting irregularities (Finding 4).

Follow-up on Prior Audit Findings

San Benito County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2007, through June 30, 2013, issued on June 2016.

**Views of
Responsible
Officials**

We issued a draft audit report on June 26, 2023. San Benito County's representative responded by letter dated July 6, 2023, agreeing with the audit results. This final audit report includes the county's response as an attachment.

Restricted Use

This report is solely for the information and use of San Benito 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 TARVIN, CPA
Chief, Division of Audits

November 20, 2023

Schedule—
Reconciliation of Road Fund Balance
July 1, 2020, through June 30, 2021

	Amount
Beginning fund balance per county	\$ 358,568
Revenues	25,219,793
Total funds available	25,578,361
Expenditures	(16,143,461)
Ending fund balance per county	9,434,900
SCO adjustment:	
Finding: Unreimbursed non-road expenditures ¹	257,987
Ending fund balance per audit	\$ 9,692,887

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Unreimbursed non-
road expenditures**

San Benito County did not reimburse the Road Fund for expenditures incurred on non-road reimbursable work performed for county departments and outside parties from FY 2017-18 through FY 2020-21. We found that San Benito County was not reimbursed for at least \$257,987 in non-road reimbursable expenditures. We tested the non-road reimbursable costs incurred during the audit period, FY 2020-21, and found that the Road Fund had not been reimbursed for expenses related to County Service Area projects.

As a result, we expanded our review of the non-road reimbursable costs to FY 2013-14 through FY 2019-20. We found that a total of \$257,987 in non-road reimbursable work was not 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 2017-18 through FY 2020-21:

Fiscal Year	Non-road Expenditures: Total	Non-road Expenditures: Reimbursed	Non-road Expenditures: Unreimbursed
2017-18	\$ 226,357	\$ 217,359	\$ 8,998
2018-19	398,376	185,307	213,069
2019-20	110,521	94,728	15,793
2020-21	177,824	157,697	20,126
Totals	\$ 913,079	\$ 655,091	\$ 257,987

As discussed in Finding 2, the county did not include an administrative cost factor in its billings for non-road reimbursable work during FY 2017-18 through FY 2020-21. Therefore, it is possible that the total unreimbursed non-road expenditures for FY 2017-18 through FY 2020-21 may be greater than \$257,987.

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.

Streets and Highways Code section 2150 states, in part:

All amounts paid to each county out of the Highway Users Tax Fund shall be deposited in it 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 \$257,987; and

- Establish 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 finding.

**FINDING 2—
Administrative
overhead not included
in billings for non-road
reimbursable work**

During our review of the county's non-road reimbursable transactions, we noted that the county did not include an administrative overhead factor in its billings for non-road reimbursable work from FY 2017-18 through FY 2020-21.

Administrative overhead represents costs incurred by the county for administrative staff time, including accounting and general administrative activities, and charged to the Road Fund. A percentage of administrative overhead costs should be distributed to various project activities, including the non-road reimbursable projects.

As a result of the error, the Road Fund did not receive full reimbursement for expenditures on non-road-related work. The error occurred because the county lacked policies and procedures to ensure that its billings for non-road reimbursable work include a reasonable administrative overhead factor.

Section App D.32, "Reimbursable Work," of the SCO's *Accounting Standards and Procedures for Counties* (December 15, 2021) states that "billings to outside parties should include charges for certain costs, such as administrative overhead."

Recommendation

We recommend that the county:

- Establish policies and procedures to ensure that it includes an administrative overhead factor in its billings to county departments and outside parties for non-road reimbursable work;
- Determine the administrative overhead costs incurred during FY 2017-18 through FY 2020-21; and
- Record the adjustments to the Road Fund.

County's Response:

The County agrees with the finding.

**FINDING 3—
Unclaimed Regional
Surface Transportation
Program Exchange
funds**

During our review of the Road Fund's revenues for FY 2020-21, we noted that it did not receive Regional Surface Transportation Program Exchange revenues of \$188,448 from the San Benito Council of Governments (COG), a regional transportation planning agency. We expanded our review to prior years, and noted that the county had not claimed these

revenues since FY 2013-14. The county was entitled to receive a total of \$1,368,537.

The State makes Regional Surface Transportation Program Exchange funds available to cities and counties for use on road and transportation projects. The funds are apportioned by the California Department of Transportation to regional transportation planning agencies pursuant to interagency agreements. The regional transportation planning agencies distribute the funds to cities and counties within their jurisdictions. To receive the funds, cities and counties must follow procedures dictated by the regional transportation planning agencies.

The following table presents, by fiscal year, the unclaimed Regional Surface Transportation Program Exchange funds:

Fiscal Year	Amount
2013-14	\$ 156,493
2014-15	156,424
2015-16	159,915
2016-17	158,612
2017-18	176,672
2018-19	181,868
2019-20	190,105
2020-21	188,448
Total	<u>\$ 1,368,537</u>

The county did not collect \$1,368,537 in Regional Surface Transportation Program Exchange funds from the San Benito COG because it lacked policies and procedures to ensure that the county submits eligible road projects to the San Benito COG for reimbursement.

Section 4 of Agreement Number X21-6060(081) between the San Benito COG and the California Department of Transportation states:

RTPA [regional transportation planning agency] agrees to allocate all of these Funds only for those projects implemented by cities, counties, and other public transportation agencies as are authorized under Article XIX of the California State Constitution, in accordance with the requirements of Section 182.6(d)(1) of the Streets and Highway Code.

Streets and Highways Code section 182.6(d) states, in part:

The applicable metropolitan planning organization, county transportation commission, or transportation planning agency shall annual apportion the regional surface transportation funds for projects in each county, as follows:

- (1) . . . Projects shall be nominated by cities, counties, transit operators, and other public transportation agencies through a process that directly involves local government representatives. . . .

Recommendation

We recommend that the county:

- Claim \$1,368,537 from the San Benito COG and deposit it in Road Fund for use on future road projects; and
- Establish policies and procedures to ensure that, each year, the county submits eligible road projects to the San Benito COG in order to claim available funds.

County's Response:

The County agrees with the finding.

**FINDING 4—
Erroneous accounting**

During our review of the various Road Fund transactions recorded in the county's cost and financial accounting systems, we noted erroneous records and processes.

Expenditure differences in cost and financial accounting systems

We found an unreconciled FY 2020-21 expenditure difference of \$268,030 between the San Benito County Public Works Division's cost accounting system, Cost Accounting Management System (CAMS) and the San Benito County Auditor-Controller's financial system, New World. Appendix D of the SCO's *Accounting Standards and Procedures for Counties* establishes cost centers to account for Road Fund activities. The county uses CAMS to record its Road Fund transactions to the applicable cost centers; it uses New World to record Road Fund revenues, expenditures, and other financial accounting entries. With proper accounting, these two systems should reconcile to each other. However, during FY 2020-21, the CAMS Cost Center Ledger Report showed total expenditures of \$16,411,491 and New World reflected total expenditures of \$16,143,461.

Incorrect project coding and confusing activity codes in CAMS

During our review of Road Fund projects, we noted that the county incorrectly recorded some road construction projects in Cost Center Number 610 (Reimbursable) instead of Cost Center Numbers 602 (Bridge/Road Reconstruction) and 603 (Bridge/Road Construction). We also noted that the county's activity codes are not coded consistently across divisions, which creates confusion between activities. For example, division 0300 (Road Maintenance) has an activity code 0210 "Reimbursable Projects"; the corresponding activity in division 0400 (Equipment Maintenance) is coded 0020. To eliminate confusion between the activities, the division 0400 activity should also be coded 0210.

These errors can lead to loss of Road Fund resources. For example, incorrect classification of reimbursable projects could make it impossible for the county to identify them as reimbursable. As a result, the county might fail to claim all the reimbursements to which it is entitled. Incorrect coding can also lead to incorrect accounting and reporting of road project

costs. Without correct coding, project cost reports for grant approvals and project reimbursement claims will not be accurate.

Fuel and materials usage not recorded in CAMS

The county did not record road materials and fuel usage in CAMS during FY 2020-21. The county established Cost Center Numbers 615 (Inventory Clearing–Roads) and 616 (Inventory Clearing – Shop) to account for the purchase and use of these inventory items. However, Account Numbers 615-1599 (Materials Usage) and 616-1696 (Fuel Usage) showed no costs at June 30, 2021, although the county incurred materials and fuel usage costs throughout the fiscal year. This recording error resulted in cost variances for inventory usage and incorrect reporting in the county’s Annual Road Report.

Non-road expenditure reimbursement recording errors

The county recorded its non-road expenditure reimbursements as a reduction to expenditures (cost applied) rather than recording them as revenues during FY 2020-21. The county recorded the reimbursements in expenditure Account Numbers 610.905 (Force) and 619.154 (Maintenance of Equipment – Gas) in New World. The county recorded a corresponding entry in CAMS reducing expenditures in the non-road cost center. Non-road expenditure reimbursements should be recorded as Reciprocal Inter-fund Activity, and thus should be recorded as revenues rather than as a reduction to expenditures.

Outdated labor, equipment, and overhead rates

The county used outdated applied labor, equipment and overhead rates in CAMS during FY 2020-21. According to the county, it has used the same rates in CAMS for multiple years mostly because county staff members are not trained on how to use the system and do not know how to update the rates. The rates should reflect current rate factors to ensure that the county is preparing accurate claims and invoices, and receiving accurate reimbursements.

Shop overhead not distributed

The county did not properly distribute shop overhead in CAMS during FY 2020-21. The county established Cost Center Number 614 (Overhead–Shop) to account for the equipment shop expenses not charged directly to specific equipment repair jobs. Using a shop overhead rate, CAMS distributes these costs to applicable cost centers throughout the year. However, Account Number 614-1499 (Shop Overhead Distribution) showed no cost distributions at June 30, 2021. As a result, shop maintenance costs were not distributed or recorded properly.

These accounting errors occurred because county staff members responsible for entering Road Fund activities in the county’s accounting systems lacked sufficient training.

Recommendation

We recommend that the county obtain training for its staff in the proper use of its accounting systems to:

- Ensure that Road Fund expenditures in CAMS agree to Road Fund expenditures in New World;
- Properly set up projects and activities in CAMS;
- Record fuel and materials usage in CAMS cost centers and projects;
- Record inter-fund reimbursements as revenue transactions in New World;
- Update the applied rates in the cost system on a yearly basis; and
- Correctly distribute shop overhead in CAMS.

County's Response:

The County agrees with the finding.

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



San Benito County
Resource Management Agency

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Hollister CA 95023

Steve Loupe
Public Works Administrator
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July 6, 2023

Efren Loste, Chief Local Government Audits Bureau
Division of Audits
PO Box 942820
Sacramento, CA 94250

The County of San Benito's Road Fund was audited by the State Controller's Office for the period July 1, 2020, through June 30, 2021. Four Findings were identified in the Road Fund Audit Report. The County agrees with the Findings and will prioritize training of staff and develop policies and procedures to help minimize errors; below is the County's response to each Finding.

Finding 1 – San Benito County did not reimburse the Road Fund for expenditures incurred on non-road reimbursable work performed for county departments and outside parties from FY 2017-18 through FY 2020-21.

County Response:

The County agrees with the Finding and agrees with the recommendation to reimburse the Road Fund and will prepare entries to reimburse the Road Fund. The County will develop policies and procedures to ensure that the Road Fund expenditures for non-road reimbursable work are reimbursed in a timely manner.

Finding 2 – The County did not include an administrative overhead factor in its billings for non-road reimbursable work from FY 2017-18 through FY 2020-21.

County Response:

The County agrees with the Finding and has implemented an administrative overhead factor in its non-road reimbursable work. The County will compute the administrative overhead costs incurred during FY 2017-18 through FY 2020-21 and record adjustments in the Road Fund. The County will develop policies and procedures to ensure that the Road Fund expenditures for non-road reimbursable work are reimbursed in a timely manner.

Finding 3 – During FY 2020-21, the Road Fund did not receive Regional Surface Transportation Program Exchange revenues from the San Benito Council of Governments (COG).

County Response:

The County agrees with the Finding. The County has developed a plan and a list of projects that will be claimed for reimbursement through this funding. The County will develop policies and procedures to ensure that the County submits eligible road projects to COG in order to claim available funds.

Finding 4 – Various erroneous records and processes were noted during the review of Road Fund transactions in the County’s cost and financial accounting systems.

County Response:

The County agrees with the Finding and recommendations from the State Controller’s Office. The County has prioritized training for RMA staff on the use of CAMS and has implemented changes to its current processes to resolve errors identified in the Finding.



Steve Loupe, Public Works Administrator
San Benito County Resource Management Agency

**State Controller's Office
Division of Audits
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