

HUMBOLDT COUNTY

Audit Report

ROAD FUND

July 1, 2009, through June 30, 2010



JOHN CHIANG
California State Controller

January 2013



JOHN CHIANG
California State Controller

January 31, 2013

The Honorable Virginia Bass, Chair
Board of Supervisors
Humboldt County
825 5th Street, Room 126
Eureka, CA 95501

Dear Ms. Bass:

The State Controller's Office (SCO) audited Humboldt County's Road Fund for the period of July 1, 2009, through June 30, 2010.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2009, through June 30, 2010. 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 procedural findings identified in this report.

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

cc: The Honorable Joseph Mellett, Auditor-Controller
Humboldt County
Thomas K. Mattson, Director of Public Works
Humboldt County

Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	1
Conclusion	2
Follow-Up on Prior Audit Findings	3
Views of Responsible Officials	3
Restricted Use	3
Schedule 1—Reconciliation of Road Fund Balances	4
Findings and Recommendations	5

Audit Report

Summary

The State Controller's Office (SCO) audited Humboldt County's Road Fund for the period of July 1, 2009, through June 30, 2010.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2004, through June 30, 2009. 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 and review 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 procedural findings identified in this report.

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.

Objectives, Scope, and Methodology

The objectives of our audit of the Road Fund were to determine whether:

- Highway users tax 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.

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 received were properly accounted for in the Road Fund, by reconciling the county's records to the State Controller's 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.

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 and review 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 described in the Findings and Recommendations section of this report.

**Follow-up on Prior
Audit Findings**

Findings noted in our prior audit report, issued on July 28, 2005, have been satisfactorily resolved by the county, except Finding 2, where the county did not include an adequate administrative overhead rate in its billings for non-road-eligible work. We noted the same condition during the current audit, please refer to Finding 1.

**Views of
Responsible
Officials**

We discussed the audit results with county representatives during an exit conference on August 11, 2011. Renee Fleek, Department of Public Works Business Manager, and Cheryl Dillingham, Deputy Chief Administrative Officer, agreed with the audit results. In a supplemental exit on October 18, 2012, Ms. Fleek further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This report is solely for the information and use of Humboldt County, the Humboldt 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

January 31, 2013

**Schedule 1—
Reconciliation of Road Fund Balances
July 1, 2009, through June 30, 2010**

	<u>Amount</u>
Beginning fund balance per county	\$ 7,068,109
Revenues	<u>23,403,955</u>
Total funds available	30,472,064
Expenditures	<u>(20,610,205)</u>
Ending fund balance per county	9,861,859
Total SCO audit adjustment	<u>—</u>
Ending fund balance per audit	<u><u>\$ 9,861,859</u></u>

Findings and Recommendations

**FINDING 1—
Administration
overhead factor not
included**

As discussed in the prior audit, the State Controller's Office recommended that the county include an administrative overhead factor on all non-roads reimbursable work for Public Works divisions, other county departments and outside parties. The County Department of Public Works (DPW), did not include an administration factor in its non-road billings from 2004-05 through 2009-10.

Road Fund monies can be expended only for road or road-related purposes as outlined in Streets and Highways Code sections 2101 and 2150. In addition, the SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A, requires an adequate administrative overhead factor to recover all costs associated with performing non-road reimbursable work.

Recommendation

The county should include an administrative overhead factor in non-road reimbursable billings for county departments and outside parties.

**FINDING 2—
Unreconciled cost
system versus financial
system expenditures**

From FY 2004-05 through FY 2009-10, there were expenditure differences between the DPW cost system and the Auditor-Controller's financial system. The Business Manager of DPW, substantially reconciled the differences; however, by the end of the field audit, the county was not able to reconcile \$346 for FY 2009-10, \$1,138 for FY 2007-08, and \$17,735 for FY 2005-06.

The SCO's Accounting Standards and Procedures for Counties Manual Chapter 9, Appendix A, recommends a periodic reconciliation between the cost system and financial system's expenditures.

Recommendation

The county should reconcile the differences for FY 2009-10, FY 2007-08, and FY 2005-06, and establish procedures to ensure that Road Fund expenditures recorded in the Public Works cost system agree with the expenditures recorded in the Auditor-Controller's financial system.

**FINDING 3—
High clearing account
variance**

A review of the FY 2009-10 Annual Road Report, (Clearing Account Activity) presented an overhead variance of 15.6% and inventory variance of 117.06%.

The SCO's Standards and Procedures for Counties Manual, Chapter 9, Appendix A, prescribes the method used in the labor rates and inventory charges. The acceptable range variances for an overhead and inventory should be +/-10%.

Recommendation

DPW personnel should review the cost center and verify that overhead and inventory charges are applied to appropriate cost centers for FY 2011-12. In addition, the county should monitor its variances throughout the year in order to meet the SCO Manual variance parameters.

**FINDING 4—
Cost center totals not
reconciled to project
detail**

The county DPW did not reconcile the cost center totals for reconstruction detail (cost centers 1200-205, 1200-215, 1200-220, 1200-235, and 1200-230) during FY 2009-10.

The SCO's Accounting Standards and Procedures for Counties Manual, Chapter 9, Appendix A, recommends a periodic reconciliation of cost center totals to project detail totals.

Recommendation

The county should establish procedures to reconcile cost center totals to project detail on monthly or quarterly basis.

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

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