

SANTA CRUZ COUNTY

Audit Report

ROAD FUND

July 1, 2010, through June 30, 2011



JOHN CHIANG
California State Controller

April 2014



JOHN CHIANG
California State Controller

April 29, 2014

The Honorable Zach Friend, Chairperson
Board of Supervisors
Santa Cruz County
701 Ocean Street, Room 500
Santa Cruz, CA 95060

Dear Mr. Friend:

The State Controller's Office (SCO) audited Santa Cruz County's Road Fund for the period of July 1, 2010, through June 30, 2011.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2003, through June 30, 2010. The results of our review are included in our audit report.

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, except for our adjustments, totaling \$12,863. We made the adjustments because the county incurred an ineligible expenditure for fire supplies and uncollected non-road expenditures performed for the Port District Project. In addition, we identified a procedural finding affecting the Road Fund.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: The Honorable Mary Jo Walker, Auditor-Controller
Santa Cruz County
John Presleigh, Director of Public Works
Santa Cruz County

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Audit Report

Summary

The State Controller's Office (SCO) audited Santa Cruz County's Road Fund for the period of July 1, 2010, through June 30, 2011.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2003, through June 30, 2010. The results of our review are included in our audit report.

Our audit and review found that 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, except for our adjustments, totaling \$12,863, and a procedural finding 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 money 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 money 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 found that 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, 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 \$12,863 to the county's accounting records.

Follow-up on Prior Audit Findings

Our prior audit report, issued on October 8, 2004, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on February 5, 2014. John Presleigh, the county's Public Works Director, responded by letter dated February 21, 2014, agreeing with the audit results. 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 Santa Cruz County, the Santa Cruz 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, CPA
Chief, Division of Audits

April 29, 2014

**Schedule 1—
Reconciliation of Road Fund Balance
July 1, 2010, through June 30, 2011**

	Amount
Beginning fund balance per county	\$ 3,966,636
Revenues	15,763,286
Total funds available	19,729,922
Expenditures	(16,311,885)
Ending fund balance per county	3,418,037
SCO adjustments:	
Finding 1—Ineligible expenditures	10,171
Finding 2—Unreimbursed non-road expenditures	2,692
Total SCO audit adjustments	12,863
Ending fund balance per audit	\$ 3,430,900

Findings and Recommendations

FINDING 1— Ineligible expenditures

The county paid \$10,171 from the Road Fund for Project #40009 (Fire Supplies) during fiscal year (FY) 2005-06. The Fire Department supplies refers to sandbags and dump truck loads of sand that are delivered to various fire stations throughout the county upon the fire station captain's request or at the request of Emergency Services. These materials are made available to the public at the various fire stations. Many times throughout the winter, the Santa Cruz County Department of Public Works is requested to replenish these supplies as needed.

Streets and Highways Code section 2101 states:

All money in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriate for all of the following: (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes.

Streets and Highways Code section 2150 states:

All amounts paid to each county out 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.

Providing sand bags and other emergency supplies is not a road-related expenditure and does not have a direct impact on construction, improvement, maintenance, and operation of public streets and highways as described in Streets and Highways Code section 2101.

Recommendation

The county should reimburse the Road Fund \$10,171 for expenditures incurred for non-road work supplies during FY 2005-06. In addition, the county must ensure that only expenditures considered road or road-related purposes are paid for with road funds.

County's Response

The County acknowledges the State Controller's finding pursuant to Streets and Highway Code Sections 2101 and 2150. Costs in this project were submitted to and reimbursed by the Federal Emergency Management Agency (FEMA) and California Office of Emergency Services (CalOES) for declared disaster event DR-1628, Project Worksheet 3144, Category B work. The County accepts the recommendation of the State Controller that the County must ensure that only expenditures considered road or road-related purposes are paid for with road funds.

**FINDING 2—
Unreimbursed
non-road expenditures**

At the end of fieldwork, the Santa Cruz Port did not reimburse the Road Fund \$2,692 for the Santa Cruz Port District Project #79079 during fiscal year 2010-11.

Streets and Highways Code section 2101 states:

All money in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriate for all of the following: (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes.

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.

The SCO has permitted expenditures of road funds for non-road work as a convenience for counties, provided that the expenditures are billed and reimbursed in a timely manner (30-60 days after completion of the work).

Recommendation

The county should reimburse the Road Fund \$2,692 for the expenditures incurred for the non-road projects performed for the Port District Project. In addition, the county must establish procedures to ensure that future outstanding non-road billings are collected timely.

County's Response

The County submitted a claim for reimbursement to the Santa Cruz Port District and was reimbursed in full. Documentation of this payment is attached. The County accepts the recommendation of the State Controller to establish procedures for the timely collection of non-road billings.

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



County of Santa Cruz

DEPARTMENT OF PUBLIC WORKS

701 OCEAN STREET, ROOM 410, SANTA CRUZ, CA 95060-4070
(831) 454-2160 FAX (831) 454-2385 TDD (831) 454-2123

JOHN J. PRESLEIGH
DIRECTOR OF PUBLIC WORKS

February 21, 2014

STEVEN MAR
Chief, Local Governments Audit Bureau
State Controller's Office, Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

SUBJECT: STATE CONTROLLER'S OFFICE AUDIT OF SANTA CRUZ
COUNTY ROAD FUND THE FOR THE PERIOD JULY 1, 2003,
THROUGH JUNE 30, 2010

Dear Mr. Mar:

This letter is the County's formal response to the State Controller's Office Audit Report of February 2014.

Finding 1- Ineligible Expenditures for Fire Supplies, Project 40009, fiscal year 2006.

Response: The County acknowledges the State Controller's finding pursuant to Streets and Highways Code Sections 2101 and 2150. Costs in this project were submitted to and reimbursed by the Federal Emergency Management Agency (FEMA) and California Office of Emergency Services (CalOES) for declared disaster event DR-1628, Project Worksheet 3144, Category B work. The County accepts the recommendation of the State Controller that the County must ensure that only expenditures considered road or road-related purposes are paid for with road funds.

Finding 2 - Expenditures for the Santa Cruz Port District, Project 79079, not reimbursed.

Response: The County submitted a claim for reimbursement to the Santa Cruz Port District and was reimbursed in full. Documentation of this payment is attached. The County accepts the recommendation of the State Controller to establish procedures for the timely collection of non-road billings.

Yours truly,


JOHN J. PRESLEIGH
Director of Public Works

JSC:rw
Attachments
Copy to: County Auditor-Controller

sccounty_roadfundrw.doc

COUNTY OF SANTA CRUZ AFFIDAVIT AND RECORD OF DEPOSIT

I hereby swear, under penalty of perjury, that the amount due the treasury of said county for moneys collected by: PUBLIC WORKS
 is the sum of 22,469.47 in settlement of following accounts to and including the date below:
 dollars

Subscribed this 3 day of January, 2013 PREPARED BY Robert Duncan EXT
John J Presleigh, Dir. Of Public Works 1/3/13
 HEAD OF DEPARTMENT - NAME & TITLE by: DEPARTMENTAL APPROVAL

TOTAL WIRE DEPOSIT	
TOTAL CASH	21.50
TOTAL CHECKS	22,447.97
TOTAL DEPOSIT	22,469.47

Line	T/C	DESCRIPTION - TO BE KEYED - FIFTY SPACES	AMOUNT	INDEX	SUBJECT	*USER or GL	*SUBSID or VEND#
1	050	DPW Other Sales Taxable	56.67	621901	2334		
2	050	701 DPW Sales Tax	4.54	704100	0171		
3	050	DPW City of SC Dist Sales Tax	0.29	704100	0177		
4	066	trust pmnt - WA #19169 - DR Horton, Builder	783.58	072505			
5	050	rent - Kishler - Jan '13	915.00	492100	0440		em DKD
6		rent - Zar - last Qtr '12 & first Qtr '13	540.00	621100	0440		
7		rent - SC Port District - Jan '13	412.00	621100	0440		
8		rent - Kristi Taul, Housing Auth. - Jan '13	1,534.00	197300	0440		VPP 133
9		rent - Victoria Warner, Housing Auth. - Jan '13	1,338.00				VPL 104
10		event fee - Traffic Cntrl Plan - Pleasure Pt Business Assoc	50.00	621100	1570		em DFI

Pursuant to the California Government Code, Section 27008, the County Treasurer is hereby authorized to accept the deposit described above. Receipt of the above deposit is hereby acknowledged.

COUNTY OF SANTA CRUZ Treasurer

by Deputy Treasurer

VALIDATION AND NUMBER			
DISTRIBUTION:		WHITE - AUDITOR-CONTROLLER YELLOW - TREASURER	
PINK - DEPARTMENT COPY GOLDENROD - ADVICE COPY			

AUDITORS USE ONLY		TO BE COMPLETED BY DEPARTMENT	
DOCUMENT #	BANK NO	AMOUNT	TIC HASH
DT	100	22,469.47	19 966

AUD-36 for FAMIS 4.2
(REV 06-08-08) (NCR)

* Note:
 These fields are to be used when a T/C code requires a User Code, a General Ledger Account Number, a Subsidary Account Number, or a Vendor Number.
 User Code = ANN...
 GL = 3 digits
 Subsidary = 6 digits
 Vendor No = 6 digits + 01

COUNTY OF SANTA CRUZ

AFFIDAVIT AND RECORD OF DEPOSIT

I hereby swear, under penalty of perjury that the amount due the treasury of said county for moneys collected by: PUBLIC WORKS
is the sum of _____ dollars

(\$ _____) in settlement of following accounts to and including the data below:

Subscribed this 3 day of January, 2012
John J Presleigh, Dir. Of Public Works
 HEAD OF DEPARTMENT - NAME & TITLE

Robert Duncan 22164 EXT
 PREPARED BY
 by: DEPARTMENTAL APPROVAL

TOTAL WIRE DEPOSIT	-
TOTAL CASH	See Page 1
TOTAL CHECKS	-
TOTAL DEPOSIT	-

Line	T/C	DESCRIPTION - TO BE KEYPED - FIFTY SPACES	AMOUNT	INDEX	SUBJECT	*USER or GIL	*SUBSID or VEND#
1	050	event fee - 2013 PPBA Street Fair - Pleasure Pt. Business Assoc	286.00	621100	1570		em DFI
2		transportation permit AN13-36 - Don Chapin Co.	90.00	621100	1570		
3		SC Port Dist. - 2011 Tsunami - WA #79079 - 5/24/11 agreement	2,845.98	621100	2384		em R.I.C.
4		S.G.S. Enterprises, Inc.	277.60	625110	2384		em KK
5		S.G.S. Enterprises, Inc.	151.60				
6		S.G.S. Enterprises, Inc.	804.40				
7		Sims Metal Management	2,750.00				
8		Sims Metal Management	8,545.90		V		
9	V	1246 - Knox Roofing	1,083.91	625110	1846		V
10			-				

* Note:
 These fields are to be used when a T/C code requires a User Code, a General Ledger Account Number, a Subsidiary Account Number, or a Vendor Number.
 User Code = ANN...
 GIL = 3 digits
 Subsidiary = 6 digits
 Vendor No = 6 digits + -01

VALIDATION AND NUMBER	DISTRIBUTION: WHITE - AUDITOR-CONTROLLER - YELLOW - TREASURER PINK - DEPARTMENT COPY GOLDENROD - ADVICE COPY
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Pursuant to the California Government Code, Section 27008, the County Treasurer is hereby authorized to accept the deposit described above. Receipt of the above deposit is hereby acknowledged.

COUNTY OF SANTA CRUZ Treasurer

by Deputy Treasurer

TO BE COMPLETED BY DEPARTMENT		
BANK NO	AMOUNT	T/C HASH
100	See Page 1	

AUDITORS USE ONLY
 DOCUMENT #

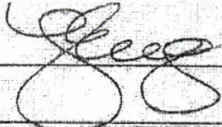
See Page 1

SANTA CRUZ PORT DISTRICT

38299

VENDOR ID	NAME	PAYMENT NUMBER	CHECK DATE				
SANTA CRUZ PORT DISTRICT	County of Santa Cruz DPW	0000000000002771	12/31/2012				
OUR VOUCHER NUMBER	YOUR VOUCHER NUMBER	DATE	AMOUNT	AMOUNT PAID	DISCOUNT	WRITE-OFF	NET
0000000000004592	121812	12/18/2012	\$2,845.98	\$2,845.98	\$0.00	\$0.00	\$2,845.98
			\$2,845.98	\$2,845.98	\$0.00	\$0.00	\$2,845.98

COMMENT

<p>SANTA CRUZ PORT DISTRICT 135 5TH AVE SANTA CRUZ, CA 95062 (831) 475-6181</p>		<p>COMERICA BANK-CALIFORNIA 80-3752-1211</p>		38299
		DATE	AMOUNT	
		12/31/2012	\$2,845.98	
<p>PAY Two Thousand Eight Hundred Forty Five Dollars And 98 Cents</p>				
<p>TO THE ORDER County of Santa Cruz DPW OF Dept. of Public Works 701 Ocean Street Rm. 410 Santa Cruz CA 95060</p>		 AUTHORIZED SIGNATURE		

⑈038299⑈ ⑆121137522⑆ 1890923582⑈

Security features. Details on back.

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

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