

PLACER COUNTY

Audit Report

ROAD FUND

July 1, 2010, through June 30, 2011



JOHN CHIANG
California State Controller

May 2014



JOHN CHIANG
California State Controller

May 15, 2014

The Honorable Jack Duran, Chair
Board of Supervisors
Placer County
175 Fulweiler Avenue
Auburn, CA 95603

Dear Mr. Duran:

The State Controller's Office (SCO) audited Placer 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, 2004, through June 30, 2010. The results of this 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 a procedural finding 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, CPA
Chief, Division of Audits

JVB/mh

cc: Andrew C. Sisk, Auditor-Controller
Placer County
Ken Grehm, Public Works Director
Placer County

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Audit Report

Summary

The State Controller's Office (SCO) audited Placer 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, 2004, through June 30, 2010. 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 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 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 disclosed 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 item shown in Schedule 1 and described in the Finding and Recommendation section of this report.

**Follow-up on Prior
Audit Findings**

Findings noted in our prior audit report, issued on January 31, 2007, have been satisfactorily resolved by the county.

**Views of
Responsible
Officials**

We discussed the audit results with county representatives during an exit conference on May 18, 2012. Ken Grehm, Director of Public Works, and Cynthia Taylor, Senior Administrative Services Officer, agreed with the audit results. Mr. Grehm 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 Placer County, the Placer 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

May 15, 2014

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

	<u>Amount</u>
Beginning fund balance per county	\$ 16,163,869
Revenues	<u>63,953,240</u>
Total funds available	80,117,109
Expenditures	<u>(63,047,595)</u>
Ending fund balance per audit	<u><u>\$ 17,069,514</u></u>

Finding and Recommendation

**FINDING—
High equipment
clearing variance**

A review of Schedule 7 (Clearing Account Activity) of the fiscal year (FY) 2010-11 Annual Road Report presented a variance for equipment of 33%. Our further research indicated that the equipment rates appeared understated during FY 2010-11.

The *SCO Accounting Standards and Procedures for Counties Manual*, Chapter 9, Appendix A, Section 17 prescribes the method used in the development and operation of the equipment clearing account. Equipment rental rates should be based on a three-year average of equipment/vehicle maintenance, repair, and operating costs by categories divided by the estimated usage for the upcoming fiscal year. Per Section 24, the acceptable range for the equipment variances should be +/-10%.

Recommendation

The county should analyze its equipment clearing account and update the respective rental rates for FY 2013-14.

County's Response

The county concurs with our finding and recommendation.

**State Controller's Office
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<http://www.sco.ca.gov>