

# **IMPERIAL COUNTY**

Audit Report

## **ROAD FUND**

*July 1, 2008, through June 30, 2013*



**BETTY T. YEE**  
California State Controller

June 2016



**BETTY T. YEE**  
California State Controller

June 6, 2016

Jack Terrazas, Chair  
Board of Supervisors  
Imperial County  
940 Main Street, Suite 209  
El Centro, CA 92243

Dear Mr. Terrazas:

The State Controller's Office (SCO) audited Imperial County's Road Fund for the period of July 1, 2008, through June 30, 2013.

The county accounted for and expended its 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 \$1,616,857. We made the adjustments because the county understated the fund balance by \$1,616,857 as of June 30, 2013. The understatement occurred because (1) the county transferred Road Fund money to the Imperial Irrigation District and not all of the money transferred was expended for road purposes (\$1,526,888), and (2) the county did not reimburse the Road Fund for non-road reimbursable expenditures (\$89,969).

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits Bureau, at (916) 284-0120.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD, CPA**  
Chief, Division of Audits

JVB/as

cc: Douglas Newland, Auditor-Controller  
Imperial County  
William Brunet, Director of Public Works  
Imperial County

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# Audit Report

## Summary

The State Controller's Office (SCO) audited Imperial County's Road Fund for the period of July 1, 2008, through June 30, 2013.

Our audit 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 \$1,616,857, 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 and Caltrans' 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 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 \$1,616,857 to the county's accounting records.

## **Follow-up on Prior Audit Findings**

Our prior audit report, issued on August 6, 2010, disclosed no findings.

**Views of  
Responsible  
Officials**

We issued a draft audit report on February 11, 2016. In a letter dated March 24, 2016, William Brunet, Imperial County Director of Public Works, provided a response to the findings. The county's response is included as an attachment in this final audit report.

**Restricted Use**

This report is solely for the information and use of Imperial 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.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

June 6, 2016

**Schedule 1—  
Reconciliation of Road Fund Balance <sup>1</sup>  
July 1, 2008, through June 30, 2013**

	Amount
Beginning fund balance per county	\$ 17,198,076
Revenues	16,477,938
Total funds available	33,676,014
Expenditures	(21,389,761)
Ending fund balance per county	12,286,253
SCO adjustments:	
Finding 1—Ineligible transfer	1,526,888
Finding 2—Untimely reimbursement	89,969
Total SCO audit adjustments	1,616,857
Ending fund balance per audit	\$ 13,903,110

<sup>1</sup> The audit period was July 1, 2008, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

# Findings and Recommendations

## **FINDING 1— Ineligible transfer**

The Road Fund transferred \$500,000 to the Imperial Irrigation District for each fiscal year from 2008-09 through 2012-13 (\$2,500,000 total). The transfers were made prior to eligible expenditures being incurred or documented. After a review of documentation supplied by the district, it was determined that the district had a fund balance of \$1,526,888 that had not been expended for road purposes. All Road Fund money must be expended for road purposes pursuant to the Streets and Highways Code.

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.

### Recommendation

The district should reimburse the Road Fund \$1,526,888. The district should establish procedures to ensure that any transfers made to the district in the future have documentation that the funds are being expended for road-related purposes. We recommend that the district bill the Road Fund after expenditures have been incurred.

### County Response

Your audit determined that there were funds in the amount of \$1,526,888.00 that had not been expended for road purposes. As per an agreement between the County of Imperial and the Imperial Irrigation District (District in your communication), all funds transferred to the District are solely used for road purposes. What may confuse things is that the District operates on a calendar year while the County operates on a fiscal year running from July 1 through June 30.



### SCO Response

In our analysis of the Road Fund money transferred to the Imperial Irrigation District we found that not all of the money transferred was spent for road purposes. During the audit field work, we requested a listing of projects and expenditures for the road work, performed by the district. The documentation we received disclosed that the district had not spent the transferred amount (\$500,000) for each year under the audit timeframe. A detail of our finding was provided at the exit conference. All Road Fund money must be expended for road purposes pursuant to the Streets and Highways Code, this includes any transfers to other funds. As of the date of the county's response, we had not received documentation that these funds were expended by the district for road purposes.

The audit finding remains as stated.

### **FINDING 2— Untimely reimbursement**

The county had not reimbursed the Road Fund for expenditures on non-road-related work in a timely manner for the fiscal years under audit. The amount of non-reimbursement totaled \$89,969.

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:

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The SCO has permitted expenditures of Road Fund money for non-road-related 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 \$89,969 and establish procedures to ensure that future non-road-related billings are collected and the Road Fund is reimbursed in a timely manner (30-60 days after completion of the work).

County Response

Your audit determined that there were funds in the amount of \$89,969.00 that had not been reimbursed in a timely manner. Please note that upon approaching the end of the fiscal year, some expenditures may not be able to be reimbursed by the June 30 deadline and are reimbursed in the following month, which would show as not being reimbursed in the current year and show as reimbursements in the following year. This process may also delay the reimbursement process.

SCO Response

At the last day of field work, non-road billings of \$89,969 had not been reimbursed. As of the date of the county's response, we had not received documentation that these billings were reimbursed.

The audit finding remains as stated.

**Attachment—  
Imperial County's Response to  
Draft Audit Report**

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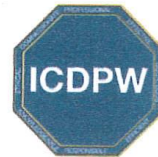
COUNTY OF  
IMPERIAL

DEPARTMENT OF  
PUBLIC WORKS

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92243

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Public Works works for the Public



March 24, 2016

Chris Lek  
Interim Bureau Chief  
Local Government Audits Bureau  
State Controller's Office  
Division of Audits  
P. O. Box 942850  
Sacramento, CA 94250 5874

SUBJECT: Imperial County Road Fund Audit for the Period of July 1, 2008 through June 30, 2013

Dear Mr. Lek:

The Department is in receipt of your communication dated February 11, 2016 regarding your Office's audit of the Imperial County Road Fund for the period of July 1, 2008 through June 30, 2013. In your communication you cite two (2) findings discovered during the audit. Your communication allows for our comment on such findings, which are listed below.

**Finding 1: Ineligible Transfer**


Your audit determined that there were funds in the amount of \$1,526,888.00 that had not been expended for road purposes. As per an agreement between the County of Imperial and the Imperial Irrigation District (District in your communication), all funds transferred to the District are solely used for road purposes. What may confuse things is that the District operates on a calendar year while the County operates on a fiscal year running from July 1 through June 30.

**Finding 2: Untimely Reimbursement**

Your audit determined that there were funds in the amount of \$89,969.00 that had not been reimbursed in a timely manner. Please note that upon approaching the end of a fiscal year, some expenditures may not be able to be reimbursed by the June 30 deadline and are reimbursed in the following month, which would show as not being reimbursed in the current year and show as reimbursements in the following year. This process may also delay the reimbursement process.

Thank you for the opportunity to provide comments to your audit. Should you have any questions or would like to discuss this in further detail please feel free to contact myself.  
Thank you.

Respectfully,

  
William S. Brunet, P. E.  
Director of Public Works

Attachments

Ed/dm

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