

HUMBOLDT COUNTY

Audit Report

ROAD FUND

July 1, 2016, through June 30, 2017



BETTY T. YEE
California State Controller

June 2019



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California State Controller

June 28, 2019

The Honorable Karen Paz Dominguez,
Auditor-Controller
Humboldt County
825 5th Street, Room 126
Eureka, CA 95501

Tom Mattson, Public Works Director
Humboldt County
1106 2nd Street
Eureka, CA 95501

Dear Ms. Dominguez and Mr. Mattson:

The State Controller's Office (SCO) audited Humboldt County's Road Fund for the period of July 1, 2016, through June 30, 2017.

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.

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

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: Rex Bohn, Chair
Humboldt County Board of Supervisors
Charlotte Merkel, Public Works Deputy Director
Humboldt County

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Audit Report

Summary

The State Controller's Office (SCO) audited Humboldt County's Road Fund for the period of July 1, 2016, through June 30, 2017.

Our audit found that 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.

Background

The State of California imposes taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution, revenues from gasoline taxes shall be deposited into the Highway Users Tax Account (HUTA) in the Transportation Tax Fund. Each month the State apportions HUTA funds to cities and counties for the construction, maintenance, and operation of local streets and roads.

The Road Fund, a special revenue fund, was established by the county board 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 is deposited into the Road Fund, it is restricted to expenditures made in compliance with Article XIX of the State Constitution and Streets and Highways Code sections 2101 and 2150.

Objectives, Scope, and Methodology

Our audit objectives were to determine whether:

- HUTA apportionments received by the county were accounted for in the Road 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;
- Road Fund cost accounting was 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 did not exceed the amount formally approved in the Countywide Cost Allocation Plan.

The audit period was July 1, 2016, through June 30, 2017.

To achieve our objectives, we:

- Gained a limited understanding of internal controls that would have an effect on the reliability of the accounting records of the Road Fund, by interviewing key personnel, completing the internal control questionnaire, reviewing the county's organization chart, and noting the controls over various transactions through narratives and/or flowcharts;
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing;
- Performed analytical procedures to determine and explain the existence of unusual or unexpected account balances;
- Analyzed the cost accounting system to determine proper project costing and the use of clearing accounts for labor, equipment, shop overhead, general overhead, and inventory;
- Reviewed county accruals and adjustments for validity and eligibility;
- Verified that all HUTA apportionments received by the county were properly accounted for in the Road Fund, by reconciling the county's records to the SCO'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 recalculating a non-statistical sample of interest allocations;
- Verified that unauthorized borrowing of Road Fund cash did not occur, by interviewing key personnel and examining the cash account entries for the audit period;
- 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 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 \$4,792,974 of \$8,871,071.
 - Labor – We tested \$9,520 of \$7,046,206.
 - Equipment – We tested \$11,341 of \$2,033,386.

For the selected samples, errors found, if any, were not projected to the intended (total) population;

- Selected and tested all reimbursable non-road reimbursable transactions during the audit period to verify that all amounts were reimbursed to the Road Fund in a timely manner; and
- Analyzed the Countywide Cost Allocation Plan charges to the Road Fund by individual fiscal year.

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 requirements of Article XIX of the California Constitution, the Streets and Highways Code, and the SCO's *Accounting Standards and Procedures for Counties* manual. We considered the county's internal controls only to the extent necessary to plan the audit.

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 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 for the period of July 1, 2016, through June 30, 2017.

Follow-up on Prior Audit Findings

The county has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2009, through June 30, 2010, issued on January 31, 2013.

Views of Responsible Officials

We discussed the audit results with county representatives during an exit conference on May 15, 2019. Charlotte Merkel, Public Works Deputy Director, agreed with the audit results. Ms. Merkel further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This audit report is solely for the information and use of Humboldt 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

JIM L. SPANO, CPA
Chief, Division of Audits

June 28, 2019

Schedule—
Reconciliation of Road Fund Balance
July 1, 2016, through June 30, 2017

	<u>Amount</u>
Beginning fund balance per county	\$4,384,448
Revenues	<u>13,795,307</u>
Total funds available	18,179,755
Expenditures	<u>(17,258,076)</u>
Ending fund balance per county	<u>\$ 921,679</u>
Ending fund balance per audit	<u>\$ 921,679</u>

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