MARIN COUNTY

Audit Report

ROAD FUND

July 1, 2002, through June 30, 2008

JOHN CHIANG
California State Controller

July 2011

JOHN CHIANG
California State Controller

July 29, 2011

Susan L. Adams, President
Board of Supervisors
Marin County
3501 Civic Center Drive, Room 329
San Rafael, CA 94903

Dear Ms. Adams:

The State Controller's Office (SCO) audited Marin County's Road Fund for the period of July 1, 2002, through June 30, 2008.

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 our adjustment of $61,823. We made the adjustment because the county did not reimburse the Road Fund for outstanding non-road expenditures. In addition, we identified procedural findings affecting the Road Fund.

The county accounted for and expended fiscal year (FY) 2002-03 through FY 2007-08 Transportation Equity Act of the 21st Century Matching and Exchange moneys in compliance with Article XIX of the California Constitution and Streets and Highways Code section 182.6.

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: Gary L. Burroughs, Acting Director of Finance
Marin County
Farhad Mansourian, Director of Public Works
Marin County
Gilbert Petrissans, Chief
Local Program Accounting Branch
Department of Transportation

Contents

Audit Report

Summary

The State Controller's Office (SCO) audited Marin County's Road Fund for the period of July 1, 2002, through June 30, 2008 (fiscal year [FY] 2002-03 through FY 2007-08).

Our audit 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 our adjustment of $61,823 and procedural findings identified in this report.

In addition, we audited Transportation Equity Act of the 21st Century (TEA-21) Matching and Exchange moneys for FY 2002-03 through FY 2007-08 at the request of the California Department of Transportation (Caltrans). The TEA-21-funded projects have been verified to be for road-related purposes and are eligible expenditures. The TEA-21 moneys received by the county were accounted for and expended in compliance with Article XIX of the California Constitution.

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.

The Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 created a federal program designed to increase flexibility in federal funding for transportation purposes by shifting the funding responsibility to state and local agencies. The TEA-21 is a continuation of this program. The funds are restricted to expenditures made in compliance with Article XIX of the California Constitution. Caltrans requested that we audit these expenditures to ensure the county's compliance.

Objectives, Scope, and Methodology

The objectives of our audit of the Road Fund and TEA-21 Matching and Exchange moneys were to determine whether:

- Highway users tax apportionments and TEA-21 Matching and Exchange moneys 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 and TEA-21 Matching and Exchange moneys 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 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 item shown in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of $61,823 to the county's accounting records.

Additionally, we identified procedural findings affecting the Road Fund. These findings and recommendations are described in the Findings and Recommendations section of this report.

We verified that the TEA-21-funded projects were for road-related purposes, and are eligible expenditures. The TEA-21 moneys received by the county were accounted for and expended in compliance with Article XIX of the California Constitution and the Streets and Highways Code.

Follow-up on Prior Audit Findings

Findings noted in our prior audit report, issued on October 29, 2003, have been satisfactorily resolved by the county except for the recommendation to establish written procedures for the physical count of sign shop inventory.

Views of Responsible Official

We issued a draft audit report on February 14, 2011. William H. Nelson, Jr., the county's Administrative Services Manager, responded by letter dated May 6, 2011, agreeing with the audit results. 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 Marin County management, the Marin 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

July 29, 2011

Schedule 1—
Reconciliation of Road Fund Balance
July 1, 2007, through June 30, 2008

	Amount
Beginning fund balance per county	$ 3,290,683
Revenues	12,005,630
Total funds available	15,296,313
Expenditures	(9,136,909)
Ending fund balance per county	6,159,404
SCO adjustment:	
Finding—Unreimbursed non-road expenditures	61,823
Ending fund balance per audit	$ 6,221,227

Schedule 2—
Reconciliation of TEA-21 Balance
July 1, 2002, through June 30, 2008

	Amount
Beginning balance per county	$ —
Revenues:	
TEA-21 Matching and Exchange funds	1,256,320
Total funds available	1,256,320
Expenditures:	
Maintenance	(1,256,320)
Ending balance per county	—
SCO adjustment	—
Ending balance per audit	$ —

Note: The TEA-21 moneys have been accounted for and expended within the Road Fund.

Findings and Recommendations

FINDING 1— Unreimbursed non-road expenditures

The county did not reimburse the Road Fund $94,673 for expenditures on non-road work for other county departments and outside parties for fiscal year (FY) 2002-03 through FY 2007-08. In addition, the county did not have follow-up procedures for the collection of non-road billings. This finding was reported in the prior SCO audit report.

Road Fund moneys can be expended only for road or road-related purposes as outlined in Streets and Highways Code sections 2101 and 2150. The SCO has permitted expenditures of Road Fund money for non-road work as a convenience for counties, provided that the expenditures are billed and reimbursed in a timely manner (30 to 60 days after completion of the work).

Recommendation

The county should reimburse the Road Fund $94,673 for the expenditures incurred for the county departments and outside parties. In addition, the county should establish procedures to ensure that future outstanding non-road billings are collected and the Road Fund is reimbursed in a timely manner.

County's Response

> Of the $94,673 in outstanding Non-Road Reimbursable Expenditures, $44,634 is to be reimbursed by the General Fund, $16,407 was proven to be collected, $14,818 was cost that was subsequently adjusted to be Road maintenance cost, $9,256 is billable to other County funds, $7,933 is to be re-invoiced to Outsiders, a negative ($776.66) pertained to Prior Period Outsider billings, and $2,402 pertained to erroneous overhead amounts included in the labor rates in 2007-08. A more complete explanation of this error is offered in the attached "Analysis of Non-Road Reimbursable Expenditures. Please refer to "Notes" tab on the worksheet for a detailed explanation of each of the thirty-three exceptions.
>
> While some of the difficulties associated with this finding can be traced to other causes mentioned in my General Response, the primary cause is the incomplete follow through in the tracking of the receivables. The solution is a Receivable Again Report which will be maintained and monitored in compliance. Re-doubled efforts will follow through on all amounts due from Outsiders, and from other County funds.

SCO's Comment

The SCO agrees with the county's revised outstanding amount of $61,823.

FINDING 2— Differences between the cost system and the financial accounting system

During FY 2006-07 and FY 2007-08, expenditure differences existed between the Department of Public Works' cost accounting system and the Auditor-Controller's financial accounting system. Differences of $517,235 for FY 2006-07 and $452,006 for FY 2007-08 were not reconciled during the current audit.

The SCO's Accounting Standards and Procedures for Counties manual, Chapter 9, Appendix A, prescribes periodic expenditure reconciliations between the financial and the cost accounting systems.

Recommendation

The county should reconcile the expenditure differences for FY 2006-07 and FY 2007-08 and establish procedures to ensure that Road Fund expenditures recorded in the cost system agree with the expenditure recorded in the Auditor-Controller's financial accounting system.

County's Response

> In response to the differences between the cost accounting system CAMS and the accounting system or SAP, there are a few reasons. The major reason was the County's difficulties with closing the books. For example when Gus Castro left us after compiling the Road Report for us back in 2008, he reported to me a difference of $185,831 between CAMS and SAP. In the audit the difference had grown to $452,006 for FY 2007-08. This moving target accounts for the bulk of our difference. In addition, DPW Accounting encountered difficulties with the method of recovering overhead costs which caused a doubling of the overhead charged. This is explained in more detail again by referring to the attached "Analysis of Non-Road Reimbursable Expenditures" at note one. For an unknown period of time the overhead percentage in CAMS for the previous period was effective when we thought we had set it to zero also. Much of these could have been mitigated if a comprehensive cross-walk had been in place between the coding in CAMs and the G/L coding in SAP. Effective with 2011-12 we will have eliminated this deficiency by creating the necessary cross-walk, which both expands the G/L codes in SAP, and provides each with a unique cost center code in CAMs, and detailed description of the uses for each code. This will allow multiple CAMs Users to accurately input data, and provide a simple means of finding variances between our cost accounting and the books.

FINDING 3— Equipment rental rates not updated

The Department of Public Works did not update the vehicle and equipment rental rates for FY 2007-08 and in previous years.

The SCO's manual (Chapter 9, Appendix A, section 17) states that equipment rental rates should be established based on a three-year average of equipment and vehicle maintenance, repairs, and operating costs by categories divided by the estimated equipment usage hours for the upcoming year.

Recommendation

The department should analyze and update the equipment rental rates.

County's Response

> Effective with Fiscal Year 2009-10 we have migrated to using Cal-Trans Rates for our Equipment rental rates. This should eliminate the need to compute our own rates.

FINDING 4— No written inventory procedures

The department did not have written procedures for the year-end physical counts of Sign Shop inventories. The Sign Shop inventory totaled $151,472 or 4.9899% of Road Fund total assets as of June 30, 2007. Due to the lack of inventory procedures, a physical count was not conducted at June 30, 2008. This finding was reported in the prior SCO audit report.

Proper internal control for determining the existence and valuation of inventory items includes written procedures for a year-end physical inventory count. The procedures should address proper segregation of duties in the physical counts of inventories and the proper recording of amounts. At a minimum, these procedures should identify the participants in the count, the timing of the counts, the counting method, supervisory approval, and the process for resolving discrepancies.

Recommendation

The county must establish written procedures for the year-end physical count of Sign Shop inventories.

County's Response

> Please refer to attachment for written Physical Inventory Collection procedures.

FINDING 5— High clearing account variances

The 2007-08 Annual Road Report, Schedule 7 (Clearing Account Activity) presented high variances for labor (30.88%), equipment (18.30%), general road overhead (21.77%), and inventory (67.87%). For labor clearing, we determined that the department used full weighted labor rates (including overhead) instead of weighted (applied) labor rates during FY 2007-08.

The SCO's manual (Chapter 9, Appendix A, sections 14-23) prescribe the method used in the development and operation of the labor, equipment, general overhead, and inventory clearing accounts. Per section 24, the acceptable range for the labor variance is +/-5% and +/-10% for the equipment, general road overhead, and inventory variances.

Recommendation

The department should analyze its clearing accounts and update the respective applied labor, equipment, and overhead rates for FY 2009-10.

County's Response

> The deficiencies pointed out related to variances between major category distributions and actual costs can be attributed to many of the same reasons discussed above. The Labor Clearing variance is primarily due to the inclusion of a flat $17.36 per hour of overhead cost in the labor rates. This caused the labor costs to be over distributed. For the Equipment Clearing accounts our under-allocation is due to the need for revising the rates, which has been corrected effective with Fiscal Year 2009-10 by our adoption of the higher Cal-Trans rates suggested to us by Gus Castro. The Variance for the Overhead Clearing, which was an under-allocation, was due to inexperience with the system, rates from previous periods remained in CAMs for a portion of the year, resulting in the under-allocation found. Effective with Fiscal 2010-11 overhead will be set in CAMs as a percentage of labor and not included in the labor rate, thereby correcting both the labor and the overhead variances. For the Inventory Clearing accounts a written procedures will help to eliminate the variance, as it was uncovered that improper cut-offs for both the physical count and the inclusion or exclusion of paid deliveries of inventory assets is the cause of this variance.

Attachment—
County's Response to Draft Audit Report

COUNTY OF MARIN
www.co.marin.ca.us/pw

ADMINISTRATION
499-6528

ACCOUNTING
499-7877 • FAX 507-2899

AIRPORT
451-A AIRPORT ROAD
NOVATO, CA 94945
897-1754 • FAX 897-1264

BUILDING MAINTENANCE
499-6576 • FAX 499-3250

CAPITAL PROJECTS
499-7877 • FAX 499-3724

COMMUNICATION MAINTENANCE
499-7313 • FAX 499-3738

DISABILITY ACCESS
499-6528
CALIFORNIA RELAY SERVICE 711

ENGINEERING & SURVEY
499-7877 • FAX 499-3724

FLOOD CONTROL DISTRICT
499-6528

COUNTY GARAGE
499-7380 • FAX 499-7190

LAND DEVELOPMENT
499-6549

PRINTING
499-6377 • FAX 499-6617

PURCHASING
499-6371

REAL ESTATE
499-6578 • FAX 446-7373

ROAD MAINTENANCE
499-7388 • FAX 499-3656

STORMWATER PROGRAM
499-6528

TRANSPORTATION PLANNING & TRAFFIC OPERATIONS
499-6528

WASTE MANAGEMENT
499-6647 • FAX 446-7373

ALL AREA CODES ARE 415

DEPARTMENT OF PUBLIC WORKS

P. O. Box 4186, San Rafael, CA 94913-4186 • 415/499-6528 • FAX 415/499-3799 • TTY 415/473-3232

Farhad Mansourian, RCE
Director

May 6, 2011

Steven Mar, Chief
Local Government Audits Bureau -State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

RE: Marin County
Department of Public Works
Road Fund Audit
Response to Draft Finding and Recommendations
Fiscal Years 2002/2003 through 2007/2008

General Response:

The FYs 03-08 Road Audit revealed issues with accounting for the Road fund that require improvement. The main issues were due to incomplete knowledge transfer from a retiree that was responsible for the Roads Fund accounting, the implementation of the SAP Software system, and a change in method for recovering overhead on labor. The loss of our key expert in the CAMS Cost Accounting system caused difficulties encountered with follow-up on Receivables, physical inventory procedures, and with implementing the change in overhead recovery. In general this can be called a knowledge transfer loss. Complexities encountered with the implementation of the SAP Enterprise software system also contributed to difficulties reconciling the cost accounting with the books, as coding in the CAMs system is still geared to the older MARS accounting system. Early attempts to interface SAP and CAMs failed, leaving us with a complicated coding system based on MARS to code CAMs entries. Additionally, the Department of Finance was unable to close the County's books for any one year of the Audit. This resulted in a moving target to balance to, further complicated by the fact that a full accrual trial balance was all that could be provided by SAP.

As a result of the findings and recommendations reported to us, four changes have been implemented to correct the issues discussed above. First, a process to track and age non-road reimbursable expenditures has been put in place and efforts have been doubled to recover past receivables. Second, a written physical inventory procedure has been created to conduct the physical count and to reconcile it to the books. Third, the practice of using fully-weighted labor rates that include an overhead amount has been stopped, effective with fiscal year 2010-11.

In its place we will compute overhead as a percentage of total productive labor cost as in the past. Fourth, we are creating a CAMs to SAP general ledger cross-walk that will allow us to track amounts from the general ledger accounts into a specific list of CAMs Cost centers. With this list we will be able to reconcile differences between the cost per our CAMs report and the cost found on our trial balance.

Response to Finding Number One:

Of the $94,673 in outstanding Non-Road Reimbursable Expenditures, $44,634 is to be reimbursed by the General Fund, $16,407 was proven to be collected, $14,818 was cost that was subsequently adjusted to be Road maintenance cost, $9,256 is billable to other County funds, $7,933 is to be re-invoiced to Outsiders, a negative ($776.66) pertained to Prior Period Outsider billings, and $2,402 pertained to erroneous overhead amounts included in the labor rates in 2007-08. A more complete explanation of this error is offered in the attached "Analysis of Non-Road Reimbursable Expenditures. Please refer to "Notes" tab on the worksheet for a detailed explanation of each of the thirty-three exceptions.

While some of the difficulties associated with this finding can be traced to other causes mentioned in my General Response, the primary cause is the incomplete follow through in the tracking of the receivables. The solution is a Receivable Aging Report which will be maintained and monitored for compliance. Re-doubled efforts will follow through on all amounts due from Outsiders, and from other County funds.

Response to Finding Number Two:

In response to the differences between the cost accounting system CAMS and the accounting system or SAP, there are a few reasons. The major reason was the County's difficulties with closing the books. For example when Gus Castro left us after compiling the Road Report for us back in 2008, he reported to me a difference of $185,831 between CAMS and SAP. In the audit the difference had grown to $452,006 for FY 2007-08. This moving target accounts for the bulk of our difference. In addition, DPW Accounting encountered difficulties with the method of recovering overhead costs which caused a doubling of the overhead charged. This is explained in more detail again by referring to the attached "Analysis of Non-Road Reimbursable Expenditures" at note one. For an unknown period of time the overhead percentage in CAMS for the previous period was effective when we thought we had set it to zero also. Much of these could have been mitigated if a comprehensive cross-walk had been in place between the coding in CAMs and the G/L coding in SAP. Effective with 2011-12 we will have eliminated this deficiency by creating the necessary cross-walk, which both expands the G/L codes in SAP, and provides each with a unique cost center code in CAMs, and detailed description of the uses for each code. This will allow multiple CAMs Users to accurately input data, and provide a simple means of finding variances between our cost accounting and the books.

Response to Finding Number Three:

Effective with Fiscal Year 2009-10 we have migrated to using Cal-Trans Rates for our Equipment rental rates. This should eliminate the need to compute our own rates.

Response to Finding Number Four:

Please refer to attachment for written Physical Inventory Collection procedures.

Response to Finding Number Five:

The deficiencies pointed out related to variances between major category distributions and actual costs can be attributed to many of the same reasons discussed above. The Labor Clearing variance is primarily due to the inclusion of a flat $17.36 per hour of overhead cost in the labor rates. This caused the labor costs to be over distributed. For the Equipment Clearing accounts our under-allocation is due to the need for revising the rates, which has been corrected effective with Fiscal Year 2009-10 by our adoption of the higher Cal-Trans rates suggested to us by Gus Castro. The Variance for the Overhead Clearing, which was an under-allocation, was due to inexperience with the system, rates from previous periods remained in CAMs for a portion of the year, resulting in the under-allocation found. Effective with Fiscal 2010-11 overhead will be set in CAMs as a percentage of labor and not included in the labor rate, thereby correcting both the labor and the overhead variances. For the Inventory Clearing accounts a written procedure will help to eliminate the variance, as it was uncovered that improper cut-offs for both the physical count and the inclusion or exclusion of paid deliveries of inventory assets is the cause of this variance.

Sincerely,

William H. Nelson, Jr.

William H. Nelson, Jr.
Administrative Services Manager

c. Farhad Mansourian, Director of Public Works, County of Marin (w/attachments)
Gary Burroughs, Acting Director of Finance, County of Marin (w/attachments)
Michael Frost, Assistant Deputy Director, County of Marin (w/attachments)
Gus Castro, California State Controller's Office (w/attachments)

Attachments

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Marin County							
Department of Public Works							
Road Fund Audit							
Analysis of Non-Road Reimbursable Expenditures							
Fiscal years 2002/2003 through 2007/2008							
Description	**Project #**	**Non-Road Reimbursable Expenditures**	**Collected by County DPW**	**Outstanding Balance**	**Notes**	**Ref. #**	**Correct Balance Due**
Fiscal Year 2007/08							
San Rafael City Schools	411804113	3,515.29	925.56	2,589.73		1, 2	690.98
Tamalpais Community Service District	411804120	1,323.51		1,323.51		3	1,323.51
Town of Fairfax	411804103	2,121.75	1,208.39	913.36		4	1,261.73
Gap Closure (TAM)	411909005	281.45		281.45	This project was not Reimbursable, TAM did not have a contract with Art Brook on this project.	1, 5	225.16
Manzanita Prkland (TAM)	411909006	9,850.77		9,850.77	This project was not Reimbursable, TAM did not have a contract with Art Brook on this project.	1,6	7,880.60
MuirWood Shuttle Study	411MWS007	337.74		337.34	This project was not reimbursable for Art Brook's time.	7	337.34
Total for 2007/08		**17,430.51**	**2,133.95**	**15,296.16**			
Fiscal Year 2006/07							
Manzanita Prkland (TAM)	411909006	36,067.16	-	36,067.16	This project was not Reimbursable, TAM did not have a contract with Art Brook on this project.	8	36,067.16
Local Transit Master Plan (TAM)	411909003	113.78	-	113.78	This project was not Reimbursable, TAM did not have a contract with Art Brook on this project.	9	113.78
City of Sausalito	411804109	97.36	-	97.36		10	97.36
MERA	411804118	427.40	-	427.40		11	427.40
Total for 2006/07		**36,705.70**	**-**	**36,705.70**			
Fiscal Year 2005/06							
Novato Narrows	411909008	96,690.85	93,330.85	360.00	We collected $96,690.85 in FY 05-06.	12	0.00
Woodacre Creek Restoration	411WCRP06	84.94	7.73	77.21	We collected $84.94 in FY 05-06.	13	0.00
Town of Fairfax	411804103	808.50	243.89	564.61		14	564.61
City of Larkspur	411804104	760.24	-	760.24		15	760.24
Total for 2005/06		**98,344.53**	**93,582.47**	**1,762.06**			
Fiscal Year 2004/05							
Highway Lighting District	411RTXX01	183,430.05	173,401.68	10,028.37	We collected this amount plus $5,403.18 more in FY 05-06	16	0.00
Bay Area Air Quality	41190CSRF	25,225.83	18,991.85	6,233.98	$2,175.75 was collected in FY 05-06. We are $4,058.23 short.	17	4,058.23
Paving Jury Parking Lot	411RRC304	1,925.89		1,925.89	Not collected -owed by Capital Fund	18	1,925.89
Marin Cove Barriers	411650233	88.23		88.23	It was not set up as Reimbusable. Due from BOS	19	88.23
Town of Fairfax	411804103	2,070.49	1,722.64	347.85	Collections in 04-05 and 05-06 for most.	20	9.72
City of San Rafael	411804108	123.70		123.70	Collected in FY04-05 100%.	21	0.00
Total for 2004/05		**212,864.19**	**194,116.17**	**18,748.02**			
Fiscal Year 2003/04							
Ranchitos Bus Stop	411ERRBSTP	11,727.00	10,472.17	1,254.83	The grand total of CAMS labor Report shows $10,472.17 in FY 03-04, and we collected all the amount.	22	0.00

Description	Project #	Non-Road Reimbursable Expenditures	Collected by County DPW	Outstanding Balance	Notes	Ref. #	Correct Balance Due
Asphalt Repair AR County Garage	411RRC007	2,763.21	2,443.28	319.93	The grand total of CAMS labor Report shows $2,443.28 in FY 03-04,, and we collected all the amount.	23	0.00
Paradise Park ADA	411RRC041	41,021.26	30,011.47	11,009.79	The grand total of CAMS labor Report shows $30,011.47 in FY 03-04, and we collected all the amount.	24	0.00
Annual Brush Clean up @ Los Ranchitos	411650189	4,979.83	4,710.41	269.42	The grand total of CAMS labor Report shows $4,710.41 in FY 03-04,, and we collected all the amount.	25	0.00
Town of San Anselmo	411804108	2,281.32	1,780.22	501.10	$507.58 collected in early FY04-05	26	0.00
Total for 2003/04		**62,772.62**	**49,417.55**	**13,355.07**			
Fiscal Year 2002/03							
New Civic Center Generator	411ECC944	48.96		48.96	There wasn't any timecard data in CAMs for this project	27	0.00
Parks & Open Space @ Deer Park	411RRK936	3,711.00	527.14	3,183.86	outstanding	28	3,183.86
San Quentin Gun Ranffe "4"	411RRSQT02	1,625.00	198.30	1,426.70	There wasn't any timecard data in CAMs for this project	29	0.00
Novato Sanitary	411650223	486.73		486.73	The grand total of CAMS labor report show $348.83 in FY 02-03.	30	348.83
208 Reed Strawberry	411650226	7,771.30	7,421.15	350.15	The grand total of CAMS labor Report shows $7,421.15 in FY 02-03, and we collected all the amount.	31	0.00
Town of Fairfax	411804103	1,026.78	175.53	851.25	Collected in full	32	0.00
Town of San Anselmo	411804108	2,457.93		2,457.93	Outstanding	33	2,457.93
Total for 2002/03		**17,127.70**	**8,322.12**	**8,805.58**			
Grand Total		**445,245.25**	**347,572.26**	**94,672.59**			**61,822.56**

Notes to Non-Road Reimburseable Expenditures

Ref. #	Note	Cost	SCO Balance	O/H Adjm't	Prior Period Collected	Collected	Outsider Billables	Gen Fund Reimb.	Billable Other County Funds	Subsequent Cost Adjustment
1	In 2007-08 the method of recovering general overhead was changed. Previously an overhead rate was established and applied to all activity types with labor. This rate was set at 36%. The change that we initiated across all of DPW in 2007-08 was to include overhead as a flat dollar amount for each Productive Hour of labor. In the Road Fund this rate was set at $ 17.36 per hour. Due to the retirement of a key expert responsible for the CAMs cost accounting system, it was not realized until late in that year that the master data screen controlling the overhead rate in CAMs had not been set to zero. As a result CAMs cost data for activities was overstated to varying degrees by the 36% rate which was still in the system. Once this was realized, invoices which included this duplicated overhead, were manually adjusted to exclude the duplication. Due to the large volume of data-input that would have been required to correct this issue, it was decided to let the data stand and adjust amounts manually. Therefore, costs in the report are overstated and require adjustment.									
2	Cost of $3,515.29 adjusted for overhead from note 1 above of $262.13 leaves cost of $3,253.16 billable. Collections of $925.56 less $175.26 for prior period leaves $750.30 collected in 2007-08. Collections of $1,811.88 in 2008-09 leaves a balance due of $690.98, which is being re-invoiced as of 3/3/11.	3,515.29	2,589.73	262.13	(175.26)	1,811.88	690.98			
3	Cost of $1,323.51 is unadjusted for note 1 above as cost was incurred late in year after overhead rate was set to zero. Balance due of $1,323.51 is to be re-invoiced	1,323.51	1,323.51	0.00		0.00	1,323.51			
4	Cost of $2,121.75 adjusted for overhead from note 1 above of $113.11 leaves cost of $2,008.64 billable. Collections of $1,128.58 less $601.40 for prior period leaves $527.18 collected in 2007-08. Collections of $219.73 in 2008-09 leaves a balance due of $1,261.73, which is to be re-invoiced.	2,121.75	913.36	113.11	(601.40)	139.92	1,261.73			
5	Cost of $281.45 adjusted for overhead from note 1 above of $56.29 leaves cost of $225.16 billable. Amount is to be reimbursed from General Fund Engineering Division.	281.45	281.45	56.29				225.16		
6	Cost of $9,850.77 adjusted for overhead from note 1 above of $1,970.17 leaves cost of $7,880.60 billable. Amount is to be reimbursed from General Fund Engineering Division.	9,850.77	9,850.77	1,970.17				7,880.60		
7	Cost of $337.74 is unadjusted for overhead from note 1 above as cost was incurred late in the year after overhead rate was set to zero. Amount is to be reimbursed from General Fund Engineering Division.	337.74	337.34					337.34		
8	Amount is to be reimbursed from General Fund Engineering Division	36,067.16	36,067.16					36,067.16		
9	Amount is to be reimbursed from General Fund Engineering Division	113.78	113.78					113.78		
10	Balance of $97.36 to be re-invoiced	97.36	97.36				97.36			
11	Balance of $427.40 to be re-invoiced	427.40	427.40				427.40			
12	Cost of $96,690.85 was collected in full during FY 05-06 per our records. See backup reference # 12	96,690.85	360.00			360.00				
13	Cost of $84.94 was collected in full during FY 05-06 per our records. See backup reference #13.	84.94	77.21			77.21				
14	Cost balance of $564.61 is to be re-invoiced.	808.50	564.61				564.61			
15	Cost of $760.24 is to be re-invoiced.	760.24	760.24				760.24			
16	Our recorders indicate we collected the full amount of cost $183,430.05 plus $5,403.18 more during FY 05-06. See backup reference #16 for details.	183,430.05	10,028.37			10,028.37				
17	Uncollected cost of $6,233.98 was partially collected in FY 05-06 $2,175.75 leaving a balance due of $4,058.23. See backup reference #17 for details.	25,225.83	6,233.98			2,175.75			4,058.23	
18	Cost of $1,925.89 is uncollected. Amount is owed by Capital Improvement Fund. See Backup reference #18.	1,925.89	1,925.89						1925.89	
19	Cost of $88.23 is uncollected. Work was ordered by the BOS.	88.23	88.23						88.23	
20	Cost of $2,070.49 was partially collected. $1,950.16 in FY 04-05 and $ $110.61 in 05-06 leaving a balance of $9.72 to be written off. See backup reference # 20 for detail	2,070.49	347.85			338.13		9.72		

Notes to Non-Road Reimburseable Expenditures

Ref. #	Note	Cost	SCO Balance	O/H Adjm't	Prior Period Collected	Collected	Outsider Billables	Gen Fund Reimb.	Billable Other County Funds	Subsequent Cost Adjustment
21	Balance of $123.70 was collected in FY 04-05. See reference #21 for detail.	123.70	123.70			123.70				
22	Cost accounting recorders indicate only $10,472.17 was incurred for this client and all of it was collected during FY03-04 See backup reference #22 for details.	11,727.00	1,254.83							1254 83
23	Cost accounting recorders indicate only $2,443.28 was incurred for this client and all of it was collected during FY03-04. See backup reference #23 for details	2,763.21	319.93							319.93
24	Cost accounting recorders indicate only $30,011.47 was incurred for this client and all of it was collected during FY03-04. See backup reference #24 for details.	41,021.26	11,009.79							11009.79
25	Cost accounting recorders indicate only $4,710.41 was incurred for this client and all of it was collected during FY03-04. See backup reference #25 for details.	4,979.83	269.42							269.42
26	A collection on 8/6/04 was posted for $507.58, which pertains to this. See detail reference #26 for backup.	2,281.32	501.10			501.10				
27	Cost accounting recorders have no record that cost of $48.96 was incurred for this client.	48.96	48.96							48.96
28	Outstanding cost of $3,183.86 is to be re-invoiced.	3,711.00	3,183.86						3183.86	
29	Cost accounting recorders do not indicate a cost incurred for this client, though it does indicate an amount of $198.30 was collected from the San Quentin Sanitary District. See reference #29	1,625.00	1,426.70							1,426.70
30	Cost accounting recorders indicate only $348.83 is due from this client, not $ 486.73. See reference #30.	486.73	486.73				348.83			137.90
31	Cost accounting recorders indicate only $7,421.15 was incurred for this client and all of it was collected during FY02-03. See backup reference #31 for details.	7,771.30	350.15							350.15
32	Cost of $1,026.78 was collected $175.53 in 02-03 and $851.25 in 03-04. See reference #32 for details.	1,026.78	851.25			851.25				
33	Balance of $2,457.93 will be re-invoiced.	2,457.93	2,457.93				2,457.93			
		445,245.25	**94,672.59**	2,401.70	(776.66)	16,407.31	7,932.59	44,633.76	9,256.21	14,817.68
									Proof	**94,672.59**

Physical Inventory Guidelines

Purpose

This document provides guidelines for conducting annual physical inventories. Annual physical inventories not only help ensure the accuracy of inventory balances reported in the County's financial records but also help you manage the activity in your area.

The document consists of the following sections and supplemental information in the appendices.

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Responsibilities

The Administrative Services Manager (ASM or the Administrative Associate (ASA) of the unit is responsible for ensuring that the annual physical inventory is properly performed, inventory records reflect actual quantities on hand, inventory valuation methods are appropriate, and that adjustments are entered in the County's accounting system on a timely basis.

In addition, the ASM or ASA is responsible for ensuring that segregation of duties is maintained throughout the inventory process to promote the safeguarding of the assets, protection of employees, and objective reporting of inventory. Specifically, no one person should be able to authorize a transaction (e.g., a purchase or sale), record the transaction, have custody of the inventory, and perform the related reconciliation.

Planning for a Physical Inventory

Time spent planning and preparing for the physical inventory will streamline the count process and reduce errors and rework.

A. **Clearly define roles and responsibilities.** In general, the inventory counting process and the reconciliation should be *supervised* or *performed* by an independent person. This independent person should NOT be the person who checks in or receives inventory, maintains the inventory records for the items, or is responsible for the daily security and accountability of the inventory.

An example of participants' possible responsibilities follows:

1. **Traffic Safety Maintenance Supervisor**: Plans and supervises inventory, makes test counts, approves adjustment journals.
2. **Road Accountant: #1** Tabulates physical count and identifies possible errors.
3. **Road Accountant: #2** Reconciles physical count to financial system and creates the adjustment journals.
4. **Count Team**: count the stock on hand.

B. **Establish a Master schedule** that sets the beginning and completion dates for both the counting process and the inventory reconciliation.

1. Physical inventories are typically done in the summer to allow sufficient time to reconcile and adjust balances before the June fiscal year-end close.
2. For ease of reconciliation, consider scheduling the completion of the physical inventory count to coincide with the last working day of the fiscal year.
3. Suspend all transaction activities such as receiving of inventory and deliveries of finished products during the count process to make the process more efficient.

C. **Notify affected parties** providing adequate lead time to plan appropriately. For example,

1. Notify suppliers if deliveries will not be accepted during this time.
2. Advise customers in advance of the shut-down period.
3. Inform employees to allow them sufficient time to plan for the activity.

D. **Purchase necessary supplies** before the count. Supplies might include:

1. Sequentially-numbered inventory tags to be used to identify items that have been counted and how many times they have been counted. Consider preprinted tags, if available from your inventory tracking system, containing all of the information except the actual counts and team numbers, to reduce the effort on the day of the count.
2. Other supplies like name tags, pens, markers, clipboards, calculators, tape, scales, step stools.
3. If needed, special materials for handling product, such as plastic gloves or masks.

E. **Prepare the storage area** for the inventory count. (If the warehouse is clean and organized throughout the year, additional efforts before the count should be minimal.)

1. Clean all areas for ease of counting.
   a. Make sure like items are grouped together.
   b. Arrange items so they can be easily counted (i.e., in "batches").
   c. Ensure there are no hazards in the warehouse that could be dangerous during the inventory count, such as boxes to trip over, wet floors, items that could fall, etc.
2. Organize the stock.
   a. Clearly mark package quantities if necessary.
   b. Count and seal partial packages with the count and date clearly marked. Cross out any conflicting information, like previous counts, different part numbers, etc., and ensure that the package has the correct part number clearly marked.
   c. Clearly mark items that will not be counted with "DO NOT INVENTORY". Identify damaged goods and move them to a designated separate location.
   d. Label each area to be counted. For example, label shelving units alpha-numerically (BA1, CD2) and each individual shelf numerically (top shelf = BAI-1, second shelf BA1-2, etc.). In this way, you can create a complete list of all areas to be inventoried and "check off" each area as it is completed. Count each marked location separately.
   e. Make sure all items are identified with a part number, bar code, or other identification.
   f. Update storage area floor plans to reflect current stock locations and identify count areas.

F. **Organize counting teams.** Physical inventories should be performed by personnel who have no direct responsibility for assets subject to the inventory count. If the use of such personnel is not feasible for any part of an inventory, then those portions should be tested and verified by an independent person.

G. **Establish Clear Cutoff Guidelines,** identifying which items to include or exclude from the inventory count.

1. If possible, complete all handling and recording of inventory products before the physical inventory count begins. This includes receipts, returns, consolidation between stocking locations, etc.
2. No movement of any inventory should be permitted during the physical count. Any items that are delivered during the count should be physically

separated and labeled "POST INVENTORY: DO NOT COUNT".

3. If movement is required, backup documentation should be maintained and the quantity reflected in the count or subsequent discrepancy reconciliation. A good practice is to attach a count tag to copies of the documentation.

Conducting the Physical Count

A. **Review Counting Instructions** with the counting teams before they begin. Provide examples of how to find codes, units of measure, quantities, etc. Demonstrate an actual count. Explain the complete process, including reason for the count, storage area and stock layout, collection and summarization of the count sheets.

B. **Count Items Twice** to provide as accurate a count as possible. Each count team should be assigned to a specific area for their first count, then perform a second count in another area to confirm that area's first count. Discrepancies should immediately be brought to the manager's attention. Third and fourth counts may be necessary to obtain an accurate count.

Reconciling the Physical Inventory

Reconciliation is defined as the process of identifying, explaining, and correcting the differences between the physical count and the asset balance in the General Ledger (GL). It is easiest to reconcile after month-end close to ensure up-to-date information in CAMS. Appendix B contains a sample of a inventory reconciliation.

A. **Determine the amount per physical count.**

1. Enter the physical count into an inventory control system (database), if there is one, or into a spreadsheet listing all items in the inventory.
2. Significant discrepancies, between the records and the count should be investigated and explained.
3. Calculate the total inventory cost by multiplying units per count by unit cost.
4. Adjust the value per the count by costs not included in the unit cost, where appropriate. For instance, if unit cost excludes sales tax or shipping charges, add those values to the inventory on hand since they are included in the GL balance.

B. **Determine the amount per the General Ledger.**

1. Begin with the month-end inventory balance in CAMS.
2. Increase the CAMS balance in the reconciliation worksheet by accounting for items received before, and included in, the physical inventory count but for which the purchase has not been posted. Two conditions must be considered:
   a. The invoice has been received by Accounts Payable but payment has not been made and therefore will not be recorded until the next period.
   b. The invoice has not been received by Accounts Payable or the invoice is “on hold”

C. **Determine the adjustment amount:** The difference between the amount per physical count and the amount per CAMS is the adjustment required to reflect the true amount in CAMS. An adjustment journal must be created in SAP and routed for approval.

D. **Consider obsolescence.** Compare the quantity on hand to the quantity used or sold during the year:

PHYSICAL COUNT, PREVIOUS YEAR
\+ PURCHASES, CURRENT YEAR
\- PHYSICAL COUNT, CURRENT YEAR
= QUANTITY USED, CURRENT YEAR

If the amount on hand greatly exceeds what was used during the year, you may have an obsolescence issue. Determine if excess quantities or obsolete goods exist and prepare an adjustment to write them off, similar to the inventory adjustment described above.

A. Sample Instructions for a Physical Inventory

There will be one count.

The Count: Will have one team of two.

A. One person will count the item. The team will receive a stack of inventory tags.
B. The second person will record the count and item information on the inventory tag.
C. The tag will be taped to the shelf where the item is located.
D. Switch roles occasionally to stay sharp.

You are responsible and accountable for all items assigned to you during the first count, Please use them in order and return any unused tags to the issuing staff member.

The following will need to be indicated on the bottom half of the inventory tags. Refer to the Sample Inventory Tag for correct placement of each entry.

A. Description of Item (Product name)
B. Stock # or Barcode or Manufacturer Catalog # (Tag requires only ONE these. We prefer that you list them in order above. If you cannot find the stock #, look for the barcode; if there is no barcode, look for a catalog #. Do not list all four numbers.)
C. Quantity Counted
D. Unit of Measure (box, each, pkg.)
E. Location (listed on shelf, e.g., AB, AB2)
F. Team Number

If your team is unsure of any if the needed information for the tags, please see a supervising staff member.

B: Sample Inventory Reconciliation

Inventory Per Physical Count entered into CAMS		
Inventory On Hand, 30-JUN-20XX	$ 664,453.16 [a]	
Sales Tax @ 8.25%	54,817.39 [b]	
TOTAL INVENTORY ON HAND, 30-JUN-20XX		**$ 719,270.55**
Inventory Per SAP Financials General Ledger		
General Ledger Inventory per Report 161 Posted Journals	$ 528,004.00 [c]	
Items received by 30-JUN-20XX but not on GL until after 30-JUN-20XX:		
A. Invoices unprocessed at month-end	$ 92,784.65 [d]	
B. Receipts not invoiced	108,139.62 [e]	
TOTAL ADDITIONS	$ 200,924.27	
TOTAL ADJUSTED INVENTORY PER SAP FINANCIALS, 30-JUN-20XX		$ **728,928.27**
Difference Between Count and General Ledger		**$ (9,657.72)**

[a] e.g., "Physical count of inventory, extended at unit cost"

[b] e.g., "Sales tax not included as part of unit cost. Sales tax is based on sales tax rate in effect on the date of transaction."

[c] e.g., "Year-to-date total of entries for object code 1170000.

[d] e.g., "Per Report 138 Invoice Detail, total of all invoices received by Accounts Payable but paid in a GL Period after JUN-20XX"

[e] e.g., "Per Report 206 Purchase Order Detail, total of all purchase orders received with no invoice or invoice on hold as of 30-JUN-20XX"

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