

# LOS ANGELES COUNTY

Audit Report

## ROAD FUND

*July 1, 2005, through June 30, 2014*



**BETTY T. YEE**  
California State Controller

June 2016



**BETTY T. YEE**  
California State Controller

June 6, 2016

Hilda L. Solis, Chair  
Board of Supervisors  
Los Angeles County  
Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Ms. Solis:

The State Controller's Office (SCO) audited Los Angeles County's Road Fund for the period of July 1, 2005, through June 30, 2014.

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 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: John Naimo, Auditor-Controller  
Los Angeles County  
Gail Farber, Public Works Director  
Los Angeles County

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# Audit Report

## Summary

The State Controller's Office (SCO) audited Los Angeles County's Road Fund for the period of July 1, 2005, through June 30, 2014 (fiscal year [FY] 2005-06 through FY 2013-14).

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, except for our 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 also is 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 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 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 item 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 February 9, 2007, have been satisfactorily resolved by the county.

**Views of  
Responsible  
Officials**

We issued a draft audit report on April 12, 2016. Wendy Tagle, Chief Financial Officer, responded by letter dated April 19, 2016, 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 Los Angeles 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

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**Schedule 1—  
Reconciliation of Road Fund Balance<sup>1</sup>  
July 1, 2013, through June 30, 2014**

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	<u>Amount</u>
Beginning fund balance per county	\$ 219,477,666
Revenues	<u>276,702,664</u>
Total funds available	496,180,330
Expenditures	<u>(252,847,218)</u>
Ending fund balance per county	<u>243,333,112</u>
Ending fund balance per audit	<u><u>\$ 243,333,112</u></u>

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<sup>1</sup>The audit period was July 1, 2005, through June 30, 2014; however, this schedule includes only the period of July 1, 2013, through June 30, 2014.

# Finding and Recommendation

**FINDING —  
Projects not correctly  
coded**

Starting in fiscal year (FY) 2009-10, the county reported storm damage and other disaster projects on county roads under sub-reporting category 2090, Reimbursable Expenses-Net Non-road Work. Storm damage projects on county roads are considered road-related and should be classified as either Maintenance-Storm Damage or Construction-Storm Damage based on the scope of work.

The *SCO Accounting Standards and Procedures for Counties Manual*, Chapter 9, Appendix A prescribes proper cost accounting and reporting requirements including cost centers, projects, and activities. Section 32 defines reimbursable work as services performed on other than the county road system and are not considered to further road purposes. Section 35 defines storm damage as extensive repair or replacement due to damage resulting from storm or flood, and gives two general classifications, Construction and Maintenance.

Recommendation

The county should review its project ledger and classify the storm damage projects under sub-reporting categories 2350 Storm Damage-Maintenance or 2260 Storm Damage-Construction for FY 2015-16.

County's Response

The county agreed with the finding.

**Attachment—  
Los Angeles County's Response to  
Draft Audit Report**

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GAIL FARBER, Director

## COUNTY OF LOS ANGELES

### DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"

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ALHAMBRA, CALIFORNIA 91803-1331  
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P.O. BOX 1460  
ALHAMBRA, CALIFORNIA 91802-1460

April 19, 2016

IN REPLY PLEASE  
REFER TO FILE: FI-2

Mr. Christopher Lek  
State Controller's Office  
Division of Audits - Local Government Audits Bureau  
P.O. Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Lek:

#### STATE ROAD FUND AUDIT REPORT – JULY 1, 2005 THROUGH JUNE 30, 2014

As requested, below is our response to the draft report.

#### Finding 1 – Projects Not Correctly Coded

The State Controller's office recommends that the County should classify the storm damage projects under sub-reporting categories 2350 Storm Damage – Maintenance or 2260 Storm Damage – Construction for FY 2015-16.

#### Response

We agree.

If you have any questions, please contact me at [wtagle@dpw.lacounty.gov](mailto:wtagle@dpw.lacounty.gov) or (626) 458-5992.

Very truly yours,

GAIL FARBER  
Director of Public Works

WENDY TAGLE  
Chief Financial Officer

ML:dbm

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cc: Auditor-Controller (John Naimo, Connie Yee)

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

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