



# Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

## California Legislature



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December 22, 1978

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Honorable Frank Vicencia  
Assemblyman, 54th District  
Chairman, Assembly Committee on  
Governmental Organization  
Room 2126, State Capitol  
Sacramento, California 95814

Dear Assemblyman Vicencia:

The Joint Legislative Audit Committee respectfully submits the Auditor General's letter report on the Mobile Home Revolving Fund.

The auditors are Richard I. LaRock, Audit Supervisor, and Mildred M. Kiesel.

Sincerely,

RICHARD ROBINSON  
Assemblyman, 72nd District  
Chairman, Joint Legislative  
Audit Committee

cc: The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of  
the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California



# Joint Legislative Audit Committee

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December 19, 1978

Letter Report 817

Honorable Richard Robinson  
Chairman, and Members of the  
Joint Legislative Audit Committee  
Room 4158, State Capitol  
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to a resolution of the Joint Legislative Audit Committee, we have reviewed certain aspects of the Mobile Home Revolving Fund; specifically increases in administrative overhead and the state general administrative pro rata charges to the fund from its inception in 1974 to the present. This review was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The Mobile Home Revolving Fund and the Mobile Home Program are administered by the Department of Housing and Community Development. The Mobile Home Program is one of six programs administered by the Department's Division of Codes and Standards.

### Scope

We were initially requested to conduct a fiscal audit of the Mobile Home Revolving Fund, giving special attention to the areas of administrative overhead and state general administrative pro rata charges. However, the state Department of Finance is currently conducting a fiscal audit of the Department of Housing and Community Development for fiscal year 1976-77. To avoid unnecessary duplication, we concentrated on circumstances related to cost increases in the departmental administrative overhead and state pro rata charges to the Mobile Home Revolving Fund. We obtained information from the records and personnel of the Department of Housing and Community

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Development, the Department of Finance and the State Controller. We did not audit the administrative overhead, state administrative pro rata charges or per unit inspection charges; we therefore express no opinion on the fairness of the charges.

### Background

The State established a Mobile Home Program in 1958. The purpose of the program is to protect the public from inadequate construction and other hazards which could result in unsafe or unsanitary living conditions. The State enforces construction and safety standards for mobile homes, recreational vehicles and commercial coaches and makes inspections to ensure compliance with the standards.

In 1974 Congress enacted legislation to establish national construction and safety standards for mobile homes. The State has enforced federal mobile home standards since June 15, 1976, because of extensive pre-emption of state standards. Federal and state law provide for the assessment of fees against mobile home manufacturers to pay the actual cost of work related to administering and enforcing the regulations. We were advised by federal officials, however, that they have not yet developed guidelines which set forth acceptable costs to be charged to the program.

Effective January 1, 1974, Chapter 846, Statutes of 1973, created the Mobile Home Revolving Fund as a depository for program fees. Prior to that time, fees collected from the mobile home manufacturers were deposited in the State General Fund.

### Allocation of Administrative Overhead Costs

The Department of Housing and Community Development has not developed a consistent verifiable method of allocating indirect administrative overhead costs. Information is not available therefore to report to the Legislature or the industry on the fairness of these allocations. The accounting profession allows considerable latitude and judgement in methods of cost allocation. In our opinion, it is management's responsibility to develop equitable cost allocation systems and to justify its decisions.

For program budget cost allocations, the State Administrative Manual provides that cost allocation procedures adopted by an agency shall provide:

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Chairman, and Members of the  
Joint Legislative Audit Committee

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- . . . Information which management will need to fulfill its responsibility to the Legislature and the Department of Finance. . . .
- Consistency . . . from period to period. . . .
- Auditability-- . . . working papers must be retained showing the steps utilized in accumulating program costs and the cost identification methods used.

We believe this would be suitable criteria for the Department to use as a guide for allocating costs. The Department has not sufficiently refined its cost allocation system, established a policy on how departmental administrative overhead costs should be allocated nor justified its decisions.

The Department's allocation system is not part of its general accounting system. Administrative costs are allocated to three departmental divisions by the Department's accounting office after the close of the books for the fiscal year. The Division of Codes and Standards, in turn, allocates its share of the administrative overhead to programs in the division including the Mobile Home Program which is accounted for by the Mobile Home Revolving Fund.

The Department changed the methods of allocating costs for fiscal year 1977-78 several times during our review and was unable to provide records of the allocation methods used in past years.

Departmental administrative overhead costs increased from \$207,394 in fiscal year 1974-75 to \$859,230 in fiscal year 1977-78. Allocations to the Mobile Home Revolving Fund increased from \$64,379 to \$252,987 during these years (Appendix A).

In the 1977-78 Governor's Budget issued in January 1977, the Department of Housing and Community Development proposed \$452,688 for administrative costs, with \$311,595 allocated to the Division of Codes and Standards. In the Governor's Budget for fiscal year 1978-79 issued in January 1978, the Department estimated that the 1977-78 expenditures for administrative costs would be \$814,888 or nearly double the amount proposed in the 1977-78 budget. The allocation to the Division of Codes and Standards based on the \$814,888 estimate would be \$451,050. In the Department's cost allocation of August 10, 1978, for the year ended June 30, 1978, \$562,194 was charged to the Division of Codes and Standards (Appendix A).

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Department personnel have explained that the increases occurred because the Department had reorganized to bring all administrative costs into the Administrative Division.

The Supplemental Report of the Committee of Conference on the Budget Bill for fiscal year 1977-78 recommended that the Department of Housing and Community Development study the fee schedules in force and recommend revisions of such fee structures to the Legislature. In its report to the Legislature, the Department states:

During this survey, it was noted that the accounting system, time reporting system, and method of allocating indirect administrative overhead of the department to the various fee related programs in this report should be reviewed in greater depth to ascertain the validity of the present method of making such allocations. Limited time and staffing did not permit an extensive review of this area, however, a sufficient review was conducted resulting in the recommendation that a further study is necessary.

According to Department staff, the Department has since done little work in these areas. The Department has a new mini-computer and has been developing computer applications for divisions other than Codes and Standards. Also new employees are becoming familiar with the Department's operations and accounting systems.

In the 1978-79 budget process, the Assembly adopted language limiting to \$1 the combined total departmental administrative overhead and state general administrative pro rata charges assessed the Mobile Home Revolving Fund. However, the Legislature, through the Supplemental Report of the Committee of Conference on the Budget Bill for fiscal year 1978-79, adopted the Senate version which specified that:

- The Department of Finance shall report to the Joint Legislative Budget Committee by December 1, 1978, on the rationale and practices with respect to the fiscal pro rata charges, in particular, (1) a detailed statement of the costs which are included in the fiscal pro rata and (2) the basis on which such costs are charged to departments and/or funds

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Appendix B shows the basis and the amount of the pro rata assessments to the Mobile Home Revolving Fund from inception to the current budget year. The Mobile Home Revolving Fund was assessed nothing in the first partial and first full year of operation. The assessment for fiscal year 1975-76, computed during fiscal year 1974-75, was based upon the estimated budget for fiscal year 1975-76 plus the actual expenditures for the first partial year, January 1, 1974 to June 30, 1974. The same process was used to compute the assessment for subsequent fiscal years. Appendix B also shows adjustments being made in the 1977-78 and the 1978-79 fiscal years for the difference between the preceding year's actual and estimated expenditures.

Respectfully submitted,



JOHN H. WILLIAMS  
Auditor General

Staff: Richard I. LaRock, Audit Supervisor  
Mildred M. Kiesel

Attachments:

Response to the Auditor General's Report

Appendix A--Department of Housing and Community Development  
Distribution of Administrative Costs

Appendix B--State Administrative Pro Rata Charges Assessed the  
Mobile Home Revolving Fund

## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

921 10th Street, Sacramento, CA 95814  
(916) 445-4775



December 12, 1978

John H. Williams  
Auditor General  
925 L Street, Suite 750  
Sacramento, CA 95814

Dear Mr. Williams:

Thank you for the opportunity to respond to your draft report on the department's distribution of administration to the Mobilehome Revolving Fund.

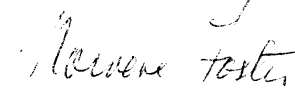
As noted in your report, we are unable to locate the working papers on the distribution of Administrative Overhead in past years. Because of this, we are uncertain as to whether the Administrative charges for these years was too high or even too low.

For the F.Y. 77/78, the department does have substantiation on its methodology in distributing overhead which is based on the procedures set forth in State Administrative Manual (SAM), Section 9220.3, Method #1. Briefly, these overhead costs include the expenses incurred by the Directorate, Legal, Personnel, Budget/Management Analysis, Housing Commission, and Accounting sections. The Division of Administration has 33 authorized positions and in 77/78 had a program level of \$859,000.

As required by SAM, the costs are distributed during the year-end closing process after the actual costs for each program has been determined. Procedurally, Personal Services of the three divisions: Community Affairs, Research & Policy Development, and Codes & Standards, was divided into a total Personal Services in order to establish a ratio for the distribution of Administration. In 77/78, the Codes & Standards program represented 65% of the department's Personal Services costs. The exact same method is used to distribute overhead to the Mobilehome program. The Mobilehome element represented 45% of the Division of Codes & Standards' Personal Services costs. The amount charged to Mobilehome based on the ratio was \$252,000 or an overhead rate of 14.2%. All of the supporting working papers for developing and applying this distribution was given to your office.

We believe that the department now has an acceptable method (SAM) for distributing Administrative Overhead. Your Committee as well as Department of Finance will, of course, be notified of any changes to this method.

Sincerely,

  
I. Donald Turner  
Director

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT  
DISTRIBUTION OF ADMINISTRATIVE COSTS

<u>Fiscal Year</u>	<u>TOTAL COST OF DEPARTMENTAL ADMINISTRATION</u>	<u>COSTS ALLOCATED TO CODES AND STANDARDS DIVISION</u>	<u>% OF COSTS ALLOCATED TO CODES AND STANDARDS DIVISION</u>	<u>COST ALLOCATED TO MOBILE HOME REVOLVING FUND</u>	<u>% OF COSTS OF CODES AND STANDARDS DIVISION ALLOCATED TO MOBILE HOME REVOLVING FUND</u>
1974/75	\$207,394	\$184,581	89.0%	\$ 64,379	34.9%
1975/76	340,111	268,688	79.0	93,477	34.8
1976/77	534,064	368,831	69.1	176,467	47.8
1977/78 (Actual)	859,230	562,194	65.4	252,987	45.0
1978/79 (Proposed)	826,889	554,016	67.0	208,864	37.7



\*\* \* UNAUDITED DATA \* \* \*

STATE ADMINISTRATIVE PRO RATA CHARGES  
 ASSESSED THE  
MOBILE HOME REVOLVING FUND

	JANUARY 1, 1974 TO JUNE 30, 1974	JULY 1, 1974 TO JUNE 30, 1975	JULY 1, 1975 TO JUNE 30, 1976	JULY 1, 1976 TO JUNE 30, 1977	JULY 1, 1977 TO JUNE 30, 1978	JULY 1, 1978 TO JUNE 30, 1979
Budget Year Estimated	\$-0-	\$ 8,521	\$42,354	\$30,166	\$43,273	
Past Year Actual	<u>-0-</u>	<u>6,353</u>	<u>40,385</u>	<u>27,465</u>	<u>37,346</u>	
Sub Total	-0-	14,874	82,739	57,631	80,619	
Reverse Past Year Estimated	-0-	-0-	-0-	(8,521)	(42,354)	
Total Amount Assessed	<u>\$-0-</u>	<u>\$14,874</u>	<u>\$82,739</u>	<u>\$49,110</u>	<u>\$38,265</u>	

\*\* \* UNAUDITED DATA \* \* \*