

NAPA COUNTY

Audit Report

ROAD FUND

July 1, 2004, through June 30, 2005



JOHN CHIANG
California State Controller

January 2007



JOHN CHIANG
California State Controller

January 26, 2007

The Honorable Pamela A. Kindig
Auditor-Controller
Napa County
1195 Third Street, Room B-10
Napa, CA 94559-3097

Robert J. Peterson
Director of Public Works
Napa County
1195 Third Street, Room 201
Napa, CA 94559-3097

Dear Ms. Kindig and Mr. Peterson:

The State Controller's Office (SCO) audited Napa County's Road Fund for the period of July 1, 2004, through June 30, 2005. We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2001, through June 30, 2004. The results of this review are included in our audit report.

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.

The county accounted for and expended fiscal year (FY) 2001-02 through FY 2004-05 Transportation Equity Act of the 21st Century exchange moneys in compliance with Article XIX of the California Constitution and *Streets and Highways Code* Section 182.6.

Please submit any comments concerning the draft report within 15 days after you receive this letter. In particular, you should address the accuracy of the audit findings. We may modify the report based on your comments or additional data that develops as we complete the audit. Also, we will include your comments in the final report.

If you have any questions, please contact Paul R. Criss, Chief, Financial-Related Audits Bureau, at (916) 322-4941.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb:wm

cc: Grace Kong, Chief
Local Program Accounting Branch
Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) audited Napa County's Road Fund for the period of July 1, 2004, through June 30, 2005. We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2001, through June 30, 2004. This review was limited to performing inquiries and analytical procedures to ensure that (1) highway users tax apportionments and road-purpose revenues were properly accounted for and recorded in the Road Fund; (2) expenditure patterns were consistent with the period audited; and (3) unexpended fund balances were carried forward properly. The last day of fieldwork was June 2, 2006.

Our audit and review 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.

In addition, we audited Transportation Equity Act of the 21st Century (TEA-21) exchange moneys for FY 2001-05 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 exchange moneys were to determine whether:

- Highway users tax apportionments and TEA-21 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 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 were within the limits approved by the SCO's Division of Accounting and Reporting, County Cost Plan Unit.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and review 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.

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

The county has satisfactorily resolved the findings noted in our prior audit report, issued on August 30, 2002.

Views of Responsible Officials

The audit results were discussed with county representatives during an exit conference. Subsequently, in a telephone conversation on January 23, 2007, Karen Querin, Audit Manager, Auditor-Controller's Office, agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This report is solely for the information and use of county management, the 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

**Schedule 1—
Reconciliation of Road Fund Balance
July 1, 2004, through June 30, 2005**

	<u>Amount</u>
Beginning fund balance per county	\$ 4,056,304
Revenues	<u>6,392,928</u>
Total funds available	10,449,232
Expenditures	<u>(7,931,456)</u>
Ending fund balance per county	2,517,776
SCO adjustment:	<u>—</u>
Ending fund balance per audit	<u><u>\$ 2,517,776</u></u>

**Schedule 2—
Reconciliation of TEA-21 Balance
July 1, 2001, through June 30, 2005**

	<u>Amount</u>
Beginning balance per county	\$ —
Revenues:	
TEA-21 exchange funds	<u>1,012,944</u>
Total funds available	1,012,944
Total expenditures	<u>(1,012,944)</u>
Ending balance per county	—
SCO adjustment	<u>—</u>
Ending balance per audit	<u>\$ —</u>

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

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