

TEHAMA COUNTY

Audit Report

ROAD FUND

July 1, 2008, through June 30, 2009



JOHN CHIANG
California State Controller

January 2013



JOHN CHIANG
California State Controller

January 8, 2013

The Honorable Bob Williams, Chair
Board of Supervisors
Tehama County
727 Oak Street
Red Bluff, CA 96080

Dear Mr. Williams:

The State Controller's Office (SCO) audited Tehama County's Road Fund for the period of July 1, 2008, through June 30, 2009.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2002, through June 30, 2008. The results of this review are included in our audit report.

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 our adjustment of \$20,825. We made the adjustments because the county had not reimbursed the Road Fund \$20,825 for non-road reimbursable expenditures. In addition, we identified procedural findings affecting the Road Fund in this audit report.

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: The Honorable Leroy Anderson, Auditor-Controller
Tehama County
Gary Antone, Director of Public Works
Tehama County

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Audit Report

Summary

The State Controller's Office (SCO) audited Tehama County's Road Fund for the period of July 1, 2008, through June 30, 2009.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2002, through June 30, 2008. 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.

Our audit and review disclosed 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 our adjustment of \$20,825 and procedural findings 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 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 California Constitution and Streets and Highways Code Sections 2101 and 2150.

Objectives, Scope, and Methodology

The objectives of our audit of the Road Fund 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 and review disclosed 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 items shown in Schedule 1 and described in the Findings and Recommendations section of this report. The findings requires an adjustment of \$20,825 to the county's accounting records.

Follow-up on Prior Audit Findings

Findings noted in our prior audit report, issued on July 31, 2003, have been satisfactorily resolved by the county.

Views of Responsible Officials

We discussed the audit results with county representatives during an exit conference on February 4, 2010. Gary Antone, Director of Public Works; Mark Moses, Deputy Director of Public Works; and the Honorable Leroy Anderson, Auditor-Controller, agreed with the audit results. In a supplemental exit conference on October 23, 2012, Mr. Antone further agreed that a draft audit report was not necessary and that the audit report could be issued as final. However, Mr. Antone did provide us with a response to the audit findings on November 1, 2012. The county's response is included in this final report as an attachment.

Restricted Use

This report is solely for the information and use of Tehama County, the Tehama 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

January 8, 2013

**Schedule 1—
Reconciliation of Road Fund Balances
July 1, 2008, through June 30, 2009**

	<u>Amount</u>
Beginning fund balance per county	\$ 4,585,516
Revenues	<u>11,583,539</u>
Total funds available	16,169,055
Expenditures	<u>(9,642,387)</u>
Ending fund balance per county	6,526,668
SCO adjustment:	
Finding 1—Unreimbursed non-road expenditures	<u>20,825</u>
Ending fund balance per audit	<u><u>\$ 6,547,493</u></u>

Findings and Recommendations

FINDING 1— Unreimbursed non- road expenditures

The County had not reimbursed the Road Fund \$20,825 for expenditures on non-road work for other county departments and outside parties for fiscal year (FY) FY 2008-09.

Streets and Highways Code section 2101 states:

All money in the Highway Users Tax Account in the Transportation Tax Fund and hereafter received in the account are appropriate for all of the following: (a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes.

Streets and Highways Code section 2150 states:

All amounts paid to each county of the Highway Users Tax Fund shall be deposited in its road fund. The board may deposit in said fund any other money available for roads. All money received by a county from the Highway Users Tax Fund and all money deposited by a county in its road fund shall be expended by the county exclusively for county roads for the purposes specified in Section 2101 or for other public street and highway purposes as provided by law.

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 (30-60 days after completion of the work).

Recommendation

The county should reimburse the Road Fund \$20,825 for the expenditures incurred for the county departments and outside parties. In addition, the county should establish procedures to ensure that future non-road billings are collected and the Road Fund is reimbursed in a timely manner.

County's Response

All outstanding funds were collected; Finding resolved. A delay in year-end posting, as herein described, was the reason this occurred. Non-Road charges are billed on a monthly basis; however, issuance of June invoices are generally delayed at year-end to ensure the capture of all costs including accounts payables.

**FINDING 2—
Equipment rates
finding**

The Department of Public Works (DPW) did not update the Road Fund's Vehicle and equipment rental rates for FY 2006-07, FY 2007-08, and FY 2008-09. The equipment rates in the cost accounting system, CAMS, were the same rates utilized during FY 2005-06. Most counties have internal and external equipment rates with the majority of heavy equipment on hourly rates and light equipment on hourly/mileage rates.

Recommendation

The DPW should analyze and update the equipment rental rates for FY 2009-10.

County's Response

Upon review it was found that equipment rates were updated between 2007 and 2008 fiscal years, however staffing constraints prevented an update between 2008 and 2010. Rates were updated in 2011; Finding resolved.

**FINDING 3—
High clearing account
variance**

A review of the 2008-09 Annual Road Report, Schedule 7 (Clearing Account Activity) for Tehama County presented high year-end variances (96.18%) for general road overhead, 42.92% for shop overhead, and (39.01%) for inventory. DPW utilizes only one overhead rate in its operations, which is similar to California Department of Transportation Indirect Cost Rate Proposal. The rate for all programs is 74.5%. Utilizing this one rate causes overcharging reimbursable projects or work performed for other County Departments or outside parties.

The SCO Manual, Chapter 9, Appendix A, sections 21-24 prescribe the method used in the development and operation of the equipment and overhead clearing accounts. Per section 24, the acceptable range for these variances should be 10%.

Recommendation

The county should analyze the above clearing accounts, update the respective overhead accounts, and follow the SCO Manual Chapter 9, Appendix A, to establish the rates.

County's Response

Separate Road Fund overhead rates were established, in accordance with the SCO Manual, for Engineering, Operation, Shop, and Non-Road Reimbursable activities, separate from the road and bridge construction indirect cost rates, on August 1, 2012. Inasmuch as posting for July 2012 was complete, it remained under the prior rate system. Finding resolved.

**FINDING 4—
Separate revenue
account TCRF
allocations**

The county did not establish a separate account within the Road Fund to deposit all TCRF allocations from the State. During the years audited, the TCRF allocations were deposited in account number #102-450620, “State–Other;” however, other State project reimbursements were also recorded there.

The SCO’s *Guidelines Relating to Traffic Congestion Relief Funds for Cities and Counties* state that TCRF allocations should be deposited in a separate revenue account in the County Road Fund.

Recommendation

The county should establish a separate revenue account to deposit all future TCRF funds received from the State.

County’s Response

Separate accounts were created for the appropriate Highway User Tax revenues; Finding resolved.

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



**COUNTY OF TEHAMA
DEPARTMENT OF PUBLIC WORKS**

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ROAD COMMISSIONER
SURVEYOR
ENGINEER
PUBLIC TRANSIT
FLOOD CONTROL AND
WATER CONSERVATION DISTRICT
SANITATION DISTRICT No. 1

November 1, 2012

R-12-188

Mr. Christopher Lek
Audit Manger
State Controller's Office
Division of Audits

RE: Response to 2003-2009 Road Fund Audit Findings; May 2010 report

Dear Mr. Lek:

Thank you for contacting my office regarding this issue. I was unaware that you had not received our response to your 2003-2009 Road Fund Audit Findings. In response to your recent request to address this issue, the following is provided.

FINDING 1: Unreimbursed Non-Road Expenditures

All outstanding funds were collected; Finding resolved. A delay in year-end posting, as herein described, was the reason this occurred. Non-Road charges are billed on a monthly basis; however, issuance of June invoices are generally delayed at year-end to ensure the capture of all costs including accounts payables.

FINDING 2: Equipment rates finding

Upon review it was found that equipment rates were updated between 2007 and 2008 fiscal years, however staffing constraints prevented an update between 2008 and 2010. Rates were updated in 2011; Finding resolved.

FINDING 3: High clearing account variance

Separate Road Fund overhead rates were established, in accordance with the SCO Manual, for Engineering, Operations, Shop, and Non-Road Reimbursable activities, separate from the road and bridge construction indirect cost rates, on August 1, 2012. Inasmuch as posting for July 2012 was complete, it remained under the prior rate system. Finding resolved.

FINDING 4: Separate revenue account for Traffic Congestion Relief/Prop 42

Separate accounts were created for the appropriate Highway User Tax revenues;
Finding resolved.

OTHER COMMENTS: No Written Inventory Procedures

A written procedure for maintaining proper internal controls to determine the existence and valuation of inventory items, including procedures for a year-end physical inventory count, is being developed. The reporting cover sheet will be modified to include signature lines for the employees performing the physical count, and supervisor approval.

Should you have additional questions or need additional information, please contact this office.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary B. Antone".

Gary B. Antone, P.E., P.L.S.
Director of Public Works

Handwritten initials in blue ink, possibly "GAB".

**State Controller's Office
Division of Audits
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