

GLENN COUNTY

Audit Report

ROAD FUND

July 1, 2004, through June 30, 2005



JOHN CHIANG
California State Controller

April 2007



JOHN CHIANG
California State Controller

April 20, 2007

The Honorable Don Santoro
Director of Finance
Glenn County
516 W. Sycamore Street
Willows, CA 95988

Dan Obermeyer
Director of Public Works
Glenn County
P.O. Box 1070
Willows, CA 95988

Dear Mr. Santoro and Mr. Obermeyer:

The State Controller's Office (SCO) audited Glenn 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, 2000, through June 30, 2004.

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 procedural findings identified in this report. The county accounted for and expended fiscal year (FY) 2000-01 through FY 2004-05 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 Paul R. Criss, Chief, Financial-Related Audits Bureau, at (916) 322-4941.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/jj

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 Glenn 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, 2000, 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 1, 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, except for 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 2004-05, 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 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 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, except for procedural items 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

The county satisfactorily resolved the findings noted in our prior audit report, issued on April 29, 2002, except for the excessive variances relating to labor, equipment, and general road overhead, and the variances related to inventory accounting, as further discussed in Finding 1 and Finding 2, respectively.

Views of Responsible Officials

We issued a draft audit report dated January 26, 2007. Di Aulabaugh, Staff Services Manager, Planning and Public Works Agency, responded by email on March 2, 2007, agreeing with our findings and proposing corrective actions. The county's responses are included as an attachment to this final audit report.

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	\$ 506,533
Revenues	<u>1,997,796</u>
Total funds available	2,504,329
Expenditures	<u>(2,233,514)</u>
Ending fund balance per county	270,815
SCO adjustment	<u>—</u>
Ending fund balance per audit	<u><u>\$ 270,815</u></u>

**Schedule 2—
Reconciliation of TEA-21 and RTPA Balances
July 1, 2000, through June 30, 2005**

	<u>Amount</u>
Beginning balance per county	\$ —
Revenues:	
TEA-21 Matching and Exchange funds	1,564,085
Expenditures:	
Maintenance	<u>(1,564,085)</u>
Ending balance per county	—
SCO adjustment	<u>—</u>
Ending balance per audit	<u>\$ —</u>

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

Findings and Recommendations

FINDING 1— Excessive labor, equipment, and general road overhead clearing account variances

The FY 2004-05 Annual Road Report (ARR) for Glenn County reported variances of 7.61% for labor clearing, 71.94% for equipment clearing, and 54.89% for general road overhead clearing. The variance for equipment clearing and general road overhead represents an over-distribution of costs to road projects, while the variance for labor clearing represent an under-distribution of costs to road projects.

The SCO's *Accounting Standards and Procedures for Counties* manual prescribes the method to be used in the development and operation of the labor, equipment, and general overhead clearing accounts. The acceptable ranges for labor variances are +/-5%, while all other variances are +/-10%.

Recommendation

The county should analyze and revise the labor, equipment and general road overhead rates in accordance with the SCO's *Accounting Standards and Procedures for Counties* manual. Additionally, variances should be analyzed periodically to ensure that variances are within acceptable ranges and rates should be reset as necessary.

County's Response

We have reviewed the SCO's *Accounting Standards and Procedures for Counties* manual in relation to the development and calculation of rates. The Cost Accounting Management Software system (CAMS) has been adjusted to reflect rates within these allowed variances. We will be testing these adjusted rate setups with the software developers to ensure that the July 1, 2005 through June 30, 2006 reports reflect the corrections.

FINDING 2— Inventory accounting variances

During the fiscal year (FY) 2004-05, the county's Department of Public Works Road Fund cost accounting inventory clearing account increased by \$33,716, while the actual physical inventory decreased by \$9,729 for a difference of \$23,987. This resulted from inventory withdrawals not properly posted to the inventory clearing account. The county uses the purchases method of inventory accounting.

The SCO's *Accounting Standards and Procedures for Counties* manual notes that under the purchases method of inventory accounting, the change in the inventory clearing account should reflect the actual change in inventory during the year.

Recommendation

The county should establish procedures to ensure that the Department of Public Works Road Fund cost accounting inventory clearing account records agree with the physical inventory.

County's Response

During the auditing process the SCO's office assisted us in identifying the setup errors in CAMS. Corrections to these clearing cost center accounts were made at this time. We are no longer experiencing these inventory issues. Further testing on these inventory clearing cost centers will be reviewed by the software developers to ensure that the changes to the setup are accurate.

**FINDING 3—
Administration and
undistributed
engineering cost center**

The county did not report administration and undistributed engineering costs in the FY 2004-05 ARR. This cost center was eliminated and all costs relating to administration and undistributed engineering were charged to Maintenance (020) under 0011 through 0015 accounts. As a result, these expenditures were not identified on the Annual Road Report for FY 2004-05.

The SCO's *Accounting Standards and Procedures for Counties* manual states that cost accounts are established to account for costs associated with an activity, project, or job. Section 9A.25 lists the appropriate expenditures to be recorded to this cost center.

Recommendation

The county should establish procedures to ensure that all road expenditures are properly recorded to the correct/appropriate cost center.

County's Response

We have made arrangements for the software developers to do an onsite review of our entire CAMS system setup to ensure its accuracy. We will run through the entire Road Report Setup at that time and address any other issues that arise.

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

Haseltine, Rick

From: Di Aulabaugh [daulabaugh@countyofglenn.net]
Sent: Friday, March 02, 2007 01:22 PM
To: rhaseltine@sco.ca.gov
Cc: Deborah Storz; Don Santoro; Dan Obermeyer; Doug Holvik; Bob Johnson; Jane Roff
Subject: Road Audit Findings

Mr. Haseltine -

I have reviewed the SCO's Draft Road Fund Audit Report for July 1, 2004 through June 30, 2005. The draft accurately describes the issues identified during the audit. I have responded to the findings noted in the report.

Finding 1 – Excessive labor, equipment and general road overhead clearing account variances
We have reviewed the SCO's Accounting Standards and Procedures for Counties manual in relation to the development and calculation of rates. The Cost Accounting Management Software system (CAMS) has been adjusted to reflect rates within these allowed variances. We will be testing these adjusted rate setups with the software developers to ensure that the July 1, 2005 through June 30, 2006 reports reflect the corrections.

Finding 2 – Inventory accounting variances
During the auditing process the SCO's office assisted us in identifying the setup errors in CAMS. Corrections to these clearing cost center accounts were made at this time. We are no longer experiencing these inventory issues. Further testing on these inventory clearing cost centers will be reviewed by the software developers to ensure that the changes to the setup are accurate.

Additionally, we have made arrangements for the software developers to do an onsite review of our entire CAMS system setup to ensure its accuracy. They will be onsite March 6, 2007. We will run through the entire Road Report Setup at that time and address any other issues that arise.

Thank you,

Di Aulabaugh

Glenn County Planning & Public Works Agency
P.O. Box 1070 Willows, CA 95988
Tel: (530) 934-6530, Fax (530) 934-6533

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03/05/2007

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

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