

LASSEN COUNTY

Audit Report

ROAD FUND

July 1, 2006, through June 30, 2007



JOHN CHIANG
California State Controller

April 2009



JOHN CHIANG
California State Controller

April 17, 2009

Robert F. Pyle, Chair
Board of Supervisors
Lassen County
221 South Roop Street, Suite 1
Susanville, CA 96130

Dear Mr. Pyle:

The State Controller's Office (SCO) audited Lassen County's Road Fund for the period of July 1, 2006, through June 30, 2007.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2001, through June 30, 2006. 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, except for our adjustment of \$14,476. We made the adjustment because the county did not reimburse the Road Fund for non-road-related expenditures incurred in fiscal year (FY) 2001-02. We also noted procedural findings.

The county accounted for and expended FY 2001-02 through FY 2006-07 Transportation Equity Act of the 21st Century Matching and Exchange moneys and Senate Bill 1435 allocations from the regional transportation planning agency in compliance with Article XIX of the California Constitution and Streets and Highways Code section 182.6.

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/vb

cc: The Honorable Karen Fouch
Lassen County Auditor-Controller
Larry Millar, Director of Public Works
Lassen County
Grace Kong, Chief
Local Program Accounting Branch
Department of Transportation

Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	3
Follow-Up on Prior Audit Findings	3
Views of Responsible Officials	3
Restricted Use	4
Schedule 1—Reconciliation of Road Fund Balance	5
Schedule 2—Reconciliation of TEA-21 and RTPA Balances	6
Findings and Recommendations	7
Attachment—County’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited Lassen County's Road Fund for the period of July 1, 2006, through June 30, 2007.

We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2001, through June 30, 2006. 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 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 our adjustment of \$14,476 and procedural findings identified in this report.

In addition, we audited Transportation Equity Act of the 21st Century (TEA-21) Matching and Exchange moneys and Senate Bill (SB) 1435 allocations from the regional transportation planning agency (RTPA) for fiscal year (FY) 2001-02 through FY 2006-07, at the request of the California Department of Transportation (Caltrans). The TEA-21- and RTPA-funded projects were verified to be for road-related purposes and are eligible expenditures. The TEA-21 and RTPA moneys received by the county were accounted for and expended in compliance with Article XIX of the California Constitution and Streets and Highways Code section 182.6.

Background

We conducted an audit of the county's Road Fund in accordance with Government Code section 12410. The Road Fund was established by 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, and RTPA revenues were to determine whether:

- Highway users tax apportionments and TEA-21 Matching and Exchange moneys, and RTPA revenues 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 expenditures;
- 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, and RTPA revenues 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 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 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 the item shown in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$14,476 to the county's accounting records.

We verified that the TEA-21- and RTPA-funded projects were for road- and transportation-related purposes, and are eligible expenditures. The TEA-21 and RTPA 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

Findings noted in our prior audit report, issued on April 8, 2003, have been satisfactorily resolved by the county.

Views of Responsible Officials

We issued a draft report on February 6, 2009. Larry Millar, Director, Department of Public Works, responded by letter dated March 4, 2009, 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 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

April 17, 2009

**Schedule 1—
Reconciliation of Road Fund Balance
July 1, 2006, through June 30, 2007**

	<u>Amount</u>
Beginning fund balance per county	\$ 5,908,883
Revenues	<u>6,529,509</u>
Total funds available	12,438,392
Expenditures	<u>(7,479,668)</u>
Ending fund balance per county	4,958,724
Timing adjustment:	
Accrual of June and July 2007 highway users tax apportionment	307,314
SCO adjustment:	
Finding 1—Non-road expenditures-FY 2001-02	<u>14,476</u>
Ending fund balance per audit	<u><u>\$ 5,280,514</u></u>

**Schedule 2—
Reconciliation of TEA-21 and RTPA Balances
July 1, 2001, through June 30, 2007**

	Amount
Beginning balance per county	\$ —
Revenues:	
TEA-21 Matching and Exchange funds	2,839,710
RTPA funds	425,552
Total revenues	3,265,262
Total funds available	3,265,262
Expenditures:	
Maintenance	(3,265,262)
Ending balance per county	—
SCO adjustment	—
Ending balance per audit	\$ —

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

Findings and Recommendations

FINDING 1— Non-road expenditures

During fiscal year (FY) 2001-02, the county incurred non-road related expenditures relating to the Quincy Library Group (QLG) and the National Forest Counties and Schools (NFCSC). During FY 2001-02, the ineligible expenditures for the QLG amounted to \$9,215 and the costs for NGCSC totaled \$5,261, for a total of \$14,476.

Road Fund monies can be expended only for road or road-related purposes as outlined in Streets and Highways Code sections 2101 and 2150. Lobbying purposes and NFCSC membership dues are not considered road purpose expenditures.

Recommendation

The county should reimburse the Road Fund \$14,476 for these non-road costs during FY 2001-02.

County's Response

The Road Fund has been reimbursed the outstanding \$14,476. This amount was transferred to the Road Fund on 6/25/08 with JE 1809.

FINDING 2— Outstanding accounts receivable

Our review of Accounts Receivable Account (as of June 30, 2007) noted an outstanding balance in the Road Fund of \$64,624. This was for non-road work performed during FY 2005-06 and FY 2006-07.

Road Fund monies can be expended only for road or road-related purposes as outlined in Streets and Highways Code sections 2101 and 2150. The SCO permits expenditures of road funds for non-road work as a convenience to counties, provided that the costs are reimbursed in a timely manner (30-60 days after completion of work).

Recommendation

The county should collect the accounts receivable due the Road Fund of \$64,624 for FY 2005-06 and FY 2006-07. In addition, the county should establish procedures to ensure that reimbursable non-road work charged to the Road Fund is billed and reimbursed in a timely manner.

County's Response

The Road Department has requested payment again for the outstanding accounts receivable for FY 2005/06 and FY 2006/07 in the total amount of \$64,624.

**FINDING 3—
Administration charges**

The Department of Public Works (DPW) performed work for other county departments aside from the Road Department. During FY 2001-02 through FY 2006-07, these activities include work performed for the County Surveyor and Department of Transportation. The Road Fund initially paid for all the administrative costs involved for these non-road functions with a small percentage charged to other units. There is no justification for charging the road fund for all these administrative charges.

Per Government Code section 12410 and Streets and Highways Code sections 2101 through 2150. All allowable administration charges for the road fund can be found in the SCO's "Accounting Standards and Procedures" manual for counties: Appendix A, section 9A.25.

Recommendation

The county should establish policies and procedures for charging administrative costs between departments that are based on equitable and actual costs incurred for these activities. At a minimum, all administrative personnel should complete individual timecards and charge the appropriate hours to departments for work performed.

County's Response

The Road Department has revised its policies and procedures for charging administrative costs and all administrative personnel are now completing individual detailed timecards showing the appropriate hours charged to the various departments where work was performed.

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

DEPARTMENT of PUBLIC WORKS

County of Lassen



LARRY MILLAR, Director
Public Works/Transportation
County Engineer

Administration Building
707 Nevada Street, Suite 4
Susanville, CA 96130

530/251-8288
FAX: 530/251-2674
FAX: 530/251-2675

R-2
2009/125

March 4, 2009

State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874
Attn: Steven Mar, Chief, Local Government Audits Bureau

RE: Draft Lassen County Audit Report-Road Fund (July 1, 2006 through June 30, 2007) dated February 2009.

Dear Mr. Mar:

In response to the above referenced Audit Report we provide the following comments:

Finding 1: The Road Fund has been reimbursed the outstanding \$14,476. This amount was transferred to the Road Fund on 6/25/08 with JE 1809.

Finding 2: The Road Department has requested payment again for the outstanding accounts receivable for FY 2005-06 and FY 2006-07 in the total amount of \$64,624. Enclosed is a copy of a recent letter to the Lassen County Auditor providing documentation for the outstanding amounts due.

Finding 3: The Road Department has revised its policies and procedures for charging administrative costs and all administrative personnel are now completing individual detailed timecards showing the appropriate hours charged to the various departments where work is performed.

Please let me know if you have any questions or if you need any further information.

Sincerely,

A handwritten signature in blue ink that reads "Larry O. Millar".

Larry Millar
Director

CC: Karen Fouch, Auditor
Nan Henderson, Road Account Auditor

DEPARTMENT of PUBLIC WORKS

County of Lassen



LARRY MILLAR, Director
Public Works/Transportation
County Engineer

Administration Building
707 Nevada Street, Suite 4
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R-2
2009/126

March 4, 2009

TO: Karen Fouch, Auditor
FROM: Larry Millar, Director
SUBJECT: Road Fund Accounts Receivable

A handwritten signature in cursive script that reads "Larry", positioned over the "FROM:" line of the memo.

In respect to the recently completed Road Audit Report there is a finding that the Road Fund has an outstanding accounts receivable balance in the amount of \$64,624 for non-road work performed during FY 2005-06 and FY 2006-07.

This outstanding amount is made up of an amount equal to \$27,399.19 from the Community Development Department for work the Road Department completed in constructing and paving the parking lot at the Westwood Industrial Park. This work was requested by the Community Development Department who I believe had a grant to cover at least a portion of the work. The Road Department had completed an estimate which was in the range of \$17,000 to \$20,000. The work was completed by the Westwood Road crew during October and November 2005. Attached is a copy of the Transfer Request dated 1/30/06 as well as the summary of the cost breakdown. The total amount of \$27,399.19 consists of labor (\$6,542.36), equipment (\$9,485.42), materials (\$6,590.71), overhead (\$2,289.86) and administrative fee (\$2,490.84).

The balance, \$37,224.76, is the amount due from the Sheriff Office for work completed during FY 2005-06 and FY 2006-07. For FY 2005-06 the outstanding amount is \$17,949.76 which consists of work completed by the Communications Technician and the Susanville Road shop at the request of personnel from the Sheriff Office to Sheriff Office equipment and vehicles throughout FY 2005-06. Attached are copies of Transfer Request forms dated 11/22/05, 6/22/06 and 7/14/06 as well as the summary of the cost breakdown which consists of labor (\$11,976.78), equipment (\$4,036.44), materials (\$304.74) and administrative fee (\$1,631.80). For FY 2006-07 the outstanding amount is \$19,275.00 which consists of work completed by the Communications Technician and the Susanville Road Shop at the request of personnel from the Sheriff Office to Sheriff Office equipment and vehicles throughout FY 2006-07. Attached are copies of a couple of the Transfer Request forms dated 12/01/06, 3/23/07, 6/04/07, 6/20/07 and 7/13/07 as well as the summary of the cost breakdown which consists of labor (\$15,423.06), equipment (\$1,532.16), materials (\$567.49) and administrative fee (\$1,752.29).

We can provide copies of time distribution sheets for the above work if requested.

In addition, however not part of the recent Road Audit findings, the Road Department has outstanding accounts receivable from the Sheriff Office for FY 2007-08 in the amount of \$17,544.23 which consists of work completed by the Communications Technician and Susanville Road Shop at the request of personnel from the Sheriff Office to Sheriff Office equipment and vehicles throughout FY 2007-08. Attached are copies of Transfer Request forms dated 11/26/07, 1/28/08, 3/14/08, 6/11/08 and 7/10/08 as well as the summary of the cost breakdown.

For the current fiscal year the Sheriff pays for a portion of the Communication Technician salary so the only reimbursable charges will be for any equipment charges and any materials which the Road Department purchases. To help reduce reimbursable charges whenever possible invoices for materials are being paid directly by the Sheriff Office. Attached is a copy of Transfer Request dated 2/1/09 in the amount of \$1,956.76 to include the vehicle, materials and fuel charges for the period July through October of this fiscal year.

As you can see we currently have an outstanding Road Department accounts receivable in the amount of \$84,124.82.

Please let me know if I can help with anything towards getting these outstanding receivables paid. I'm afraid the Road Department will be in jeopardy with future State funding if these are not cleared up.

Thank You.

Enclosure

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

<http://www.sco.ca.gov>