

SUTTER COUNTY

Audit Report

ROAD FUND

July 1, 2010, through June 30, 2013



BETTY T. YEE
California State Controller

June 2016



BETTY T. YEE
California State Controller

June 24, 2016

The Honorable Larry Munger, Chair
Board of Supervisors
Sutter County
1160 Civic Center Boulevard
Yuba City, CA 95993

Dear Mr. Munger:

The State Controller's Office (SCO) audited Sutter County's Road Fund for the period of July 1, 2010, through June 30, 2013.

The county accounted for and expended its 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 adjustments totaling \$266,913. We made the adjustments because the county did not reimburse the Road Fund for non-road-related expenditures and made an ineligible transfer of funds.

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits Bureau, by telephone at (916) 284-0120.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

Attachment

cc: Nathan Black, Auditor-Controller
Sutter County
Danielle Stylos, Director of Development Services
Sutter County

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Audit Report

Summary

The State Controller's Office (SCO) audited Sutter County's Road Fund for the period of July 1, 2010, through June 30, 2013.

Our audit found 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 adjustments totaling \$266,913.

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 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.

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 found 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 require an adjustment of \$266,913 to the county's accounting records.

Follow-up on Prior Audit Findings

Findings noted in our prior audit report, issued on February 20, 2014, have not been satisfactorily resolved by the county. The prior audit finding for unreimbursed non-road expenditures of \$190,236 is further described in Finding 1 of this report.

Views of Responsible Officials

We issued a draft audit report on February 9, 2016. The county did not respond to the draft audit report.

Restricted Use

This report is solely for the information and use of Sutter County, the Sutter 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, CPA
Chief, Division of Audits

June 24, 2016

**Schedule 1—
Reconciliation of Road Fund Balance ¹
July 1, 2012, through June 30, 2013**

	Amount
Beginning fund balance per county	\$ 7,789,723
Revenues	9,289,681
Total funds available	17,079,404
Expenditures	(10,063,538)
Ending fund balance per county	7,015,866
SCO adjustments:	
Finding 1—Unreimbursed non-road-related expenditures	259,638
Finding 2—Ineligible transfer of funds	7,275
Total SCO audit adjustments	266,913
Ending fund balance per audit	\$ 7,282,779

¹ The audit period was July 1, 2010, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

Findings and Recommendations

FINDING 1— Unreimbursed non- road-related expenditures

The county did not reimburse the Road Fund \$69,402 for expenditures on non-road-related work for other county departments and outside parties for fiscal year (FY) 2010-11 through FY 2012-13. In addition, a prior-year audit finding shows the county did not reimburse the Road Fund \$190,236 for non-road-related expenditures, bringing the total balance to \$259,638.

Streets and Highways Code section 2101 states:

All moneys 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, out of the Highways 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-related 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 must reimburse the Road Fund \$259,638 for non-road-related expenditures incurred for other county departments and outside parties. In addition, the county must establish procedures to ensure that future non-road billings are collected and the Road Fund is reimbursed in a timely manner.

FINDING 2— Ineligible transfer of funds

During FY 2010-11 through FY 2012-13, the county charged the Road Fund for Interfund IT Equipment Replacement Costs of \$7,275. In analyzing the transactions, it was determined that the actual costs are based on a countywide charge and not on actual costs to the Road Fund.

Road Fund money can be expended only for road or road-related purposes, as outlined in Streets and Highways Code sections 2101 and 2150. All money deposited by the county in its Road Fund must be expended exclusively for county roads. Only actual expenditures incurred for Road Fund Equipment Replacement are eligible.

Recommendation

The county should reimburse the Road Fund \$7,275 and establish procedures to ensure that the Road Fund money is not transferred to other county funds for non-road-related purposes.

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

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