

ALPINE COUNTY

Audit Report

ROAD FUND

July 1, 2006, through June 30, 2007



JOHN CHIANG
California State Controller

July 2009



JOHN CHIANG
California State Controller

July 29, 2009

Phillip D. Bennett, Chair
Board of Supervisors
Alpine County
99 Water Street
Markleeville, CA 96120

Dear Mr. Bennett:

The State Controller's Office (SCO) audited Alpine 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 \$10,618. We made the adjustment because the county did not reimburse the Road Fund for outstanding non-road expenditures. In addition, we identified procedural findings affecting the Road Fund in this audit report.

The county accounted for and expended fiscal year (FY) 2001-02 through FY 2006-07 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 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 Randi Makley, Auditor-Controller
Alpine County
Dennis Cardoza, Director of Public Works
Alpine County
Gilbert Petrissans, Chief
Local Program Accounting Branch
Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) audited Alpine 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 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 our adjustment of \$10,618 and 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 2001-02 through FY 2006-07 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 TEA-21 Matching and Exchange moneys were to determine whether:

- Highway users tax apportionments 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 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 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 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 \$10,618 to the county's accounting records.

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

Findings noted in our prior audit report, issued on May 16, 2003, have been satisfactorily resolved by the county.

Views of Responsible Official

We issued a draft audit report on March 27, 2009. The Honorable Randi Makley, Auditor-Controller, responded by letter dated April 10, 2009, agreeing with the audit results. The county's response is included as an attachment in this final audit report. Subsequent to our review, the county made the required adjustments.

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

July 29, 2009

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

	<u>Amount</u>
Beginning fund balance per county	\$ 704,249
Revenues	<u>2,134,314</u>
Total funds available	2,838,563
Expenditures	<u>(1,675,079)</u>
Ending fund balance per county	1,163,484
SCO adjustment:	
Finding 1—Unreimbursed non-road expenditures	<u>10,618</u>
Ending fund balance per audit	<u>\$ 1,174,102</u>

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

	<u>Amount</u>
Beginning balance per county	\$ 460,575
Revenues:	
TEA-21 Matching and Exchange funds	<u>1,180,872</u>
Total funds available	1,641,447
Expenditures:	
Maintenance	<u>(1,641,447)</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.

Findings and Recommendations

FINDING 1— Unreimbursed non-road expenditures

The county had not reimbursed the Road Fund \$10,618 for reimbursable expenditures for fiscal year (FY) 2006-07. In addition, the collection of non-road reimbursable expenditures was not performed in a timely manner.

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 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 to counties, provided that the expenditures are billed and reimbursed in a timely manner (30 to 60 days after completion of the work).

Recommendation

The county should reimburse the Road Fund \$10,618 for the expenditures incurred for county departments and outside parties. In addition, the county should establish procedures to ensure that future non-road billings are prepared and the Road Fund is reimbursed in a timely manner.

County's Response

Deposits posted in July and August 2008 from Public Works reimbursed the Road Fund \$10,618 for expenditures incurred for other county departments and outside parties for the fiscal year 2006-07. Public Works has also implemented a monthly review of the road fund and associated funds to improve reimbursement in a timely manner.

Starting with fiscal year 2009-10, the county has established an organizational and functional change to the Public Works department and its supporting fiscal reporting. Management and Administrative salaries will no longer be paid out of the road fund, which will substantially reduce the need for reimbursements to the road fund.

**FINDING 2—
Expenditure
differences between
cost accounting and
financial accounting
systems**

The audit disclosed expenditure differences between the Department of Public Works' cost accounting system and the Auditor-Controller's financial accounting system. These differences were reconciled during the current audit.

The SCO's *Accounting Standards and Procedures for Counties* manual, Chapter 9, Appendix A, prescribes periodic expenditures reconciliations between the financial and the cost accounting systems.

Recommendation

The county should establish procedures to ensure that Road Fund expenditures recorded in the cost system agree with the expenditure recorded in the Auditor-Controller's financial system.

County's Response

Public Works has implemented a monthly review and reconciliation of all cost accounting funds with the County Auditor's financial accounting system.

**FINDING 3—
Equipment rental rates
not analyzed and
updated**

The county did not analyze and update the Road Fund's equipment rental rates for FY 2006-07. The equipment rates in the cost system—CAMS—were the same rental rates used during FY 2001-02.

The SCO's *Accounting Standards and Procedures for Counties* manual, Chapter 9, Appendix A, section 17, states that equipment rental rates should be established yearly, based on a three-year average of equipment and maintenance repairs and operating costs by major categories divided by the estimated equipment usage for the upcoming fiscal year.

Recommendation

The county should analyze and update the equipment rental rates annually.

County's Response

For fiscal year 2007-08 and 2008-09 the Public Works Director decided not to increase equipment rental rates. Public Works is currently in the process of performing an analysis of the equipment rental rates for fiscal year 2009-10 with intent to increase.

**FINDING 4—
High clearing account
variances**

Our review of the FY 2006-07 Annual Road Report, Schedule 7 (Clearing Account Activity), disclosed high variances for labor, equipment, and general road overhead of 19.56%, (31.00%), and (23.91%) respectively.

The SCO's *Accounting Standards and Procedures for Counties* manual, Chapter 9, Appendix A, sections 14 through 23, prescribe the method used in the development and operation of the Road Fund's clearing accounts. Per section 24, the acceptable ranges for labor variance should be 5%, and 10% for equipment and general road overhead variances.

Recommendation

The county should analyze its clearing accounts and update the respective labor, equipment, and overhead rates for FY 2008-09.

County's Response

Public Works has analyzed its clearing accounts and updated respective labor, equipment and overhead rates.

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

OFFICE OF THE AUDITOR

County of Alpine

Randi L. Makley
Auditor - Controller

Nani Ellis
Assistant Auditor - Controller

April 10, 2009

Steven Mar
Office of State Controller
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

RE: Alpine County's Road Audit
July 1, 2006 – Jun 30, 2007

Dear Mr. Mar

The Alpine County Department of Public Works and I have reviewed the draft report for Alpine County's Road Audit for the period July 1, 2006 – Jun 30, 2007 and agree with the accuracy of the audit findings.

Attached please find the department's comments along with their proposed corrective action. As Auditor I concur with their plan of action.

I thank you for your recommendations and if we need to address any issue with more detail please contact me directly.

Sincerely



Randi Makley
Alpine County Auditor

Response to Fiscal Year 2006-07 Audit Report / Road Fund

FINDING 1 – Unreimbursed non-road expenditures

Deposits posted in July and August 2008 from Public Works reimbursed the Road Fund \$10,618 for expenditures incurred for other county departments and outside parties for the fiscal year 2006-07. Public Works has also implemented a monthly review of the road fund and associated funds to improve reimbursement in a timely manner.

Starting with fiscal year 2009-10, the county has established an organizational and functional change to the Public Works department and its supporting fiscal reporting. Management and Administrative salaries will no longer be paid out of the road fund, which will substantially reduce the need for reimbursements to the road fund.

FINDING 2 – Expenditures differences between cost accounting and financial accounting systems

Public Works has implemented a monthly review and reconciliation of all cost accounting funds with the County Auditor's financial accounting system.

FINDING 3 – Equipment rental rates not analyzed and updated

For fiscal year 2007-08 and 2008-09 the Public Works Director decided not to increase equipment rental rates. Public Works is currently in the process of performing an analysis of the equipment rental rates for fiscal year 2009-10 with intent to increase.

FINDING 4 – High clearing account variances

Public Works has analyzed its clearing accounts and updated respective labor, equipment and overhead rates.

**State Controller's Office
Division of Audits
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