

BUTTE COUNTY

Audit Report

ROAD FUND

July 1, 2008, through June 30, 2009



JOHN CHIANG
California State Controller

August 2011



JOHN CHIANG
California State Controller

August 17, 2011

The Honorable Steve Lambert, Chair
Board of Supervisors
Butte County
3159 Nelson Avenue
Oroville, CA 95965

Dear Mr. Lambert:

The State Controller's Office (SCO) audited Butte 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, 2001, through June 30, 2009. 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 \$14,240. We made the adjustment because the county did not reimburse the Road Fund for non-road work performed for outside parties during fiscal year (FY) 2008-09. The county reimbursed \$14,240 to the Road Fund during FY 2010-11.

The county accounted for and expended FY 2001-02 through FY 2008-09 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 David Houser
Auditor-Controller
Butte County
J. Michael Crump
Director of Public Works
Butte 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 Butte 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, 2001, 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 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 \$14,240 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 years (FY) 2001-02 through FY 2008-09, 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 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, and RTPA revenues were to determine whether:

- Highway users tax apportionments, 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, 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 and review disclosed that Butte 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 Finding and Recommendation section of this report. The finding requires an adjustment of \$14,240 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 March 12, 2003, have been satisfactorily resolved by the county.

Views of Responsible Official

We issued a draft audit report on April 28, 2011. J. Michael Crump, the county's Director of Public Works, responded by letter dated May 24, 2011, 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 Butte County management, the Butte 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

August 17, 2011

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

	<u>Amount</u>
Beginning fund balance per county	\$ 8,835,809
Revenues	<u>21,924,522</u>
Total funds available	30,760,331
Expenditures	<u>(21,263,666)</u>
Ending fund balance per county	9,496,665
SCO adjustment:	
Finding—Unreimbursed non-road expenditures	<u>14,240</u>
Ending fund balance per audit	<u>\$ 9,510,905</u>

**Schedule 2—
Reconciliation of TEA-21 and RTPA Balances
July 1, 2001, through June 30, 2009**

	Amount
Beginning balance per county	\$ 492,708
Revenues:	
TEA-21 Matching and Exchange funds	3,941,664
RTPA funds	6,247,337
Total revenues	10,189,001
Total funds available	10,681,709
Expenditures:	
Maintenance	(9,370,756)
Ending balance per county	1,310,953
SCO audit adjustment	—
Ending balance per audit	\$ 1,310,953

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

Finding and Recommendation

**FINDING—
Unreimbursed non-
road expenditures**

During fiscal year 2008-09, the county did not bill for \$14,240 of non-road projects performed for four outside parties, resulting in unreimbursed non-road expenditures.

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

Recommendation

The county should reimburse the Road Fund \$14,240 for expenditures incurred on non-road work performed for outside parties. The county should also establish procedures to ensure that the Road Fund is reimbursed in a timely manner for non-road work.

County's Response

The Draft Audit Report for fiscal year 2008/09 recommends that the county reimburse the Road Fund a total of \$14,240 for non-road work performed for outside parties. After meeting with State Controller's Office staff in February 2010, the invoices for the unreimbursed work were sent out. By summer of 2010, the Road Fund was reimbursed for \$8,781.44 and the remaining amount of \$5,458.33 was reimbursed in May 2011.

SCO's Comment

We concur that the county has reimbursed \$14,240 to the Road Fund for non-road related work performed for outside parties. The reimbursements were made by the county during fiscal year 2010-11.

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



Department of Public Works

County of Butte

J. Michael Crump, *Director*
Shawn H. O'Brien, *Assistant Director*

7 County Center Drive
Oroville, CA 95965-3397
(530) 538-7681
(FAX) 538-7171

May 24, 2011

State Controller's Office
Division of Audits
Steven Mar, Chief Local Government Audits Bureau
PO Box 942850
Sacramento, CA 94250-5874

RE: Response to FY2008/09 Draft Audit Report

Dear Sir:

The Draft Audit Report for fiscal year 2008/09 recommends that the county reimburse the Road Fund a total of \$14,240 for non-road work performed for outside parties. After meeting with State Controller's Office staff in February 2010, the invoices for the unreimbursed work were sent out. By summer of 2010, the Road Fund was reimbursed for \$8,781.44 and the remaining amount of \$5,458.33 was reimbursed in May 2011.

Due to the fact that all reimbursements have been received, Public Works respectfully requests that the Draft report be revised to make note of this. If additional information is required, please contact Cindy Jones, Administrative Analyst, at the address above.

Sincerely,

J. Michael "Mike" Crump
Director
Butte County Public Works

CC: David Houser, Butte County Auditor-Controller

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

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