

# **DEL NORTE COUNTY**

Audit Report

## **ROAD FUND**

*July 1, 2003, through June 30, 2009*



**JOHN CHIANG**  
California State Controller

August 2012



**JOHN CHIANG**  
**California State Controller**

August 14, 2012

The Honorable Michael Sullivan, Chair  
Board of Supervisors  
Del Norte County  
981 H Street, Suite 200  
Crescent City, CA 95531

Dear Mr. Sullivan:

The State Controller's Office (SCO) audited Del Norte 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, 2003, through June 30, 2008. 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 adjustments totaling \$37,659. We made the adjustments because the county:

- Did not resolve a prior audit finding of \$6,929 for ineligible membership dues, and paid an additional \$795 for such dues in FY 2003-04;
- Charged the Road Fund excessive cost plan charges of \$25,510; and
- Expended Road Fund moneys in the amount of \$4,425 for property insurance on ineligible property.

In addition, we identified procedural findings affecting the Road Fund in this audit report.

The county accounted for and expended fiscal year (FY) 2003-04 through FY 2008-09 Transportation Equity Act of the 21<sup>st</sup> 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.

The county has disputed certain facts related to the conclusions and recommendations contained in this audit report. The SCO has an informal audit review process to resolve a dispute of facts. To request a review, the county should submit, in writing, a request for a review and all information pertinent to the disputed issues within 60 days after receiving the final report. The request and supporting documents should be submitted to Richard J. Chivaro, Chief Counsel, State Controller's Office, Post Office Box 942850, Sacramento, CA 94250-0001. In addition, please provide a copy of the request letter to Steven Mar, Chief, Local Government Audits Bureau, State Controller's Office, Division of Audits, Post Office Box 942850, Sacramento, CA 95250-5874.

If you have any questions, please contact Mr. Mar at (916) 324-7226.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/sk

cc: Clinton C. Schaad, Auditor-Controller  
Del Norte County  
Kevin R. Hamblin, Director  
Community Development Department  
Del Norte County  
Richard J. Chivaro, Chief Counsel  
State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited Del Norte 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, 2003, 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 adjustments totaling \$37,659, and a procedural finding identified in this report.

In addition, we audited Transportation Equity Act of the 21<sup>st</sup> Century (TEA-21) Matching and Exchange moneys, and Senate Bill (SB) 1435 allocations from the regional transportation planning agency (RTPA) for FY 2002-03 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 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, 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 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 items shown in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$37,659 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 February 3, 2005, have been satisfactorily resolved by the county, except the county did not reimburse the Road Fund \$6,929 in non-road-related expenditures for ineligible membership dues to the National Forest Counties and Schools Coalition.

## **Views of Responsible Officials**

We issued a draft audit report on January 5, 2012. The county responded by e-mail dated March 9, 2012, agreeing with all of the findings except for Finding 1: Ineligible membership dues. 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 Del Norte County, the Del Norte 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 14, 2012

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

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	<u>Amount</u>
Beginning fund balance per county	\$ 5,793,262
Revenues	<u>4,921,525</u>
Total funds available	10,714,787
Expenditures	<u>(4,781,602)</u>
Ending fund balance per county	<u>5,933,185</u>
SCO adjustments:	
Finding 1—Prior audit finding – Ineligible membership dues	7,724
Finding 2—Excess cost plan changes	25,510
Finding 3—Property insurance changes	<u>4,425</u>
Total SCO audit adjustments	<u>37,659</u>
Ending fund balance per audit	<u><u>\$ 5,970,844</u></u>

**Schedule 2—  
Reconciliation of TEA-21 and RTPA Balances  
July 1, 2003, through June 30, 2009**

	Amount
Beginning balance per county	\$ 496,598
Revenues:	
TEA-21 Matching and Exchange funds	1,346,598
RTPA funds	463,845
Other	—
Total revenues	1,810,443
Total funds available	2,307,041
Expenditures:	
Maintenance	(2,307,041)
Ending balance per county	—
SCO adjustments	—
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— Unresolved prior audit finding – ineligible membership dues**

The county did not resolve the prior audit finding because it did not reimburse the Road Fund \$6,929 in non-road-related expenditures for ineligible membership dues paid to the National Forest Counties and Schools Coalition (NFCSC). The State Controller's Office (SCO) issued a draft audit report on September 10, 2004. The county failed to respond to the draft report to address the finding, and a final audit report was issued on February 3, 2005. The county subsequently sent the SCO a letter dated February 15, 2005, disagreeing with the audit finding. During fiscal year (FY) 2003-04, the Road Fund paid \$795 for membership dues to the NFCSC. Subsequent to FY 2003-04, no further membership dues to the NFCSC were charged to the Road Fund.

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

### Recommendation

The county should reimburse the Road Fund \$7,724 to resolve the prior audit finding of \$6,929 and the additional ineligible charge of \$795 for membership dues to NFCSC during FY 2003-04.

### County's Response

Previously the County disagreed with this finding and still maintains that position. The dues paid in FY 02/03 and again in FY 03/04 were to the National Forest Counties and Schools Coalition. This coalition's focus is to assist County Road Departments in receiving Federal funds. Since these funds are split 50/50 between the Road Fund and School District and none of this money goes into the County General Fund we feel this should not be a General Fund expense but an expense that should be paid by the benefiting funds.

### SCO's Comment

The finding remains unchanged.

Expenditure of Road Fund moneys for membership dues to the National Forest Counties and Schools Coalition is not directly related to the construction, improvement, maintenance, or operation of public streets and highways within the meaning of the California Constitution and Streets and Highways Code sections 2101 and 2150. While this organization may prove beneficial to the county's road program, expenditures for the membership dues do not come within the scope of the authorized purpose set out in the California Constitution or Streets and Highways Code.

**FINDING 2—  
Excess A-87 Cost Plan  
charges**

Total A-87 Cost Plan indirect and support service charges assessed to the Road Fund for FY 2007-08 and FY 2008-09 exceeded the charges formally approved by the SCO by a net amount of \$28,958 (\$23,006 during FY 2008-09 and \$5,952 during FY 2007-08).

Costs for indirect and support service charges cannot exceed those costs formally approved within the Countywide Cost Allocation Plan Negotiated Agreement between the county and the State.

Recommendation

The county should reimburse the Road Fund \$28,958 for the excess A-87 Cost Plan charges.

County's Response

In FY 06/07 the County changed the way in which they were charging the State Controller's Office approved cost allocation plan. Previously the County was charging the proposed amounts instead of the actual. At that time, the then County Auditor/Controller, felt it would be better to charge actual amounts instead of proposed. In that first year, our Road Department proposed charges were \$82,450 and the actual were \$79,002 resulting in an underpayment of \$3,448. This is not included in the audit but mention was made of it at the exit conference. If this underpayment were taken into account and applied to the subsequent two years, in which you have claimed overcharging occurred, our amount of overpayment would be reduced to \$25,510. Additionally, at the exit conference, we were told that changing the way our State Controller's Office approved cost plan was charged would have been perfectly fine, had you been notified in advance. However, at that time the County was unaware of that restriction. We were under the assumption that since our cost plan has been approved by the State Controller's Office it was an administrative decision on how we would charge the approved plan. We have not found any restriction prohibiting how we allocate our cost plan.

Going forward we will be sure to notify any and all State or Federal agencies involved of our proposed allocation changes. Since the 08/09 audit period we have switched back to charging proposed costs.

SCO's Comment

The finding amount of \$28,958 is reduced by \$3,448 of undercharged cost plan charges from FY 2006-07. The county must reimburse the Road Fund \$25,510 of excess cost plan charges.

**FINDING 3—  
Property insurance  
charge for non-Road  
Fund-owned building**

The Road Fund was charged for property insurance for properties not owned by the Road Fund. During FY 2004-05 through FY 2008-09, the Road Fund was charged for property insurance for the "Ex-Public Works 700 5<sup>th</sup> St." property in the amount of \$3,696. During FY 2004-05, the Road Fund was also charged for property insurance for the "Ag Shop/Garage" property in the amount of \$311. An additional unsupported \$418 in property insurance was charged to the Road Fund for FY 2004-05.

Road Fund moneys can be expended only for road or road-related purposes as outlined in Streets and Highways Code sections 2101 and 2150. Insurance charges for non-Road Fund-owned property are ineligible expenditures.

Recommendation

The county should reimburse the Road Fund \$4,425 for property insurance charges on non-Road Fund-owned buildings and unsupported charges. In addition, the county should remove further allocation to the Road Fund of insurance charges of these properties.

County's Response

Beginning in FY 04/05 the Road Fund was charged for property insurance on the County owned "Ex-Public Works Building". This charge comes from the fact that when that building was still in use the Road Department was using a percentage of that building and after it was vacated the charges were still being expensed to the last occupants. The County agrees that these charges should be reimbursed and will work towards correcting that. We have made a change beginning immediately on how we allocate those insurance costs.

SCO's Comment

The county agreed with the finding.

**FINDING 4—  
Revenue account for  
Traffic Congestion  
Relief Fund not  
established**

During FY 2003-04 through FY 2008-09, the county did not establish a special revenue account within the Road Fund for the purpose of depositing all Traffic Congestion Relief Fund (TCRF) revenues. For all years audited, the county deposited all TCRF revenues in account #90621—Other State Aid; however, other state revenues were also recorded there.

Per the SCO's Guidelines Relating to Traffic Congestion Relief Funds, the allocations should be deposited in a separate revenue account within the Road Fund. Using a separate and a special revenue account eases the audit process and provides a mechanism to identify the receipt of funds.

Recommendation

The county should establish a separate revenue account to deposit all future TCRF allocations.

County's Response

The County agrees with this finding and will create new revenue lines to track State funding separately going forward.

SCO's Comment

The county agreed with the finding.

**FINDING 5—  
Inadequate allocation  
method for  
administrative costs**

The allocation method used by the county to allocate the Community Development Department (CDD) administrative costs does not provide a clear auditable method by which to assess whether the allocated charges reflect the services received by the benefiting divisions. The CDD consists of seven divisions, and the costs are allocated based on each division's payroll. Allocating costs by the division size is too general a method and appears to result in inequitable allocation of the costs.

Road Fund moneys can be expended only for road or road-related purposes as outlined in Streets and Highways Code sections 2101 and 2150. All allowable administration charges for the Road Fund can be found in the SCO's *Accounting Standards and Procedures for Counties* manual, Appendix A, section 9A.

Recommendation

The county should analyze the CDD organization and its administrative activities and establish policies and procedures for charging administrative costs between divisions that are based on equitable and actual costs incurred for these activities.

County's Response

The County agrees with this finding. It would be much easier to audit the division if administrative costs were based on a simple system of individual charges for specific services rendered. Administrative costs within any budget however, are rarely, if ever, allocated by that method (charges for services rendered) because of the sheer impractical nature of documenting and administering such a system. While the ease of the ability to audit may be the focus of the controller's office, the County is concerned about the ability to implement and administer such a process.

By policy action of the Board of Supervisors, the Roads Division is administered through the Community Development Department. There are administrative costs associated with that structure. The County will explore other possible allocation methods for distributing those administrative costs effectively and equitably.

SCO's Comment

The county agreed with the finding.

**FINDING 6—  
High clearing variances**

Schedule 7 (Schedule of Clearing Account Activity) of the Annual Road Report presented high variances of 8.53% for labor, 17.39% for equipment clearing, and 67.95% for shop overhead.

The SCO's *Accounting Standards and Procedures for Counties* manual, Chapter 9A, section 14-23, prescribes the method used in the development and operation of the labor, equipment, general overhead and inventory clearing accounts. Per section 24, the acceptable range for the labor variance should be +/-5% and +/-10% for equipment, general overhead, and inventory variances.

### Recommendation

The county should review all clearing account variances at year-end and analyze these accounts if variances fall out of the acceptable ranges of +/-5% for labor, and +/-10% for equipment, general road overhead, and inventory clearing accounts.

### County's Response

The concern raised in Finding #6 of the audit is that the variances for labor and equipment are out of acceptable ranges. The County agrees with that finding. After the annual report is completed the Road Division is working with the State Controller's Office to ensure that the rates are adjusted annually based on information from the prior year's final report figures.

### SCO's Comment

The county agreed with the finding.

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

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From: Janet Turner [<mailto:jturner@co.del-norte.ca.us>]  
Sent: Friday, March 09, 2012 10:00 AM  
To: Castro, Gustavo  
Subject: Re: Draft response

I believe that was sent the end of January I have attached a draft copy. [REDACTED]

On Fri, Mar 9, 2012 at 9:51 AM, <[gcastro@sco.ca.gov](mailto:gcastro@sco.ca.gov)> wrote:

> Janet,

>

>

>

> Good morning. I was curious if your department had already sent us the  
> draft response to the SCO Road Fund audit. What's the latest??

>

> Have a great weekend.

>

>

>

> Gus Castro

>

> Audit Specialist

>

> State Controller's Office

>

> Division of Audits/Road Fund Program

>

> (916) 327-3560, (916) 324-6900 FAX, [gcastro@sco.ca.gov](mailto:gcastro@sco.ca.gov)

>

>

> CONFIDENTIALITY NOTICE: This communication with its contents as well  
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**Reply to Finding 1-**

Previously the County disagreed with this finding and still maintains that position. The dues paid in FY 02/03 and again in FY 03/04 were to the National Forest Counties and Schools Coalition. This coalition's focus is to assist County Road Departments in receiving Federal funds. Since these funds are split 50/50 between the Road Fund and School District and none of this money goes into the County General Fund we feel this should not be a General Fund expense but an expense that should be paid by the benefiting funds.

**Reply to Finding 2:**

In FY 06/07 the County changed the way in which they were charging the State Controller's Office approved cost allocation plan. Previously the County was charging the proposed amounts instead of the actual. At that time, the then County Auditor/Controller, felt it would be better to charge actual amounts instead of proposed. In that first year, our Road Department proposed charges were \$82,450 and the actual were \$79,002 resulting in an underpayment of \$3,448. This is not included in the audit but mention was made of it at the exit conference. If this underpayment were taken into account and applied to the subsequent two years, in which you have claimed overcharging occurred, our amount of overpayment would be reduced to \$25,510. Additionally, at the exit conference, we were told that changing the way our State Controller's Office approved cost plan was charged would have been perfectly fine, had you been notified in advance. However, at that time the County was unaware of that restriction. We were under the assumption that since our cost plan had been approved by the State Controller's Office it was an administrative decision on how we would charge the approved plan. We have not found any restriction prohibiting how we allocate our cost plan. Going forward we will be sure to notify any and all State or Federal agencies involved of our proposed allocation changes. Since the 08/09 audit period we have switched back to charging proposed costs.

**Reply to Finding 3-**

Beginning in FY 04/05 the Road Fund was charged for property insurance on the County owned "Ex-Public Works Building". This charge comes from the fact that when that building was still in use the Road Department was using a percentage of that building and after it was vacated the charges were still being expensed to the last occupants. The County agrees that these charges should be reimbursed and will work towards correcting that. We have made a change beginning immediately on how we allocate those insurance costs.

**Reply to Finding 4-**

The County agrees with this finding and will create new revenue lines to track State funding separately going forward.

**Reply to Finding 5-**

The County agrees with this finding. It would be much easier to audit the division if administrative costs were based on a simple system of individual charges for specific services rendered. Administrative costs within any budget however, are rarely, if ever, allocated by that method (charges for services rendered) because of the sheer impractical nature of documenting and administering such a system. While the ease of the ability to audit may be the focus of the controller's office, the County is concerned about the ability to implement and administer such a process.

By policy action of the Board of Supervisors, the Roads Division is administered through the Community Development Department. There are administrative costs associated with that structure. The County will explore other possible allocation methods for distributing those administrative costs effectively and equitably.

**Reply to Finding 6-**

The concern raised in Finding #6 of the audit is that the variances for labor and equipment are out of acceptable ranges. The County agrees with that finding. After the annual report is completed the Road Division is working with the State Controller's Office to ensure that the rates are adjusted annually based on information from the prior year's final report figures.

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

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