

SIERRA COUNTY

Audit Report

ROAD FUND

July 1, 2008, through June 30, 2009



JOHN CHIANG
California State Controller

September 2012



JOHN CHIANG
California State Controller

September 4, 2012

The Honorable Peter W. Huebner
Chair of the Board of Supervisors
Sierra County
100 Courthouse Square, Suite 11
Downieville, CA 95936

Dear Mr. Huebner:

The State Controller's Office (SCO) audited Sierra 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, 2002, through June 30, 2008. The results of this review are included in our audit report.

The County accounted for and expended its Road Fund 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 \$44,525. We made the adjustments because the County charged the Road Fund in excess of the approved A-87 Cost Plan and allocated negative interest income to the Road Fund. In addition, we identified in this audit report a procedural finding affecting the Road Fund.

The County accounted for and expended Fiscal Year (FY) 2002-03 through FY 2008-09 Transportation Equity Act of the 21st Century Matching and Exchange funds 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/sk

cc: The Honorable Van Maddox
Auditor-Treasurer-Tax Collector
Sierra County
Tim H. Beals, Director
Public Works and Transportation Department
Sierra County

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Audit Report

Summary

The State Controller's Office (SCO) audited Sierra County's Road Fund for the period of July 1, 2008, through June 30, 2009 (Fiscal Year [FY] 2008 through FY 2009). We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2002, 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 its Road Fund 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 \$44,525 and procedural findings identified in this report.

In addition, we audited Transportation Equity Act of the 21st Century (TEA-21) Matching and Exchange funds for FY 2002-03 through FY 2008-09 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 funds 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 funds 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 money were to determine whether:

- Highway users tax apportionments and TEA-21 Matching and Exchange money 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 and TEA-21 Matching and Exchange money 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 its Road Fund 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 \$44,525 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 money 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 October 31, 2003, have been satisfactorily resolved by the county.

Views of Responsible Officials

We issued a draft audit report on January 5, 2012. The County did not respond to the draft audit report. On August 10, 2012, the County provided a copy of its journal entry reimbursing the Road Fund \$44,525.

Restricted Use

This report is solely for the information and use of Sierra County, the Sierra 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

September 4, 2012

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

	<u>Amount</u>
Beginning fund balance per County	\$ 312,733
Revenues	<u>5,460,842</u>
Total funds available	5,773,575
Expenditures	<u>(4,251,087)</u>
Ending fund balance per County	<u>1,522,488</u>
SCO adjustments:	
Finding 1—Excess A-87 Cost Plan Charges	17,791
Finding 2—Negative Interest Allocation	<u>26,734</u>
Total SCO audit adjustments	<u>44,525</u>
Ending fund balance per audit	<u>\$ 1,567,013</u>

**Schedule 2—
Reconciliation of TEA-21 Balance
July 1, 2008, through June 30, 2009**

	<u>Amount</u>
Beginning balance per County	\$ —
Revenues:	
TEA-21 Matching and Exchange funds	<u>196,812</u>
Total funds available	196,812
Expenditures:	
Maintenance	<u>(196,812)</u>
Ending balance per County	—
SCO adjustment	<u>—</u>
Ending balance per audit	<u>\$ —</u>

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

Findings and Recommendations

FINDING 1— Excess A-87 cost plan charges

Total A-87 Cost Plan indirect and support service charges assessed to the Road Fund for the Fiscal Year (FY) 2004-05 exceeded the charges formally approved by the State Controller's Office by \$17,791. 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 \$17,791 for the excess A-87 Cost Plan charges.

County's Response

The county did not respond to the draft report; however, it did provide us with a copy of its journal entry reimbursing the Road Fund.

SCO's Comments

The county implemented our recommendation.

FINDING 2— Negative interest

The County charged interest expense to the Road Fund totaling \$26,734 (\$13,883 for FY 2002-03, \$3,197 for FY 2003-04, \$298 for FY 2007-08, and \$9,356 for FY 2008-09). Streets and Highways Code sections 2101 and 2150 state that Road Fund money can be expended only for road or road-related purposes. Negative interest is not an eligible expenditure per the Streets and Highways Code.

Recommendation

The County should reimburse the Road Fund \$26,734 for the negative interest charged during FY 2002-03, FY 2003-04, FY 2007-08, and FY 2008-09.

County's Response

The county did not respond to the draft report; however, it did provide us with a copy of its journal entry reimbursing the Road Fund.

SCO's Comments

The county implemented our recommendation.

**FINDING 3—
Inclusion of non-Road
Fund cash balances for
interest earnings
allocation**

During FY 2004-05 and FY 2005-06, the Transportation Planning Fund's (#853) average daily balances were rolled into the Road Fund (#031) for the interest apportionment.

Recommendation

The County should not include cash balances for Fund #853 as part of the Road Fund for the purpose of interest apportionment, as Fund #853 is not a road-purpose fund.

County's Response

The county did not respond to the draft report.

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

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