

NEVADA COUNTY

Audit Report

ROAD FUND

July 1, 2005, through June 30, 2006



JOHN CHIANG
California State Controller

December 2007



JOHN CHIANG
California State Controller

December 21, 2007

The Honorable Marcia L. Salter
Auditor-Controller
Nevada County
950 Maidu Avenue, 2nd Floor
Nevada City, CA 95959-8600

Douglas T. Farrell
Director of Public Works
Nevada County
950 Maidu Avenue, 2nd Floor
Nevada City, CA 95959-8600

Dear Ms. Salter and Mr. Farrell:

The State Controller's Office (SCO) audited Nevada County's Road Fund for the period of July 1, 2005, through June 30, 2006. We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2000, through June 30, 2005. 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 \$23,110. The adjustments occurred because the county overcharged the Road Fund \$18,429 for its portion of the Cost Allocation Plan and erroneously recorded \$4,681 of Road Fund equipment rental revenues to the Fleet Management Fund. In addition, we identified procedural findings affecting the Road Fund in this audit report.

The county accounted for and expended fiscal year (FY) 2000-01 through FY 2005-06 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/sk:wm

cc: Grace Kong, Chief
Local Program Accounting Branch
Department of Transportation

Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	3
Follow-Up on Prior Audit Findings	3
Views of Responsible Officials	3
Restricted Use	3
Schedule 1—Reconciliation of Road Fund Balance	4
Schedule 2—Reconciliation of TEA-21 and RTPA Balance	5
Findings and Recommendations	6

Audit Report

Summary

The State Controller's Office (SCO) audited Nevada County's Road Fund for the period of July 1, 2005, through June 30, 2006. We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2000, through June 30, 2005. 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. The last day of fieldwork was May 15, 2007.

Our audit 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 \$23,110 and procedural findings 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 year (FY) 2000-01 through FY 2005-06 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 and TEA-21 Matching and Exchange moneys, and RTPA revenues were to determine whether:

- Highway users tax apportionments and 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 and 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 the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 \$23,110 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 October 31, 2001, have been satisfactorily resolved by the county, except that the county is still not including an administrative overhead factor in its non-road reimbursable billings. This procedural finding is further described in Finding 3 in the Findings and Recommendations section of this audit report.

Views of Responsible Officials

We discussed the audit results with county representatives during an exit conference on May 15, 2007. Douglas Farrell, Director of Public Works, and Marcia Salter, Auditor-Controller, agreed with the audit results. Mr. Farrell and Ms. Salter further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

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

**Schedule 1—
Reconciliation of Road Fund Balance
July 1, 2005, through June 30, 2006**

	Amount
Beginning fund balance per county	\$ 4,526,117
Revenues	11,662,094
Total funds available	16,188,211
Expenditures	(8,676,828)
Ending fund balance per county	7,511,383
SCO adjustments ¹ :	
Finding 1—Excessive cost allocation plan charges	18,429
Finding 2—Recording error	4,681
Total SCO audit adjustments	23,110
Ending fund balance per audit	\$ 7,534,493

¹ See the Findings and Recommendations section.

**Schedule 2—
Reconciliation of TEA-21 and RTPA Balance
July 1, 2005, through June 30, 2006**

	Amount
Beginning balance per county	\$ 901,259
Revenues:	
TEA-21 Matching and Exchange funds	2,706,292
RTPA funds	1,447,594
Total revenues	4,153,886
Total funds available	5,055,145
Expenditures:	
Construction	(2,845,877)
Ending balance per audit	\$ 2,209,268

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

Findings and Recommendations

FINDING 1— Excessive cost allocation plan charges

The cost allocation plan is a mechanism whereby county-wide indirect costs are distributed to all county departments. The maximum amount approved by the State Controller's Office (SCO) to be charged to the Road Fund for the fiscal year (FY) ended June 30, 2006, was \$304,138. The county charged the Road Fund \$322,567, resulting in the Road Fund being overcharged \$18,429 for its portion of the cost allocation plan.

Counties are required to submit cost allocation plans to the SCO's cost plan unit for approval. The amount charged to the Road Fund cannot exceed the approved costs as stated in the SCO's Accounting Standards and Procedures for Counties manual.

Recommendation

The Road Fund should be reimbursed \$18,429 for indirect cost overcharges for the FY ended June 30, 2006. The county should use the formally approved cost allocation plan as a basis for charging the Road Fund for indirect support and service costs. Additionally, the county should establish procedures and review them periodically to ensure that cost allocation plan charges paid by the Road Fund do not exceed the amount approved by the SCO.

County's Response

The county agreed with our recommendation and prepared an adjusting journal entry to reimburse the Road Fund \$18,429 for the cost allocation plan overcharge.

FINDING 2— Recording error

In FY 2005-06, the county erroneously recorded Road Fund equipment rental revenues of \$4,681 to the county's Fleet Management fund. This resulted in Road Fund revenues being understated.

Road Fund moneys must be expended for road or road-related purposes as outlined in Streets and Highways Code section 2101 and 2150. Non-road related expenditures from the Road Fund must be reimbursed.

Recommendation

The county should correct the recording error by reimbursing the Road Fund \$4,681 from the county's Fleet Management Fund.

County's Response

The county agreed with our recommendation and corrected the recording error by preparing an adjusting journal entry reimbursing the Road Fund \$4,681 for equipment rental.

**FINDING 3—
Administrative overhead
factor excluded from
non-road billing**

The County Department of Transportation & Sanitation (DOTS) did not include an administrative overhead factor in its non-road reimbursable billings during the years under audit. DOTS perform non-road reimbursable work for other county departments and outside parties.

Road fund moneys can be expended only for road or road-related purposes as outlined in Streets and Highways Code section 2101 and 2150. In addition, the SCO's Accounting Standards and Procedures for Counties manual, Section 9A.32, requires an administrative overhead factor to recover all costs associated with performing non-road reimbursable work.

Recommendation

The county should establish procedures to include an administrative overhead factor in its future DOTS non-road reimbursable billings as prescribed in Section 9A.32 of the Accounting Standards and Procedures for Counties manual.

County's Response

The county agreed with the SCO's recommendation and will develop and include an administrative overhead factor in future non-road reimbursable billings.

**FINDING 4—
Equipment depreciation
factor excluded from
non-road billings**

The county did not include an equipment depreciation factor in its equipment usage rates. These rates are used by the Road Fund to bill other county departments and outside parties for non-road work.

SCO's Accounting Standards and Procedures for Counties manual requires a depreciation factor to recover all costs associated with performing non-road reimbursable work.

Recommendation

The county should establish procedures to include a depreciation factor in its equipment usage rates for Road Fund-owned equipment when billing other county departments and outside parties for non-road work.

County's Response

The county agreed with the SCO's recommendation and will include an equipment depreciation factor in its equipment usage rates for future non-road billings.

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