

# **SISKIYOU COUNTY**

Audit Report

## **ROAD FUND**

*July 1, 2006, through June 30, 2007*



**JOHN CHIANG**  
California State Controller

April 2009



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

April 22, 2009

The Honorable Michael Kobseff, Chair  
Board of Supervisors  
Siskiyou County  
P.O. Box 750  
Yreka, CA 96097

Dear Mr. Kobseff:

The State Controller's Office (SCO) audited Siskiyou 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 a procedural finding identified in this report.

The county accounted for and expended fiscal year (FY) 2001-02 through FY 2006-07 Transportation Equity Act of the 21<sup>st</sup> 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/sk:vb

cc: The Honorable Leanna Dancer, Auditor-Controller-Recorder  
Siskiyou County  
Brian McDermott, Director of Public Works  
Siskiyou County  
Scott Sumner, Director of Public Works  
Siskiyou County  
Grace Kong, Chief  
Local Program Accounting Branch  
Department of Transportation

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# Audit Report

## Summary

The State Controller's Office (SCO) audited Siskiyou 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 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 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 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 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 a county is also required to be deposited into the Road Fund (Government Code section 29484). In addition, a 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 were to determine whether:

- Highway users tax apportionments and 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 and 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 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 described in the Finding and Recommendation section of this report.

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 April 9, 2002, have been satisfactorily resolved by the county.

## **Views of Responsible Official**

We issued a draft audit report on February 25, 2009. Laurie Gripp, the county's Road Department Fiscal Officer, responded by letter dated March 16, 2009, stating that the county will make the necessary adjustments. 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 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

April 22, 2009

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

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|                                   | <u>Amount</u>              |
|-----------------------------------|----------------------------|
| Beginning fund balance per county | \$ 6,609,390               |
| Revenues                          | <u>12,878,605</u>          |
| Total funds available             | 19,487,995                 |
| Expenditures                      | <u>(11,636,739)</u>        |
| Ending fund balance per county    | 7,851,256                  |
| SCO adjustment                    | <u>—</u>                   |
| Ending fund balance per audit     | <u><u>\$ 7,851,256</u></u> |

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

|                                    | <u>Amount</u>      |
|------------------------------------|--------------------|
| Beginning balance per county       | \$ —               |
| Revenues:                          |                    |
| TEA-21 Matching and Exchange funds | <u>4,349,472</u>   |
| Total funds available              | 4,349,472          |
| Expenditures:                      |                    |
| Maintenance                        | <u>(4,349,472)</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.

# Finding and Recommendation

**FINDING—  
High labor, equipment,  
and general overhead  
clearing account  
variances**

The fiscal year (FY) 2006-07 Siskiyou County Annual Road Report presented high year-end variances of 9.55% for labor, 34.31% for equipment, and 49.30% for general road overhead.

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

### Recommendation

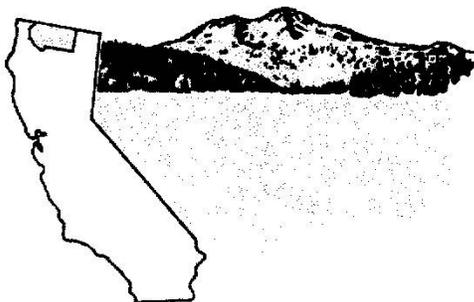
The county should analyze its clearing accounts to identify the cause of the high variances. In addition, the county should establish procedures for analysis of clearing accounts to ensure that the variances at year-end fall within acceptable ranges.

### County's Response

We have reviewed the variances that are outside the acceptable range and are making the necessary adjustments. We will review these quarterly in order to catch and adjust them sooner.

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

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*Siskiyou County*

**DEPARTMENT OF PUBLIC WORKS**

P.O. BOX 1127  
YREKA, CALIFORNIA 96097  
PHONE: (530) 842-8250  
FAX (530) 842-8288

**Scott Sumner**  
Director

**Todd Lamanna**  
Road Superintendent

**Scott Waite**  
Engineering/Survey

March 16, 2009

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

RE: Comments Concerning Draft Report for 7/06 through 6/07 Road Fund Audit

Dear Mr. Mar,

We have reviewed the variances that are outside the acceptable range and are making the necessary adjustments. We will review these quarterly in order to catch and adjust them sooner.

Thank you,

Laurie A Gripp  
Department Fiscal Officer  
Siskiyou County Public Works  
530-842-8254

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

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