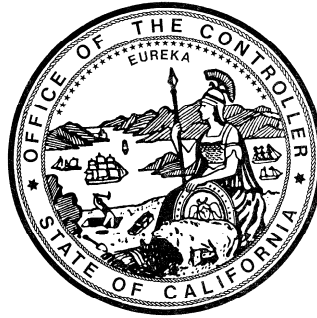


KERN COUNTY

Audit Report

ROAD FUND

July 1, 2005, through June 30, 2006



JOHN CHIANG
California State Controller

October 2007



JOHN CHIANG
California State Controller

October 12, 2007

The Honorable Ann K. Barnett
Auditor-Controller
Kern County
1115 Truxtun Avenue
Bakersfield, CA 93301

Craig M. Pope
Road Commissioner
Kern County
2700 M Street, 4th Floor
Bakersfield, CA 93301

Dear Ms. Barnett and Mr. Pope:

The State Controller's Office (SCO) audited Kern 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, 2002, 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 a procedural finding identified in this report. Further, the county accounted for and expended fiscal year (FY) 2002-03 through FY 2005-06 Transportation Equity Act of the 21st 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

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

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Audit Report

Summary

The State Controller's Office (SCO) audited Kern County's Road Fund for the period of July 1, 2005, through June 30, 2006 (fiscal year [FY] 2005-06). We also reviewed road-purpose revenues, expenditures, and changes in fund balances for the period of July 1, 2002, 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 March 2, 2007.

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 a procedural finding identified in this report.

In addition, we audited Transportation Equity Act of the 21st Century (TEA-21) Matching and Exchange moneys for FY 2002-03 through FY 2005-06, 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 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, fund use 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 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 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 procedural finding 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 August 18, 2003, have been satisfactorily resolved by the county.

Views of Responsible Officials

We issued a draft audit report on August 22, 2007. Craig M. Pope, Director of the county's Roads Department, responded by a letter dated September 4, 2007, 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 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**

	<u>Amount</u>
Beginning fund balance per county	\$ 20,185,533
Revenues	<u>38,273,782</u>
Total funds available	58,459,315
Expenditures	<u>(44,536,487)</u>
Ending fund balance per audit	<u>\$ 13,922,828</u>

**Schedule 2—
Reconciliation of TEA-21 Balance
July 1, 2002, through June 30, 2006**

	<u>Amount</u>
Beginning balance per county	\$ —
Revenues:	
TEA-21 Matching and Exchange funds	1,620,176
Expenditures:	
Construction	<u>(1,441,470)</u>
Ending balance per county	<u>178,706</u>
Ending balance per audit	<u><u>\$ 178,706</u></u>

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

Finding and Recommendation

**FINDING—
Non-road expenditures
not reimbursed in a
timely manner**

During the FY 2005-06, the county did not reimburse the Road Fund in a timely manner for non-road expenditures performed for other county departments. The Road Fund was reimbursed for some non-road transactions as late as seven months after completion of the work and, in one instance, eight months after the completion of the work (according to an invoice for the Community and Economic Development Department).

Road Fund moneys can be expended for road or road-related purposes as outlined in Streets and Highways Code sections 2101 and 2150. Non-road related expenditures from the Road Fund should be reimbursed within 30-60 days after the completion of work.

Recommendation

The county should ensure that the Road Fund is reimbursed in a timely manner (within 30-60 days after completion of work) for non-road work performed for other county departments.

County's Response

We received the Draft Road Fund Auditor Report prepared by your office. We have reviewed the report and are in concurrence with the finding that non-road expenditures should be reimbursed in a timely manner.

This occasionally has been a problem when dealing with other County departments, such as Airports and Community Development. We do all we can to insist on their timely repayment and appreciate having the added authority of your office to strengthen our argument in the future.

SCO's Response

The SCO concurs with the county's response.

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

ROADS DEPARTMENT

CRAIG M. POPE, P.E., Director
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**RESOURCE MANAGEMENT AGENCY**

DAVID PRICE III, RMA DIRECTOR
Community Development Program Department
Engineering & Survey Services Department
Environmental Health Services Department
Planning Department
Roads Department

September 4, 2007

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

Dear Mr. Mar:

Subject: Response to Draft Audit Report

We received the Draft Road Fund Auditor Report prepared by your office. We have reviewed the report and are in concurrence with the finding that non-road expenditures should be reimbursed in a timely manner.

This occasionally has been a problem when dealing with other County departments, such as Airports and Community Development. We do all we can to insist on their timely repayment and appreciate having the added authority of your office to strengthen our argument in the future.

I would like to take this opportunity to commend Mr. Gus Castro and Mr. Christopher Lek, who conducted our audit. Their knowledge and professionalism speak well of your office. They were most considerate of and helpful to my staff, and we always take advantage of the opportunity when we have your auditors here to avail ourselves of their knowledge and get questions answered. It was a pleasure having them here.

Sincerely,

A handwritten signature in black ink that reads "Craig M. Pope".

Craig M. Pope
Director

CMP:LA
la\acctg\auditresp-sc07.doc
cc: Ann K. Barnett, Auditor-Controller-County Clerk
Dave Price, Resource Management Agency
Gus Castro
Christopher Lek

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