TOWN OF LOS ALTOS HILLS

Final Audit Report

SPECIAL GAS TAX STREET FUND AND ROAD MAINTENANCE AND REHABILITATION PROGRAM

July 1, 2023, through June 30, 2024

MALIA M. COHEN

CALIFORNIA STATE CONTROLLER

October 2025

S25-GTA-0009

STATE CONTROLLER'S OFFICE | DIVISION OF AUDITS

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MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

October 27, 2025

Mr. Thomas Leung, Director
Finance and Administrative Services Department
Town of Los Altos Hills
26379 Fremont Road
Los Altos Hills, CA 94022

Dear Director Leung:

The State Controller's Office audited the Town of Los Altos Hills' (the town) Special Gas Tax Street Fund and the town's Road Maintenance and Rehabilitation Program (RMRP) for the period of July 1, 2023, through June 30, 2024.

Our audit found that the town accounted for and expended its Special Gas Tax Street Fund and its RMRP funds in compliance with requirements. Additionally, the town complied with RMRP maintenance-of-effort requirements.

If you have any questions regarding this report, please contact Efren Loste, Chief, Local Government Audits Bureau, by telephone at 916-324-7226 or email at eloste@sco.ca.gov. Thank you.

Sincerely,

Original signed by
Kimberly A. Tarvin, CPA
Chief, Division of Audits

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Copy: The Honorable Kavita Tankha, Mayor
Town of Los Altos Hills
Peter Pirnejad, Town Manager
Town of Los Altos Hills

CONTENTS

SUMMARY

The State Controller's Office (SCO) audited the Town of Los Altos Hills' (the town) Special Gas Tax Street Fund and the town's Road Maintenance and Rehabilitation Program (RMRP) for the period of July 1, 2023, through June 30, 2024.

Our audit found that the town accounted for and expended its Special Gas Tax Street Fund and RMRP funds in compliance with requirements. Additionally, the town complied with RMRP maintenance-of-effort (MOE) requirements.

BACKGROUND

The State apportions funds monthly from the Highway Users Tax Account (HUTA) in the Transportation Tax Fund to cities (including some towns) and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Streets and Highways Code, cities must establish individual Special Gas Tax Street Funds for the deposit of their HUTA apportionments. Additionally, cities must expend their HUTA apportionments only for street-related purposes in accordance with Article XIX of the California Constitution and Streets and Highways Code.

Senate Bill 1 (Chapter 5, Statutes of 2017), known as the Road Repair and Accountability Act of 2017, created the RMRP to address deferred maintenance on the state highway system and the local street and road systems. RMRP funds from the Road Maintenance and Rehabilitation Account of the State Transportation Fund are apportioned by formula to eligible cities and counties pursuant to Streets and Highways Code (SHC) section 2032. Article XIX of the California Constitution and SHC sections 2030 through 2038 provide the requirements for RMRP funding.

AUDIT AUTHORITY

We conducted this audit in accordance with Government Code section 12410, which provides the SCO with general authority to audit the disbursement of state money for correctness, legality, and sufficient provisions of law for payment.

OBJECTIVES, SCOPE, AND METHODOLOGY

We audited the town's Special Gas Tax Street Fund and the town's RMRP for the period of July 1, 2023, through June 30, 2024. Our audit objectives were to determine whether the town:

- Accounted for and expended the Special Gas Tax Street Fund and RMRP funds in compliance with Article XIX of the California Constitution, Streets and Highways Code, and Government Code; and
- Was in compliance with the RMRP MOE requirements.

To achieve our objectives, we completed the following procedures:

- We obtained an understanding and evaluated the effectiveness of the town's internal controls that are significant to the audit objectives by reviewing policies and procedures, interviewing key personnel, completing an internal control questionnaire, reviewing the town's organization chart, and inspecting documents and records.
- We assessed the reliability of computer-processed data by reviewing existing information about the data and the system that produced it; by interviewing town officials knowledgeable about the data; and by tracing data to source documents, based on auditor judgment and non-statistical sampling. We determined that the data was sufficiently reliable for the purposes of achieving our audit objectives.

- We conducted a risk assessment to determine the nature, timing, and extent of substantive testing.

- We performed analytical procedures to identify and explain the existence of unusual or unexpected account balances.

- We verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2003, through June 30, 2024; by recalculating the Special Gas Tax Street Fund trial balance for the period of July 1, 2023, through June 30, 2024; and by recalculating the RMRP trial balance for the period of July 1, 2017, through June 30, 2024.

- We verified that the components of and changes to fund balances were properly computed, described, classified, and disclosed by scheduling and analyzing account balances.

- We reconciled the revenues recorded in the town's ledger to the balance reported in the SCO's apportionment schedule for the period of July 1, 2023, through June 30, 2024, to determine whether the town completely accounted for HUTA and Road Maintenance and Rehabilitation Account apportionments that it received.

- We compared the town's RMRP project list with the list submitted to the California Transportation Commission to verify that actual RMRP expenditures were for RMRP projects approved by the California Transportation Commission.

- We verified that the town was in compliance with RMRP MOE requirements by recalculating the town's MOE contributions, and judgmentally selecting non-statistical samples of transactions to ensure that the MOE expenditures were street-related, properly supported, and incurred in the proper period.

- We verified that the expenditures incurred during the audit period were supported by proper documentation and eligible in accordance with the applicable criteria, by testing all expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and judgmentally selecting non-statistical samples of other transactions for the following categories. No errors were found:

- Special Gas Tax Street Fund
  - Services and supplies – We tested all $235,915.
- RMRP
  - Services and supplies – We tested all $219,429.

We did not audit the town's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the town accounted for and expended its Special Gas Tax Street Fund and its RMRP funds in accordance with the criteria.

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.

CONCLUSION

Our audit found that the town accounted for and expended its Special Gas Tax Street Fund and RMRP funds in compliance with Article XIX of the California Constitution, Streets and Highways Code, and Government Code for the period of July 1, 2023, through June 30, 2024. Additionally, the town complied with RMRP MOE requirements.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

The town has satisfactorily resolved the finding noted in our prior audit report for the period of July 1, 2002, through June 30, 2003, issued on June 24, 2004.

VIEWS OF RESPONSIBLE OFFICIALS

We discussed the audit results with the town's representative during an exit conference conducted on August 6, 2025. At the exit conference, the town's representative agreed with the audit results.

RESTRICTED USE

This report is solely for the information and use of the town 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 and is available on the SCO website at www.sco.ca.gov.

Original signed by
Kimberly A. Tarvin, CPA
Chief, Division of Audits

October 27, 2025

SCHEDULE—RECONCILIATION OF FUND BALANCE

July 1, 2023, through June 30, 2024

Cities (and some towns) receive apportionments from the State HUTA, pursuant to SHC sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments varies, but the funds may be used for any street-related purpose. SHC section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems. Cities must establish individual Special Gas Tax Street Funds for the deposit of their HUTA apportionments.

As participants in the RMRP, cities and some towns also receive apportionments from the Road Maintenance and Rehabilitation Account, pursuant to SHC section 2032(h). These RMRP funds may be used for basic road maintenance, rehabilitation, and critical safety projects on local street and road systems. SHC section 2036 establishes the MOE requirements that cities and some towns must meet annually in order to remain eligible for an allocation or apportionment of funds. The town's required MOE contribution is $1,682,366.

The following table shows the beginning and ending balances for the town's Special Gas Tax Street Fund and RMRP:

Reconciliation of Fund Balance	Special Gas Tax Street Fund Amount	RMRP Amount	Total Amount
Beginning fund balance, per town	$0	$0	$0
Revenues	235,915	219,429	455,344
Total funds available	235,915	219,429	455,344
Less: Expenditures	235,915	219,429	455,344
Ending fund balance, per town	0	0	0
Audit adjustment	0	0	0
Ending fund balance, per audit	**$0**	**$0**	**$0**