

CITY OF SANTA CLARA

Audit Report

SPECIAL GAS TAX STREET FUND AND ROAD MAINTENANCE AND REHABILITATION PROGRAM

July 1, 2022, through June 30, 2023



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

December 2024



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CALIFORNIA STATE CONTROLLER

December 23, 2024

Mr. Kenn Lee, Finance Director
City of Santa Clara
1500 Warburton Avenue
Santa Clara, CA 95050

Dear Mr. Lee:

The State Controller's Office audited the City of Santa Clara's (the city) Special Gas Tax Street Fund and Road Maintenance and Rehabilitation Program (RMRP) for the period of July 1, 2022, through June 30, 2023.

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

KAT/ac

Copy: The Honorable Lisa M. Gillmor, Mayor
City of Santa Clara
Grogan D. Jovan, City Manager
City of Santa Clara

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Santa Clara's (the city) Special Gas Tax Street Fund and Road Maintenance and Rehabilitation Program (RMRP) for the period of July 1, 2022, through June 30, 2023.

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

Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) in the Transportation Tax Fund to cities 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 fund apportionments. Additionally, cities must expend their HUTA fund 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. Program funds 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

Our audit objectives were to determine whether the city:

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

The audit period was July 1, 2022, through June 30, 2023.

To achieve our objectives, we completed the following procedures:

- We obtained an understanding and evaluated the effectiveness of the city'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 city'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 city 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, 2005, through June 30, 2022; by recalculating the Special Gas Tax Street Fund trial balance for the period of July 1, 2022, through June 30, 2023; and by recalculating the RMRP trial balance for the period of July 1, 2017, through June 30, 2023.
- 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 city's ledger to the balance reported in the SCO's apportionment schedule for the period of July 1, 2022, through June 30, 2023, to determine whether the city completely accounted for HUTA apportionments that it received.
- We reviewed the city's Special Gas Tax Street Fund and RMRP assets to ensure that they were properly recorded and identified.
- We analyzed the system used to allocate interest and determined whether the interest revenue allocated to the Special Gas Tax Street Fund and the RMRP was fair and equitable, by interviewing key personnel and recalculating all interest allocations for the audit period.
- We reviewed the fund cash and receivables accounts for unauthorized borrowing to determine whether unexpended funds were available for future street-related expenditures and protected from impairment.
- We compared the city's RMRP project list with the list submitted to the California Transportation Commission to ensure that actual RMRP expenditures were for program projects approved by California Transportation Commission.

- We recalculated the city’s MOE contributions to verify that the city is in compliance with RMRP MOE requirements.
- 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:
 - Special Gas Tax Street Fund
 - Services and Supplies – We tested \$1,201,824 of \$1,360,703.
 - RMRP
 - Services and Supplies – We tested all \$2,625,043.

No errors were found.

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

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 city accounted for and expended its Special Gas Tax Street Fund and its RMRP funds in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and the Government Code for the period of July 1, 2022, through June 30, 2023. Additionally, the city complied with its RMRP MOE requirements.

Follow-up on Prior Audit Findings

Our prior audit report on the city for the period of July 1, 2005, through June 30, 2006, issued on June 25, 2008, disclosed no findings.

Views of Responsible Officials

We discussed the audit results with the city’s representatives during an exit conference conducted on October 31, 2024. At the exit conference, the city’s representatives agreed with the audit results.

Restricted Use

This report is solely for the information and use of the city 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

December 23, 2024

Schedule— Reconciliation of Fund Balance July 1, 2022, through June 30, 2023

Cities receive apportionments from the State HUTA, pursuant to Streets and Highways Code 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. Streets and Highways Code 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 fund apportionments.

Cities also receive apportionments from the Road Maintenance and Rehabilitation Account of the State Transportation Fund, pursuant to SHC section 2032(h). These funds may be used for basic road maintenance, rehabilitation, and critical safety projects on local streets and roads systems. Furthermore, SHC section 2036 establishes the MOE requirements, which cities must meet annually in order to remain eligible for an allocation or apportionment of funds. The city’s required MOE is \$9,424,232.

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

| Reconciliation of Fund Balance | Special Gas Tax Street Fund Highway Users Tax Account | | | Road Maintenance and Rehabilitation Program | | |
|---------------------------------------|--|---|------------------------------------|---|---|---------------------------------|
| | Gas Tax Fund Amount | Capital Project Fund (Gas Tax Fund Amount) | Total Gas Tax Fund Amount | RMRP Fund Amount | Capital Project Fund (RMRP Amount) | Total RMRP Fund Amount |
| Beginning fund balance, per city | \$ 1,197,203 | \$ 13,577,233 | \$ 14,774,436 | \$ 921,779 | \$ 3,091,674 | \$ 4,013,453 |
| Revenues | 4,018,128 | 2,985,000 | 7,003,128 | 3,179,422 | 2,500,000 | 5,679,422 |
| Total funds available | 5,215,331 | 16,562,233 | 21,777,564 | 4,101,201 | 5,591,674 | 9,692,875 |
| Less: Expenditures | 2,985,000 | 1,888,268 | 4,873,268 | 2,500,000 | 2,625,043 | 5,125,043 |
| Ending fund balance, per city | 2,230,331 | 14,673,965 | 16,904,296 | 1,601,201 | 2,966,631 | 4,567,832 |
| Audit adjustment | - | - | - | - | - | - |
| Ending fund balance, per audit | \$ 2,230,331 | \$ 14,673,965 | \$ 16,904,296 | \$ 1,601,201 | \$ 2,966,631 | \$ 4,567,832 |

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