

CITY OF MARTINEZ

Final Audit Report

ROAD MAINTENANCE AND REHABILITATION PROGRAM

July 1, 2021, through June 30, 2023



MALIA M. COHEN

CALIFORNIA STATE CONTROLLER

March 2026



STATE CONTROLLER'S OFFICE | DIVISION OF AUDITS

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MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

March 2, 2026

Ms. June Du, Finance Director
City of Martinez
525 Henrietta Street
Martinez, CA 94553

Dear Ms. Du:

The State Controller's Office audited the City of Martinez's (the city) Road Maintenance and Rehabilitation Program (RMRP) to determine whether the city complied with RMRP maintenance-of-effort (MOE) requirements for the period of July 1, 2021, through June 30, 2023.

Our audit found that the city complied with RMRP MOE requirements. However, we found that the city's reported expenditures for RMRP MOE compliance were inaccurate and included ineligible expenditures as well as excluded eligible expenditures. The inaccurately reported expenditures did not result in non-compliance with RMRP MOE 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

Ms. June Du

March 2, 2026

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Copy: The Honorable Brianne Zorn, Mayor

City of Martinez

Michael Chandler, City Manager

City of Martinez

Joe Enke, Public Works Director

City of Martinez

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SUMMARY

The State Controller's Office audited the City of Martinez's (the city) Road Maintenance and Rehabilitation Program (RMRP) to determine whether the city complied with RMRP maintenance-of-effort (MOE) requirements for the period of July 1, 2021, through June 30, 2023.

Our audit found that the city complied with RMRP MOE requirements. However, we found that the city's reported expenditures for RMRP MOE compliance were inaccurate and included ineligible expenditures as well as excluded eligible expenditures. The inaccurately reported expenditures did not result in non-compliance with RMRP MOE requirements.

BACKGROUND

Senate Bill 1 (Statutes of 2017, Chapter 5), 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 system. RMRP funds are apportioned by formula to eligible cities (including towns) 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.

SHC section 2036 establishes the RMRP MOE requirements. Specifically, to remain eligible for an allocation or apportionment of the RMRP funds, cities (including towns) and counties must maintain their existing commitment of local funds for street, road, and highway purposes.

The required level of funding, or MOE amount, was computed using the city's average discretionary expenditures for fiscal year (FY) 2009-10, FY 2010-11, and FY 2011-12, as reported in a city's or town's Annual Street Report (ASR) or a county's Annual Road Report. The city's required MOE contribution is \$1,608,847.

On July 16, 2021, the Governor signed into law Assembly Bill 149 amending SHC section 2036. The amendment allowed cities and counties to use the decrease in taxable sales, if any, from FY 2018-19 through FY 2020-21 to adjust their MOE requirements for FY 2020-21 and FY 2021-22. Furthermore, it allowed a city or county to petition the Controller to use transient occupancy tax revenues, in lieu of taxable sales, for purposes of adjusting the MOE requirement for FY 2021-22. As a result of this amendment, the city's MOE for FY 2021-22 was reduced to \$1,559,780.

AUDIT AUTHORITY

We conducted this audit in accordance with SHC section 2036(e), which provides the SCO with authority to perform audits to ensure compliance with the MOE.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether the city complied with RMRP MOE requirements for the period of July 1, 2021, through June 30, 2023.

To achieve our objective, we performed the following procedures:

- We gained an understanding and evaluated the effectiveness of the city's internal controls that are significant to the audit objective 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 the city's 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 objective.

- 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 that the discretionary street-related expenditures were funded with revenues that were discretionary in nature.
- 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. Errors found were not projected to the intended (total) population.
 - FY 2021-22
 - Services and supplies – We tested \$381,001 of \$1,239,608.
 - Labor – We tested all \$614,080.
 - Indirect – We tested \$124,740 of \$201,076.
 - Transfers – We tested all \$25,000.
 - FY 2022-23
 - Services and supplies – We tested \$412,923 of \$1,229,899.
 - Labor – We tested all \$895,376.
 - Indirect – We tested \$227,731 of \$254,921.
 - Transfers – We tested all \$50,000.

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 complied with RMRP MOE 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

CONCLUSION

Our audit found that the city complied with RMRP MOE requirements. However, we found that the city's reported expenditures for RMRP MOE compliance were inaccurate and included ineligible expenditures as well as excluded eligible expenditures. The inaccurately reported expenditures did not result in non-compliance with RMRP MOE requirements.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

We have not previously conducted an audit of the city's RMRP MOE.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft audit report on February 6, 2026. The city's representatives responded by email on February 17, 2026; the city agreed with the audit results.

RESTRICTED USE

This report is intended 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

March 2, 2026

SCHEDULE—ROAD MAINTENANCE AND REHABILITATION PROGRAM

MAINTENANCE-OF-EFFORT DISCRETIONARY EXPENDITURES

July 1, 2021, through June 30, 2023

Discretionary Expenditures	FY 2021-22 Amount	FY 2022-23 Amount
The city-reported discretionary expenditures	\$1,435,620	\$1,149,153
Audit adjustments:		
Less: Overstated expenditures	63,861	31,232
Plus: Understated expenditures	644,143	1,281,042
Total discretionary expenditures, per audit	\$2,015,902	\$2,398,963
—The city's MOE amount	\$1,559,780	\$1,608,847
Total discretionary expenditures, per audit	\$2,015,902	\$2,398,963
The city met MOE requirement, per audit	Yes	Yes

FINDING AND RECOMMENDATION

Finding—Inaccurate Reporting of Expenditures

During our initial review of the city’s discretionary expenditures for FY 2021-22 reported in its ASR, we identified a potential MOE expenditure shortfall of \$124,160, prompting an audit. During our audit, we tested the reported expenditures to verify their eligibility and found that the city had included ineligible expenditures totaling \$63,861. As a result, we expanded our testing to include expenditures for FY 2022-23. We found that for FY 2022-23, the city reported similar ineligible expenditures totaling \$31,232. The ineligible expenditures are detailed in the following table:

Description	FY 2021-22	FY 2022-23
Drinking water, coffee, and associated services	\$489	\$713
Police department car washes	24	32
Unmet liability deductible payments	45,991	28,575
Drywall repair panels	0	94
Ceiling tiles for City Hall	0	239
Hidden Lakes – paint and parking lot expenditures	1,768	0
Parks – sprinkler nozzles	336	0
Pallets of water bottles	447	1,579
Transfers – dining platforms and set-up equipment	14,806	0
Total	\$63,861	\$31,232

During our review of the city’s expenditures, we also discovered that the city inadvertently excluded reporting in its ASR eligible expenditures, resulting in understatements of its FY 2021-22 and FY 2022-23 discretionary expenditures. The city reported in its ASR \$1,435,620 in discretionary expenditures in FY 2021-22 and \$1,149,153 in FY 2022-23. We identified additional discretionary expenditures of \$644,143 in FY 2021-22 and \$1,281,042 in FY 2022-23. As a result, despite reducing the reported expenditures to remove ineligible costs, we found that, with the inclusion of these previously unreported eligible expenditures, the city is in compliance with the RMRP MOE for FY 2021-22 and FY 2022-23.

SHC section 2151 states that each city must file with the SCO a complete report of the expenditures for street or road purposes during the preceding fiscal year ending on the 30th day of June. This report must be certified by the city's fiscal officer to verify its accuracy.

The *Instructions to Cities for Preparing the Annual Street Report (LGRS Online Submission)*, published in October 2023, provides guidance and step-by-step instructions for reporting revenues and expenditures, including discretionary revenues and expenditures.

The inaccurate reporting occurred because the city did not follow applicable policies and procedures to ensure that its report of expenditures was accurate.

Recommendation

We recommend that the city follow applicable policies and procedures to ensure that its report of expenditures is accurate.