

# CITY OF CARLSBAD

Final 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

April 2026



**STATE CONTROLLER'S OFFICE | DIVISION OF AUDITS**

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MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

April 16, 2026

Mr. Zach Korach, Finance Director  
City of Carlsbad  
1635 Faraday Avenue  
Carlsbad, CA 92008

Dear Mr. Korach:

The State Controller's Office audited the City of Carlsbad's (the city) Special Gas Tax Street Fund and the city's 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. In addition, 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](mailto:eloste@sco.ca.gov).

Thank you.

Sincerely,

*Original signed by*

Kimberly A. Tarvin, CPA

Chief, Division of Audits

Mr. Zach Korach

April 16, 2026

Page 2 of 2

Copy: The Honorable Keith Blackburn, Mayor

City of Carlsbad

Geoff Patnoe, City Manager

City of Carlsbad

Roxanne Muhlmeister, Assistant Finance Director

City of Carlsbad

# CONTENTS

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SUMMARY	1
BACKGROUND	1
AUDIT AUTHORITY	2
OBJECTIVES, SCOPE, AND METHODOLOGY	2
CONCLUSION	5
FOLLOW-UP ON PRIOR AUDIT FINDINGS	5
VIEWS OF RESPONSIBLE OFFICIALS	5
RESTRICTED USE	6
SCHEDULE—RECONCILIATION OF FUND BALANCE	7

## SUMMARY

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

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## BACKGROUND

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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 (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 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

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We conducted this audit in accordance with Government Code (GC) 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

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We audited the city's Special Gas Tax Street Fund and the city's RMRP for the period of July 1, 2022, through June 30, 2023. 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, 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 gained an understanding of the city's internal controls that are significant to the audit objectives by reviewing policies and procedures, interviewing the city's key personnel, completing an internal control questionnaire, and reviewing the city's organization chart.
- 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 objectives.

- We conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- We verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2008, 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, 2022, 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 and Road Maintenance and Rehabilitation Account apportionments that it received.
- We reviewed the city's Special Gas Tax Street Fund and RMRP assets to verify 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 the city's 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 verify that actual RMRP expenditures were for program projects approved by the California Transportation Commission.

- We verified that the city was in compliance with RMRP MOE requirements by recalculating the city'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. No errors were found. We tested the following categories:
  - Special Gas Tax Street Fund
    - Services and supplies – We tested \$710,589 of \$1,213,475.
    - Labor – We tested \$24,351 of \$170,874.
    - Transfers – We tested \$50,000 of \$600,000.
  - RMRP
    - Services and supplies – We tested \$4,567,699 of \$4,863,379.
    - Labor – We tested \$16,694 of \$182,000.

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 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**

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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, Streets and Highways Code, and Government Code for the period of July 1, 2022, through June 30, 2023. In addition, the city complied with its RMRP MOE requirements.

## **FOLLOW-UP ON PRIOR AUDIT FINDINGS**

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The city has satisfactorily resolved the finding noted in our prior audit report for the period of July 1, 2007, through June 30, 2008, issued on June 30, 2010.

## **VIEWS OF RESPONSIBLE OFFICIALS**

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We discussed the audit results with the city's representatives during an exit conference conducted on January 27, 2026. At the exit conference, the city's representatives agreed with the audit results.

## RESTRICTED USE

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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](http://www.sco.ca.gov).

*Original signed by*

Kimberly A. Tarvin, CPA

Chief, Division of Audits

April 16, 2026

## SCHEDULE—RECONCILIATION OF FUND BALANCE

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### July 1, 2022, through June 30, 2023

Cities 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 fund apportionments.

As participants in the RMRP, 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 contribution is \$8,632,066.

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

Reconciliation of Fund Balance	Special Gas Tax Street Fund Amount	RMRP Fund Amount	Total Amount
Beginning fund balance, per city	\$12,933,961	\$6,271,969	\$19,205,930
Revenues	3,047,442	2,744,950	5,792,392
Total funds available	15,981,403	9,016,919	24,998,322
Less: Expenditures	1,984,349	5,045,379	7,029,728
Ending fund balance, per city	13,997,054	3,971,540	17,968,594
Audit adjustment	0	0	0
<b>Ending fund balance, per audit</b>	<b>\$13,997,054</b>	<b>\$3,971,540</b>	<b>\$17,968,594</b>