

# CITY OF DESERT HOT SPRINGS

Final Audit Report

## SPECIAL GAS TAX STREET FUND AND ROAD MAINTENANCE AND REHABILITATION PROGRAM

*July 1, 2021, through June 30, 2022*



MALIA M. COHEN

CALIFORNIA STATE CONTROLLER

May 2026



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

Post Office Box 942850 | Sacramento, CA 94250

Sacramento Office: 3301 C Street, Suite 700 | Sacramento, CA 95816 | 916-324-8907

Monterey Park Office: 901 Corporate Center Drive, Suite 200 | Monterey Park, CA 91754 | 323-981-6802

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



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

May 1, 2026

Mr. Geoffrey Buchheim, Administrative Services Director  
City of Desert Hot Springs  
11999 Palm Drive  
Desert Hot Springs, CA 92240

Dear Mr. Buchheim:

The State Controller's Office audited the City of Desert Hot Springs' (the city) Special Gas Tax Street Fund and the city's Road Maintenance and Rehabilitation Program for the period of July 1, 2021, through June 30, 2022.

Our audit found an instance of noncompliance. The city understated the Special Gas Tax Street Fund balance by \$80,613 as of June 30, 2022, because it over-expended its available funds. Moreover, we found that the city complied with Road Maintenance and Rehabilitation Program 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. Geoffrey Buchheim

May 1, 2026

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Copy: The Honorable Scott Matas, Mayor

City of Desert Hot Springs

Doria Wilms, City Manager

City of Desert Hot Springs

Tiffany Verduzco, Finance Manager

City of Desert Hot Springs

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## SUMMARY

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The State Controller's Office (SCO) audited the City of Desert Hot Springs' (the city) Special Gas Tax Street Fund and the city's Road Maintenance and Rehabilitation Program (RMRP) for the period of July 1, 2021, through June 30, 2022.

Our audit found an instance of noncompliance. The city understated the Special Gas Tax Street Fund balance by \$80,613 as of June 30, 2022, because it over-expended its available funds. Moreover, we found that the city complied with RMRP maintenance-of-effort (MOE) requirements.

## 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 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, 2021, through June 30, 2022. 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 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, 2012, through June 30, 2021; by recalculating the Special Gas Tax Street Fund trial balance for the period of July 1, 2021, through June 30, 2022; and by recalculating the RMRP trial balance for the period of July 1, 2017, through June 30, 2022.
- 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, 2021, through June 30, 2022, 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 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 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 \$45,308 of \$63,332.
    - Labor – We tested \$42,813 of \$336,207.
    - Indirect costs – We tested \$139,051 of \$179,294.
    - Transfers – We tested all \$161,669.
  - RMRP
    - Services and supplies – We tested \$163,416 of \$366,286.

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 an instance of noncompliance for the period of July 1, 2021, through June 30, 2022, as quantified in the Schedule and described in the Finding and Recommendation section. The finding requires an adjustment of \$80,613 to the city's accounting records. Moreover, we found that the city complied with 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, 2008, through June 30, 2013, issued on November 18, 2014.

## **VIEWS OF RESPONSIBLE OFFICIALS**

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We discussed our audit results with the city's representatives during an exit conference conducted on February 4, 2026. On March 4, 2026, after a follow-up conversation, the city agreed with the issuance of a final audit report.

## 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

May 1, 2026

## SCHEDULE—RECONCILIATION OF FUND BALANCE

### July 1, 2021, through June 30, 2022

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 \$392,018.

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 Amount	RMRP Fund Amount	Total Amount
Beginning fund balance, per city	-\$68,358	\$663,617	\$595,259
Revenues	722,823	619,618	1,342,441
Transfers in	5,425	0	5,425
Total funds available	659,890	1,283,235	1,943,125
Less: Expenditures	578,834	366,287	945,121
Less: Transfers out	161,669	0	161,669
Ending fund balance, per city	-80,613	916,948	836,335
Audit adjustment	0	0	0
<b>Ending fund balance, per audit</b>	<b>-\$80,613</b>	<b>\$916,948</b>	<b>\$836,335</b>

## FINDING AND RECOMMENDATION

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### Finding—Deficit Fund Balance

The city incurred costs in excess of available funds, resulting in a deficit fund balance of \$80,613 in the Special Gas Tax Street Fund as of June 30, 2022. We noted the issue while performing a fund balance reconciliation. We analyzed the revenues, expenditures, and beginning fund balance for fiscal year 2021-22 and found that the city spent \$12,255 on street-related expenditures in excess of resources available for the fiscal year. Additionally, the city began the fiscal year with a deficit fund balance of \$68,358 in its Special Gas Tax Street Fund.

The city over-expended the Special Gas Tax Street Fund because it lacked adequate procedures to ensure that funds are available prior to incurring costs.

The practice of funding one fiscal year's activities with HUTA apportionments from the following fiscal year is contrary to established municipal budgetary and accounting practice and in violation of Article XVI, section 18(a), of the California Constitution, which states, in part:

No county, city, town, township, board of education, or school district shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year . . .

In addition, pursuant to Government Code section 12440, the Controller draws warrants on the Treasurer for the payment of money only where authorized by law and only where unexhausted specific appropriations provided by law are available to meet such obligations. No specific unexhausted appropriations exist for the purpose of reimbursing negative fund balances. Therefore, the city should not carry forward a deficit fund balance in its Special Gas Tax Street Fund in any given year, even if the city is expecting to reimburse the deficit fund balance with future revenues.

The city eliminated the deficit fund balance in the Special Gas Tax Street Fund by transferring \$138,341 through a journal entry on June 30, 2023.

## **Recommendation**

We recommend that the city implement procedures to ensure that sufficient funds are available prior to incurring costs.