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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

January 19, 2016

The Honorable John Allen, Chair
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair
Joint Legislative Audit Committee

Dear Representative Allen and Senator Burges:

Our Office has recently completed a final followup of the Pinal County Transportation Excise Tax regarding the implementation status of the 12 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in June 2011 (Auditor General Report No. 11-05). As the attached grid indicates:

- 5 have been implemented;
- 6 are in the process of being implemented; and
- 1 is not yet applicable.

In August 2015, our Office began conducting the next 5-year performance audit of the Pinal County Transportation Excise Tax as required by Arizona Revised Statutes §41-1279.03(A)(6). During this performance audit, we will follow up on those recommendations from the June 2011 audit that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ss
Attachment

cc: Pinal County Board of Supervisors and Manager
Town of Mammoth Council Members
Don Jones, Town of Mammoth Mayor
Frances Wickham, Town of Mammoth Vice-Mayor
Jayme Valenzuela, Town of Superior Mayor
Town of Superior Council Members
Margaret Gaston, Town Manager, Town of Superior
John Halikowski, Director, Arizona Department of Transportation
Kristine Ward, Assistant Director for Finance and Accounting,
Arizona Department of Transportation

Pinal County Transportation Excise Tax

Auditor General Report No. 11-05

Final Follow-Up Report

Recommendation	Status/Additional Explanation
<p>Finding 1: Additional procedures and training needed to ensure tax monies used appropriately</p>	
<p>1.1 The Town of Kearny should ensure that it does not loan any restricted road fund monies, including tax monies, to other funds in the future.</p>	<p>Implemented at 12 months (Town of Kearny)</p>
<p>1.2 The Towns of Mammoth and Superior need to repay the inappropriately borrowed excise tax or other restricted road fund monies and discontinue the practice of loaning excise tax or other restricted road fund monies to other funds. If resources are not currently available to completely repay loans, a repayment schedule should be developed and implemented.</p>	<p>Implementation in process (Town of Mammoth) The Town of Mammoth (Mammoth) is taking various steps to address this recommendation, although the amount of inappropriately borrowed monies appears to have increased since our last follow-up report. Mammoth issued its fiscal year 2012 audited financial statements; however, the contracted auditors could not issue an opinion on the accuracy of the information in the statements because Mammoth's accounting records were inadequate for confirming amounts presented in the statements. The statements indicate that Mammoth's borrowing of restricted road monies had increased from nearly \$647,000 to more than \$909,000 in fiscal year 2012. However, the current balance of inappropriately borrowed monies was not available because Mammoth's June 30, 2013 through 2015, financial statements had not been prepared or audited at the time this followup was conducted.</p> <p>After the fiscal year 2012 financial statements were issued, Mammoth reported it committed to reducing expenditures and increasing revenues to help address the financial situation that has led to its borrowing of restricted road monies. For example, in July 2015, the Town Council passed a resolution to increase sales taxes from 2 percent to 4 percent effective September 1, 2015, and a review of budget documents indicated that its fiscal year 2015 actual expenditures were lower than the approved budget. In addition, Mammoth reported that it is committed to repaying the inappropriately borrowed excise tax or other restricted road fund monies by making monthly payments of at least \$500.</p>

Implementation in process (Town of Superior)

The Town of Superior (Superior) is taking various steps to address this recommendation, although the amount of inappropriately borrowed monies appears to have increased since our last follow-up report. Superior issued its fiscal years 2011 and 2012 audited financial statements, and according to Superior, with the help of a consultant, it is currently working toward issuing its fiscal year 2013 financial statements. According to Superior's June 30, 2012, audited financial statements, the balance of inappropriately borrowed monies had grown to approximately \$2.8 million. However, the current balance of inappropriately borrowed monies was not available because Superior's June 30, 2013, through 2015 financial statements had not been prepared or audited at the time of this followup.

Previously, Superior reported that it developed a plan for repaying the inappropriately borrowed excise tax or other restricted road fund monies by making monthly payments of at least \$100. However, Superior has determined that the plan would result in using other restricted resources to repay the borrowed excise tax monies. Therefore, according to Superior, it has committed to a new plan that involves reducing expenditures, increasing revenues, and establishing policies and procedures for appropriately recognizing expenditures. For example, in June 2015, the Superior Town Council permanently approved an increase in sales taxes from 2 percent to 4 percent. According to Superior, it is also working with a consultant to help identify allowable street-related expenditures that were paid for with unrestricted monies but should have been paid for with its road fund monies. Superior believes its various new efforts will eventually allow it to repay the inappropriately borrowed excise tax monies.

- 1.3 If the Office of the Auditor General determines at its 6-month followup that the Towns of Mammoth and Superior have not repaid their loans or developed and implemented a repayment schedule, in accordance with the provisions of A.R.S. §28-6392(B), the Arizona Department of Transportation should notify the Arizona State Treasurer to withhold excise tax revenues from the Towns of Mammoth and Superior until they can present satisfactory evidence to the Auditor General that they have repaid inappropriately loaned monies.

Implemented at 36 months (Town of Superior)

In September 2014, the Office of the Auditor General informed the Arizona Department of Transportation (Department) to notify the Arizona State Treasurer (Treasurer) to withhold excise tax revenues from Superior. The Department notified the Treasurer in November 2014, and the Treasurer began withholding monies in June 2015.

Recommendation**Status/Additional Explanation****Not yet applicable (Town of Mammoth)**

Since Mammoth appears to be taking steps to ensure it will not use restricted road monies in the future and has plans to repay the monies borrowed, the Office of the Auditor General has not pursued implementation of this recommendation for Mammoth. During the audit of the Pinal County Transportation Excise Tax that began in August 2015, auditors will determine what steps Mammoth has taken to repay these monies and the amounts of the outstanding loan balances. After assessing repayments and loan balances, the Office of the Auditor General will then determine whether to inform the Arizona Department of Transportation to notify the Arizona State Treasurer to withhold excise tax revenues from Mammoth.

1.4 The Town of Kearny should provide training on its written procedures regarding the appropriate uses of excise tax monies to the staff who are responsible for approving excise tax expenditures.

Implemented at 24 months (Town of Kearny)

1.5 The City of Maricopa and the Towns of Mammoth and Superior should develop and implement written policies and procedures that outline the appropriate use of excise tax monies and train staff on them.

Implemented at 12 months (City of Maricopa)

Implemented at 24 months (Town of Superior)

Implementation in process (Town of Mammoth)

The Town of Mammoth (Mammoth) has reported that it has taken some steps to implement this recommendation. For example, Mammoth reported that it has hired a new street department manager who is familiar with the restrictions placed on road monies, and this new manager and other staff members are working with a consultant Mammoth retained to help ensure compliance with restrictions. It also reported that it is developing policies and procedures that were to be prepared and distributed by June 2015. However, although auditors requested copies of these policies and procedures, Mammoth did not respond to the requests. Auditors will follow up on the status of this recommendation in its audit of the Pinal County Transportation Excise Tax that began in August 2015.

1.6 The Town of Mammoth should repay its HURF/LTAF Fund for the \$27,332 inappropriately deposited in other funds and perform at least annual revenue reconciliations to prevent this from recurring in the future.

Implementation in process (Town of Mammoth)

The Town of Mammoth (Mammoth) indicated that its financial auditor did not have information about the inappropriately deposited monies to address this recommendation. Therefore, auditors provided this information to Mammoth in September 2015. According to Mammoth, corrections are being made to its accounting records as it moves forward with the reconciliation of all funds for fiscal years 2013 through 2015 with the assistance of its consultant. Auditors will follow up on the status of this recommendation in its audit of the Pinal County Transportation Excise Tax that began in August 2015.

Finding 2: Most entities can adequately demonstrate excise tax's impact, but some improvements needed

2.1 The Town of Superior should develop a recordkeeping mechanism for completed street and highway and transportation projects.

Implementation in process (Town of Superior)

The Town of Superior (Superior) reported that it has implemented this recommendation and continues to improve on its recordkeeping process. As reported in a previous followup, Superior developed policies and procedures that outline the type of documentation that should be retained for each completed street and highway project. Auditors will review project files during its audit of the Pinal County Transportation Excise Tax that began in August 2015 to determine if the Superior's record keeping policies and procedures have been implemented.

2.2 The Town of Mammoth should add steps to its planning process, as it did in October 2006, such as developing a road evaluation system and holding regular, documented transportation planning meetings to identify and prioritize transportation projects.

Implementation in process (Town of Mammoth)

The Town of Mammoth (Mammoth) reported that it has hired a new street department manager who completes monthly activity reports that are provided to the Town Council. These reports, according to Mammoth, provide the status of any ongoing street projects. According to Mammoth, the new manager is also working on a prioritization listing of all street projects that will be presented to the Town Council for approval. Because of the loss of its town manager and the appointment of a new street department manager, Mammoth reported that it has not been able to fully implement this recommendation but planned to do so by August 2015. Although auditors requested that Mammoth provide additional information during this followup, Mammoth did not respond to the requests. Auditors will follow up on the status of this recommendation in its audit of the Pinal County Transportation Excise Tax that began in August 2015.