



A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Performance Audit

Pinal County Transportation Excise Tax

June • 2011
REPORT NO. 11-05



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

June 27, 2011

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Pinal County Transportation Excise Tax*. This report is in response to and was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in their responses, the Town of Kearny, the City of Maricopa, and the Arizona Department of Transportation agree with the findings and plan to implement the recommendations directed to them. As outlined in their responses, the Towns of Mammoth and Superior agree with all but one of the findings and plan to implement all of the recommendations directed to them.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on June 28, 2011.

Sincerely,

Debbie Davenport
Auditor General

Attachment

cc: Pinal County Board of Supervisors and Manager
Incorporated Cities' and Towns' Councils and Managers
Arizona Department of Transportation

**REPORT
HIGHLIGHTS
PERFORMANCE AUDIT**

Our Conclusion

Transportation excise tax money is statutorily restricted to street and highway purposes and transportation projects. However, during some or all of fiscal years 2006 through 2010, the Towns of Kearny, Mammoth, and Superior had loaned excise tax monies for other purposes, such as to cover cash deficits in other funds. Kearny has repaid all of the monies, but Mammoth and Superior should repay the loaned monies. Further, municipalities lacking policies and procedures on appropriate excise tax expenditures should establish them and provide training. Finally, Pinal County and most municipalities can demonstrate the excise tax's impact.

Excise tax history

Pinal County residents authorized the current transportation excise tax in 2005, which is effective until December 31, 2026. State law restricts the use of this excise tax to street and highway purposes and transportation projects.

During fiscal years 2006 through 2010, the time period this audit covers, the excise tax generated \$81.8 million for Pinal County and its ten incorporated cities and towns, which was distributed based on population.

Excise Tax Recipients, Distributions, 2010 Population, and Lane Miles Maintained

Recipient	Fiscal Years 2006 to 2010 Excise Tax Distributions	2010 Population	2010 Lane Miles Maintained ¹
Pinal County	\$30,286,896	375,770	4,229
Apache Junction	14,355,561	34,004	372
Casa Grande	11,480,528	48,571	827
Coolidge	3,543,727	11,825	411
Eloy	4,722,079	16,631	560
Florence	7,832,095	25,536	211
Kearny	1,023,665	1,950	29
Mammoth	801,983	1,426	36
Maricopa	6,219,820	43,482	509
Queen Creek	54,152	1,558	14
Superior	1,481,100	2,837	46
Total	<u>\$ 81,801,606</u>		

¹ Lane miles are the length of the lane measured along the centerline of each lane. For example, 1 mile of a two-lane road equals 2 lane miles. The lane miles reported include both paved and unpaved roads.

Additional procedures and training needed to ensure appropriate excise tax use

Three towns inappropriately loaned their excise tax monies—At the end of fiscal year 2006, the Town of Kearny had an outstanding loan balance of nearly \$207,000 in road monies, which includes excise tax monies. These monies were used to keep its Utilities Fund going, but it repaid all of the monies by the end of fiscal year 2007.

fiscal year 2010, Mammoth had a loan balance of nearly \$389,000. As of June 30, 2008, Superior had an outstanding loan balance of approximately \$1.5 million. As of this audit, it is unknown whether Superior's balance has increased or decreased because it has not yet completed its financial audits for fiscal years 2009 and 2010.

During some or all of fiscal years 2006 through 2010, the Towns of Mammoth and Superior loaned excise tax monies to other funds to cover cash deficits. At the end of

Mammoth and Superior should repay the loans. If we determine at our 6-month followup that Mammoth and Superior have not repaid their loans or developed and



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implemented a repayment schedule, the State should also exercise the statutory option of withholding the excise tax revenues that would otherwise be distributed to Mammoth and Superior until they have repaid the loans.

In addition, Mammoth, Superior, and the City of Maricopa should develop policies and procedures on the appropriate use of excise tax monies. These three municipalities, as well as Kearny, which already has policies and procedures, should train staff on their policies and procedures.

Recommendations

- Mammoth and Superior should repay the excise tax.
- If necessary, after our 6-month followup, the State should withhold excise tax monies from Mammoth and Superior until they repay the loans.
- Mammoth, Maricopa, and Superior should develop policies and procedures on appropriate uses of the excise tax, and they, as well as Kearny, should train staff on their policies and procedures.

Pinal County and most municipalities can demonstrate excise tax's impact

Excise tax funded various projects—Since 2006, one important project the County used its excise tax for was the Edwin Road project. This project, completed in June 2009, improved traffic safety by paving and widening a narrow gravel road and

adding drainage crossing improvements (see Photo). This project cost approximately \$2.3 million, of which the County contributed approximately \$784,000 in excise tax monies, with additional funding coming from other sources.

Most cities and towns can also show how the excise tax benefited their transportation needs. The City of Maricopa constructed a \$2.8

million bridge over a wash, with \$355,000 coming from the excise tax and the remainder coming from other sources. The bridge was needed because this principal route was inaccessible to citizens and emergency responders when water was flowing in

the wash. The City of Casa Grande used approximately \$2.7 million of its excise tax monies to improve traffic in the downtown area, and the City of Coolidge used approximately \$366,000 of its excise tax monies on a grader and water truck to maintain unpaved roads.

Two towns should improve project documentation or planning

—Superior received about \$1.5 million in excise tax revenue between fiscal years 2006 and 2010, but has not been able to demonstrate how the money was used. Other cities and towns have project records, costs, plans, and photographs of their projects.

Our 2006 transportation excise tax audit report recommended that Mammoth formalize its transportation planning process to include steps such as developing a road evaluation system and holding regular, documented transportation planning meetings to identify and prioritize transportation projects. Mammoth had provided evidence during the audit follow-up process to demonstrate that it had implemented the recommendation. However, now, the town receives input only from town officials.

Recommendations

- Superior should document and demonstrate how it has used transportation excise tax revenues.
- Mammoth should expand its planning process.

Edwin Road
Before and After Improvement



Source: Photos courtesy of Pinal County.

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INTRODUCTION

Scope and Objectives

The Office of the Auditor General has conducted a performance audit of the Pinal County transportation excise tax (excise tax) pursuant to and under the authority vested in the Auditor General by Arizona Revised Statutes (A.R.S.) §41-1279.03(A)(6). This statute requires the Auditor General to conduct a performance audit in the tenth year that a county transportation excise tax has been in effect and then every fifth year thereafter. This is the fourth performance audit of the Pinal County excise tax since its initial establishment in 1987.

Consistent with the requirements of A.R.S. §41-1279.03, this audit addresses (1) whether the County and the incorporated cities and towns receiving excise tax revenues met the statutory requirement to use these revenues only for street and highway purposes or transportation projects, and (2) whether the County and the incorporated cities and towns receiving excise tax revenues can demonstrate the excise tax's impact in solving transportation problems.¹

Pinal County transportation excise tax

Excise tax history

In 1986 and again in 2005, pursuant to A.R.S. §42-6107, Pinal County (County) residents enacted a half-cent sales tax to provide additional funding for the construction, reconstruction, maintenance, repair, and roadside development of county, city, and town roads, streets, and bridges.² The reapproved excise tax began on January 1, 2007, and will be in place until December 31, 2026.

Excise tax uses and restrictions

A.R.S. §28-6392(B) restricts excise tax use to street and highway purposes or for transportation projects. In a 2005 publicity pamphlet, the Pinal County Board of Supervisors further defined how the excise tax could be used by the County and the ten incorporated cities and towns receiving the tax (see Table 1, page 2, for a listing of the cities and towns). Purposes outlined in the pamphlet included roadway construction, transportation systems, and studies (see textbox).

Highway and street purposes

- **Construction**—Includes new roads, streets, and bridges, and maintenance and repair.
- **Bond payments**—Includes principal and interest payments on highway and street bonds.
- **Transportation systems**—Includes trails, sidewalks, curbs, and pathways.
- **Studies**—Includes regional and interagency transportation projects and studies.

Source: Auditor General staff analysis of the County's 2005 publicity pamphlet.

¹ A.R.S. §41-1279.03 also requires a review of the distribution of Highway User Revenue Fund monies to ensure compliance with A.R.S. Title 28, Ch. 18, Article 2 (A.R.S. §28-6531 et seq.). Because the Auditor General's Office reviewed this information in its compliance attestation report titled *Pinal County Highway User Revenue Fund Monies, Year Ended June 30, 2009*, it was not addressed in this audit.

² A.R.S. §42-6107 gives counties the authority to levy a transportation excise tax if the majority of qualified electors voting at a county-wide special election or on a ballot proposition at a general election approves the transportation excise tax.

Table 1: Excise Tax Recipients, Distributions, 2010 Population, and Lane Miles Maintained

Recipient	Fiscal Years 2006 to 2010 Excise Tax Distributions	2010 Population	2010 Lane Miles Maintained ¹
Pinal County	\$30,286,896	375,770	4,229
Apache Junction ²	14,355,561	34,004	372
Casa Grande	11,480,528	48,571	827
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Mammoth	801,983	1,426	36
Maricopa	6,219,820	43,482	509
Queen Creek ²	54,152	1,558	14
Superior	<u>1,481,100</u>	2,837	46
Total	<u>\$ 81,801,606</u>		

¹ Lane miles are the length of the lane measured along the centerline of each lane. For example, 1 mile of a two-lane road equals 2 lane miles. The lane miles reported include both paved and unpaved roads, but exclude portions of roads such as turning and median lanes.

² The City of Apache Junction and the Town of Queen Creek are located in both Maricopa County and Pinal County. The lane miles listed in this table are for Pinal County only. In addition, auditors used the 2009 population estimate, which provided the Pinal County portion of the city or town. Auditors used the 2009 figure because the 2010 population breakout by county for cities or towns that lie within multiple counties will not be available until July 1, 2011.

Source: Auditor General staff analysis of 2009 and 2010 U.S. Census Bureau population data, Pinal County Treasurer's Office transportation excise tax distribution data for fiscal years 2006 through 2010, and calendar year 2010 lane miles information provided by the Arizona Department of Transportation.

Excise tax revenues and distribution

Since its inception, the excise tax has generated almost \$182 million in revenue for the County and its incorporated cities and towns. During fiscal years 2006 through 2010, the period covered by this audit, the tax generated \$81.8 million. Table 1 shows the amount distributed to the County and each of its incorporated cities and towns during this period. The Pinal County Treasurer's Office distributes the excise tax monies collected to the County and its incorporated cities and towns proportionately based on their population. In addition to excise tax revenue, the County and its incorporated cities and towns rely on other monies to complete their transportation projects, such as Highway User Revenue Fund, and Local Transportation Assistance Fund monies (see textbox).¹

Other transportation revenue

Highway User Revenue Fund (HURF)—Consists of revenue from various transportation taxes and fees, such as motor fuel taxes, and title, registration, and driver licenses fees. These monies are distributed by the State Treasurer, and the amount distributed is based, in part, on population.

Local Transportation Assistance Fund (LTAF)—Most of the revenue deposited in this fund was generated from state lottery revenue and distributed by the State Treasurer. The amount distributed was based on population.¹

¹ A.R.S. §§28-8101 through 28-8104 were repealed effective June 15, 2010. This legislative action eliminated the LTAF and its lottery distribution.

Source: Auditor General staff summary of A.R.S. §§28-6501, 6532, 6533, 6538, and 6540; and Title 28, Ch. 24, Article 1, as repealed by Laws 2010, 7th S.S., Ch. 12, §12.

¹ A.R.S. §§28-8101 through 28-8104 were repealed effective June 15, 2010. This legislative action eliminated the LTAF and its state lottery revenue distribution.

FINDING 1

The Towns of Kearny, Mammoth, and Superior inappropriately loaned transportation excise tax (excise tax) monies during some or all of fiscal years 2006 through 2010. Statute requires excise tax monies be used only for street and highway purposes or transportation projects. Previous audit reports raised this same concern. Although the Town of Kearny has repaid all of the loaned monies, the Towns of Mammoth and Superior still had outstanding loan amounts. As a result, if the Towns of Mammoth and Superior have not made sufficient progress in complying with this report's recommendations at the time the Office of the Auditor General performs its 6-month followup, it would be appropriate to invoke a statutory provision Arizona Revised Statutes (A.R.S.) §28-6392(B), that would withhold further excise tax distributions from these towns until they can repay the inappropriately used monies. Further, municipalities lacking policies and procedures on appropriate excise tax expenditures should establish them and provide training.

Additional procedures and training needed to ensure excise tax monies used appropriately

Statute restricts excise tax expenditures to specific purposes

A.R.S. §28-6392 states that transportation excise tax revenues may be used only for street and highway purposes or for transportation projects. Highway and street purposes include costs of rights-of-way acquisitions as well as the construction, reconstruction, maintenance, repair, and roadside development of county, city, and town roads, streets, and bridges. Excise tax revenues may also be used to pay principal and interest on highway and street bonds and personnel costs, including salaries and benefits, for employees working directly or indirectly on transportation projects.

Three towns inappropriately loaned excise tax monies

Auditors reviewed audited financial statements and a sample of the County's and its ten incorporated cities' and towns' excise tax expenditures made during fiscal years 2006 through 2010. For most of these entities, excise tax monies were used for purposes authorized by statute. However, auditors determined that the Towns of Kearny, Mammoth, and Superior inappropriately loaned excise tax monies. These towns were cited for inappropriate loans or expenditures in prior performance audits as well.

Current audit found inappropriate loans of excise tax monies—As shown in Table 2 (see page 4), auditors found that the Towns of Kearny, Mammoth, and Superior inappropriately loaned excise tax or road fund monies to other funds during some or all of fiscal years 2006 through 2010.¹ Specifically, the Town of Kearny indicated that it borrowed nearly \$207,000 in road monies in fiscal year 2006 to maintain ongoing operations of its Utilities Fund, but repaid this amount to its road

¹ The Town of Kearny, in fiscal year 2006, and the Town of Mammoth, in fiscal years 2006 through 2010, each combined their excise tax revenues with other restricted road monies, such as Highway User Revenue Fund (HURF) monies, into single funds.

**Table 2: Schedule of Loan Balances Due from Other Funds
As of June 30, 2006 through 2010**

	2006	2007	2008	2009	2010
Kearny ¹	\$206,996				
Mammoth ¹	495,452	\$542,445	\$ 458,179	\$455,915	\$388,766
Superior	170,670	486,997 ²	1,511,096 ²	NA ³	NA ³

¹ The Town of Kearny, in fiscal year 2006, and the Town of Mammoth, in fiscal years 2006 through 2010, each combined their excise tax revenues with other restricted road monies, such as HURF monies, into a single fund.

² For fiscal years 2007 and 2008, the Town of Superior's financial statements did not indicate how much of the money loaned to other funds was specifically from its excise tax monies. Therefore, these amounts include other restricted road monies, such as HURF monies.

³ The Town of Superior had yet to complete its annual financial audit for either fiscal year 2009 or 2010 at the time of this performance audit; therefore, auditors were unable to determine if the town had repaid these loans or made additional loans.

Source: Auditor General staff analysis of the Towns of Kearny's and Mammoth's fiscal years 2006 through 2010 audited financial statements, and the Town of Superior's fiscal years 2006 through 2008 audited financial statements.

fund by June 30, 2007. However, two of the towns—Mammoth and Superior—still had outstanding loan amounts. For fiscal years 2006 through 2010, the Town of Mammoth inappropriately loaned monies to other funds. As of June 30, 2010, the Town of Mammoth had an outstanding loan balance of nearly \$389,000.¹ The Town of Mammoth loaned monies to cover cash deficits in its general and grants funds. In addition, in fiscal years 2006 through 2008, the Town of Superior inappropriately loaned monies to other funds. As of June 30, 2008, the Town of Superior had an outstanding loan balance of approximately \$1.5 million.² Auditors were unable to determine whether the Town of Superior had made additional loans or reduced the outstanding loan balance during fiscal years 2009 and 2010 because Superior had yet to complete its annual financial audit for each of these fiscal years, and the Town of Superior was unable to provide auditors with any additional information regarding the outstanding loan balance during the audit. However, according to the Town of Superior's June 30, 2008, financial statements, the \$1.5 million due to its HURF/LTAF Fund, which includes excise tax monies, was used to pay for excess grant expenditures the Town of Superior made over grant reimbursement monies it received.

Loans of excise tax monies to other funds are inappropriate because they do not fall within the statutory definitions of street and highway purposes or transportation projects. Further, if excise tax monies are loaned to other funds, then these monies are not available for appropriate purposes such as road construction and maintenance.

¹ The loan balance includes HURF monies.

² For fiscal year 2008, the Town of Superior's financial statements did not indicate how much of the money loaned to other funds was specifically from its excise tax monies. Therefore, this amount also includes other restricted road monies, such as HURF monies.

Loans of excise tax monies for purposes other than street, highway, or transportation projects are inappropriate.

Previous audits identified inappropriate expenditures, including loans—The Auditor General’s 1998 (see Report No. 98-8), 2001, and 2006 (see Report No. 06-03) performance audits found that some of the incorporated cities and towns—including the three identified in this current audit—had inappropriately used excise tax monies.¹ Specifically, the municipalities of Apache Junction, Eloy, Florence, Kearny, Mammoth, and Superior were previously found to have inappropriate expenditures for items such as loaning excise tax monies to other funds and using excise tax monies to pay for things such as bonuses, food, and liability insurance. These prior audits recommended that these municipalities pay back the inappropriately loaned or expended monies, and develop and implement written policies and procedures that specifically address how excise tax monies can be used. All the municipalities provided evidence during the audit follow-up process that the prior audits’ recommendations had been implemented.

Recurring pattern indicates need for further action

Auditors identified several actions that are needed to ensure greater compliance with statutory requirements for spending excise tax monies. These actions include, where appropriate, (1) repaying inappropriately loaned monies, (2) formal written procedures, (3) training on established procedures, and (4) steps to ensure transportation monies are not inappropriately deposited in other funds.

Towns should repay loans—The three towns that inappropriately loaned excise tax monies should take the following actions:

- Although the Town of Kearny has repaid the inappropriate loan it made in fiscal year 2006, it should ensure that it does not loan any restricted road fund monies, including excise tax monies, to other funds in the future.
- 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 road fund monies to other funds. If resources are not currently available to completely repay the loans, a repayment schedule should be developed and implemented.

Given that previous audits also identified inappropriate expenditures for these towns, if the Office of the Auditor General determines that the Towns of Mammoth and Superior have not repaid their loans or developed and implemented a repayment schedule at the time of its 6-month followup, the State should take the additional step of withholding excise tax monies from the Towns of Mammoth and Superior. According to A.R.S. §28-6392(B), if the Auditor General identifies a jurisdiction that has not used its excise tax revenues as required, the Arizona

¹ The 2001 performance audit was conducted by KPMG LLP under contract with the Arizona Auditor General’s Office.

Department of Transportation shall notify the Arizona State Treasurer to withhold excise tax revenues from the noncomplying jurisdiction until it can present satisfactory evidence to the Auditor General that it has spent monies for street and highway purposes from a nonrestricted revenue source equal to the amount of excise tax monies inappropriately spent.

Additional training or procedures needed—The Town of Kearny has developed written policies and procedures that outline the appropriate use of restricted road fund monies, including the excise tax. However, to help ensure that it continues to appropriately spend excise tax monies, the Town of Kearny should provide training on its written procedures, including the appropriate uses of excise tax monies, to the staff who are responsible for approving excise tax expenditures.

Three Municipalities—the City of Maricopa and the Towns of Mammoth and Superior—do not have written policies and procedures regarding the appropriate use of excise tax monies.¹ Given the recurring problem of inappropriate loans or expenditures at the Towns of Mammoth and Superior, they should develop and implement written policies and procedures regarding the appropriate use of excise tax monies and provide training to appropriate staff on the developed policies and procedures. In addition, staff at the City of Maricopa do not have written policies and procedures and would benefit from guidance on the appropriate uses of excise tax monies. According to internal control standards, control activities such as policies and procedures help ensure compliance with applicable laws and regulations.² Therefore, in addition to the Towns of Mammoth and Superior, the City of Maricopa should develop and implement written policies and procedures that outline the appropriate use of excise tax monies and ensure that appropriate staff are trained on them.

Mammoth should implement reconciliation process—Auditors also reconciled the Pinal County Treasurer’s excise tax revenue distributions for fiscal year 2010 to the County’s and its cities’ and towns’ respective funds into which they deposit excise tax monies.³ Only one entity—the Town of Mammoth—had a reconciliation problem. Auditors determined that Mammoth had inappropriately deposited more than \$27,000 of its excise tax monies into funds other than its HURF/LTAF Fund, which is the fund where it deposits excise tax monies. Specifically:

- In fiscal year 2010, Mammoth, which deposits into a single fund both its excise tax monies along with other similarly restricted road monies such as HURF monies, inappropriately deposited \$9,027 of its excise tax monies in a fund other than its HURF/LTAF Fund.

¹ The other municipalities within the County had written excise tax policies and procedures.

² United States General Accounting Office (1999). *Standards for internal control in the federal government* [GAO/AIMD-00-21.3.1]. Washington, DC: Author.

³ The Cities of Apache Junction and Eloy and the Towns of Florence, Mammoth, and Queen Creek combine excise tax revenues with other restricted road fund monies, such as HURF monies, into a single fund.

The Town of Mammoth inappropriately deposited more than \$27,000 of its excise tax monies into the wrong funds.

- Because auditors identified this concern, they also reviewed Mammoth's fiscal years 2006 through 2009 revenue receipts and identified that in fiscal year 2007, Mammoth also deposited \$18,305 of its excise tax monies into a fund other than its HURF/LTAF Fund.

Mammoth should repay its HURF/LTAF Fund with those monies inappropriately deposited in other funds and perform at least annual revenue reconciliations to prevent this significant error from recurring in the future.

Recommendations:

- 1.1 The Town of Kearny should ensure that it does not loan any restricted road fund monies, including excise tax monies, to other funds in the future.
- 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.
- 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.
- 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.
- 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.
- 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.

FINDING 2

Pinal County (County) and its ten incorporated cities and towns are generally able to show how the expenditure of the Pinal County transportation excise tax (excise tax) monies has affected transportation problems in their respective communities. Further, most have planning processes that allow them to identify how to spend these monies in the future. However, although most entities have satisfactory procedures, the Town of Superior can improve documentation of the excise tax impact and the Town of Mammoth can improve its planning procedures by using procedures in place in other municipalities.

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

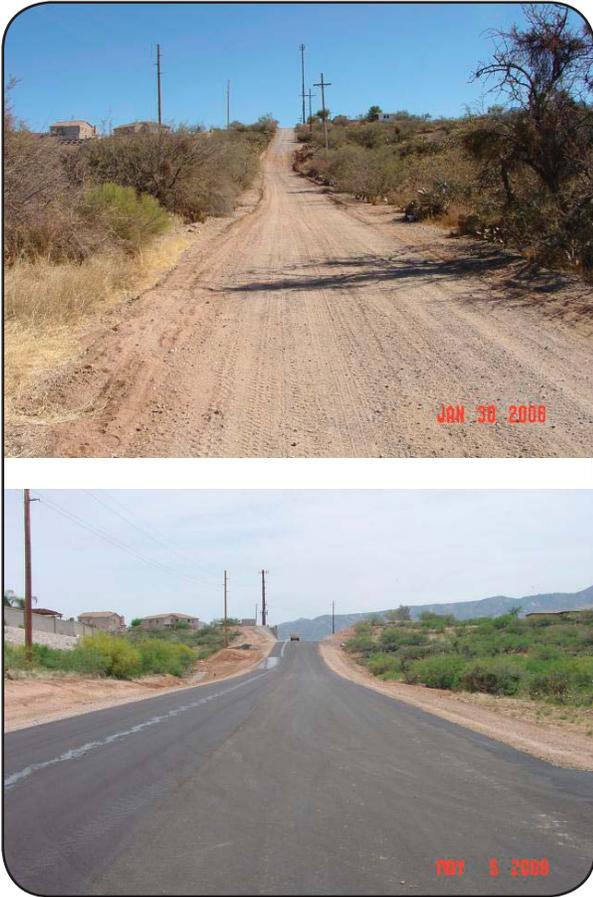
County used excise tax to address significant issues in its transportation plan

The County was able to demonstrate that it used its fiscal years 2006 through 2010 excise tax monies to help address issues, such as traffic safety and congestion, as well as deteriorating road conditions. For future expenditures, the County uses Transportation Advisory Committees to identify transportation needs and to develop a 5-year plan to address those needs.

County projects improved traffic safety, congestion, pollution, and road conditions—Since the Auditor General's last performance audit in 2006 (see Report No. 06-03), the County has used excise tax monies for projects that have helped address major transportation problems. According to the County, three of its most important projects were:

- **Thornton Road**—The County resurfaced 3.5 miles of this road in March 2011 to prevent further deterioration. This project cost approximately \$3.3 million, of which the County contributed approximately \$1.7 million in excise tax monies. In addition, the City of Casa Grande contributed approximately \$1.6 million to this project.
- **Edwin Road**—This 1.3-mile project, completed in June 2009, improved traffic safety by paving and widening a narrow gravel road and adding drainage crossing improvements (see Photo 1, page 10). The project cost approximately \$2.3 million, of which the County contributed \$784,000 in excise tax monies. In addition, Robson Communities, an adult retirement community, contributed approximately \$900,000, and Pima County contributed approximately \$567,000.
- **J-Curve Hunt\Ellsworth**—This approximately 1.5-mile project, completed in February 2009, improved traffic congestion by eliminating the existing "offset" four-way stop at the intersection of Hunt Highway and Ellsworth Road by constructing a continuous

Photo 1: Edwin Road Before and After Improvement



Source: Photos courtesy of Pinal County.

flowing, curved, two-lane road with a separate left-turn lane. The project cost approximately \$715,000, of which the County contributed approximately \$615,000 in excise tax monies. In addition, the Town of Queen Creek and Maricopa County each contributed \$50,000.

In addition to funding these specific projects, the County has also used excise tax monies to generally improve road conditions. For example, it has a program to reduce the number of dirt roads in the County and reduce air pollution concerns resulting from these roads, and a pavement preservation program to maintain the existing paved roadways.

County uses Committees to identify transportation needs—The County uses Transportation Advisory Committees (Committees)—one for each of its three board of supervisor districts—to review and observe road conditions, hold public meetings to obtain citizen input, and compile input from the County’s Public Works Department, including feasibility analyses, cost estimates, and recommendations.¹ The Committees then annually draft recommendations and compile them into a 5-year transportation plan. According to the Committees’ bylaws, the projects included in the plan are based on consideration of traffic safety, long-range transportation and land-use planning, and economic and environmental issues. The Committees then present the plan to the County Board of Supervisors

for approval. Some of the County’s planned projects include continuing to widen Hunt Highway, the main thoroughfare connecting northern Pinal County with the Metropolitan Phoenix Southeast Valley, and the widening of or construction of multiple-lane roadways to help relieve congestion in the north-central part of Pinal County.

Cities and towns generally able to show how excise tax monies benefit transportation, but two can improve

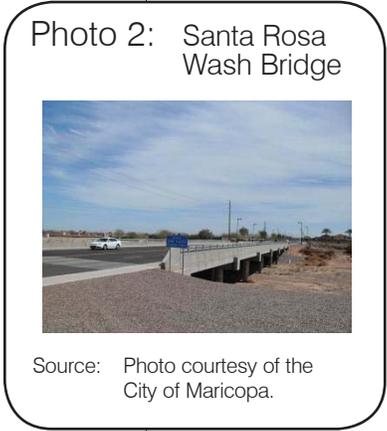
Most of the ten cities and towns receiving excise tax monies were able to adequately demonstrate how they used these monies to address their transportation needs. Although their efforts vary, most also have a planning process in place to identify

♦ ¹ At the time of the audit, according to the County, it was in the process of revising its Transportation Advisory Committee process to make it more efficient, including consolidating its three committees into a single committee.

future needs. However, the Town of Superior should better document completed street, highway, or transportation projects, and the Town of Mammoth should take steps to improve its planning process.

Cities and towns used excise tax monies in various ways—Since the last performance audit in 2006, the incorporated cities and towns in Pinal County have used excise tax monies for road maintenance, new road construction, dust abatement, and equipment to maintain and repair roads. For example:

- **City of Maricopa’s bridge project**—This project improved road conditions by constructing a bridge over a wash (see Photo 2). Prior to the bridge’s construction, this principal arterial route was inaccessible to citizens and emergency responders when water was flowing in the wash. This project cost approximately \$2.8 million, \$355,000 of which came from excise tax monies, with the remainder coming from other sources, including the City of Maricopa’s General Fund.
- **City of Casa Grande’s Downtown Phase I project**—This ¾-mile project improved traffic circulation in downtown Casa Grande by reconstructing the existing roadways in the downtown area and making pedestrian and landscape improvements along Main Street. The City of Casa Grande used approximately \$2.7 million in excise tax monies to pay for the project.
- **City of Coolidge’s equipment purchase**—The City of Coolidge spent almost \$224,000 on a road grader and approximately \$142,000 on a water truck to more efficiently maintain its unpaved roads.



Cities and towns use various planning methods to identify transportation needs—The cities and towns use different planning methods to identify appropriate projects and/or uses of future excise tax monies. Seven municipalities have long-term planning processes to identify transportation projects. Specifically, the Cities of Casa Grande, Coolidge, Eloy, and Maricopa and the Towns of Florence, Queen Creek, and Superior have all completed a small area transportation study and/or have developed a regional transportation plan or capital improvement plan that helps identify and prioritize projects. The remaining three municipalities have more limited planning processes. Specifically, the City of Apache Junction and the Town of Kearny use an annual planning process. For example, the City of Apache Junction prepares an annual street maintenance plan and uses the excise tax monies on the projects with the highest expected impact. The Town of Mammoth’s planning process, the least developed of all the municipalities, is discussed below.

Seven municipalities have long-term planning processes to identify transportation projects.

Two towns should take additional steps—Auditors identified ways in which the Towns of Superior and Mammoth should improve their processes:

- **The Town of Superior should improve documentation of impacts**—The Town of Superior received approximately \$1.5 million in excise tax monies during fiscal years 2006 through 2010. Although Superior completed a small area transportation study in August 2008, which includes a list of transportation improvement projects, a town official indicated that he could not identify any road repairs that had been completed. Further, although this town official indicated that excise tax monies had been used to purchase or replace signs, such as stop signs, Superior was unable to provide project record documents such as a list of signs purchased along with associated purchase orders or invoices. Other cities and towns document the impact of the excise tax through a variety of project records, including scopes of work, estimated and actual costs, contracts, project plans, and photographs. Town of Superior officials should be able to take similar actions. Therefore, the Town of Superior should develop a record-keeping mechanism for completed street and highway and transportation projects.
- **The Town of Mammoth should strengthen its planning process**—Using steps already in place in other county municipalities, the Town of Mammoth can improve its planning process for using future excise tax distributions. The Town of Mammoth received approximately \$802,000 in excise tax monies during fiscal years 2006 through 2010. According to town officials, Mammoth restricts its planning efforts to obtaining input from the town council and public works director about projects that can be completed with available resources, such as road maintenance. However, the Town of Kearny, which received a similar amount of excise tax monies during the audit period, conducts street condition assessments and develops street repair and maintenance recommendations based on those assessments. The recommendations are then presented to its town council for approval. The Town of Mammoth should add similar steps to its planning process. The Auditor General's 2006 performance audit report (see Report No. 06-03) similarly recommended that the Town of Mammoth formalize its planning process by implementing steps such as developing a road evaluation system and holding regular, documented transportation planning meetings to identify and prioritize transportation projects. Although Mammoth officials provided evidence during the audit follow-up process that this prior recommendation had been implemented, as of May 23, 2011, Mammoth had not provided auditors with documentation to support that it continued this practice beyond October 2006. In addition, during this audit, town officials indicated that its planning process is now limited only to input from its town council and public works director.

Recommendations:

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

APPENDIX A

This appendix provides information on the methods auditors used to meet the audit objectives.

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.

The Auditor General and staff express appreciation to Pinal County's manager and staff, and its incorporated cities' and towns' managers and staff for their cooperation and assistance throughout the audit.

Methodology

Auditors used the following specific methods to meet its audit objectives:

- To determine compliance with statutory requirements for the Pinal County transportation excise tax expenditures, auditors obtained and analyzed the County's, cities', and towns' revenue and expenditure data for fiscal years 2006 through 2010.¹ Auditors reconciled the Pinal County Treasurer's excise tax disbursements for fiscal year 2010 to the County's, cities', and towns' respective funds into which they deposit excise tax monies.^{2,3} To determine if the data was reasonably complete, auditors compared the general ledger data the County, cities, and towns provided to their fiscal years 2006 through 2010 audited financial statements. However, auditors were unable to determine whether the data the Town of Superior provided was reasonably complete because Superior did not provide sufficient information and its fiscal years 2009 and 2010 financial statements were not yet completed. For fiscal years 2006 through 2010, auditors tested a judgmental sample of 141 of the 56,224 excise tax expenditures, interfund transfers, and adjusting entries. The expenditures, interfund transfers, and adjusting entries were selected for further review based on vendor name or transaction description. Auditors then obtained additional information, such as invoices from the County, cities, and towns to determine the appropriateness of the expenditures.
- To determine the County's, cities', and towns' ability to demonstrate the impact of the excise tax in solving transportation problems, auditors analyzed information related to county, city, and town projects completed during fiscal years 2006 through 2010, including project costs, descriptions, and contract information. Auditors also reviewed information related to future project planning and selection processes, including a 5-year transportation plan, small area transportation studies, pavement management plans, and capital improvement plans.

¹ The County, cities, and towns sent auditors their general ledger data that was used to compile their annual financial statements and independent auditors' reports. However, data for the first 6 months of fiscal year 2006 was not readily available for the Town of Queen Creek. In addition, the Town of Superior did not provide its general ledger data for fiscal year 2006.

² The Cities of Apache Junction and Eloy and the Towns of Florence, Mammoth, and Queen Creek combine excise tax revenues with other restricted road fund monies, such as Highway User Revenue Fund monies, into a single fund.

³ For the Town of Mammoth, auditors also reconciled fiscal years 2006 through 2009.

- Auditors' work on internal controls focused on the County's, cities', and towns' processes or procedures established for ensuring compliance with excise tax statutory requirements and for identifying and selecting transportation projects. Auditors did not conduct test work on information system controls, but took other steps such as reconciling revenue and expenditure data to audited financial statements to ensure the data the County, cities, and towns provided was reasonably complete and accurate for this audit's purposes.

RESPONSE

RESPONSE



TOWN OF KEARNY

BOX 639, KEARNY, AZ 85237

PHONE (520) 363-5547

FAX (520) 363-7527

June 14, 2011

Debra K. Davenport, CPA
State of Arizona Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The Town of Kearny is responding to the preliminary draft report of the Pinal County Transportation Excise Tax findings for the Town of Kearny.

Finding 1.1 The Town of Kearny should ensure that it does not loan any restricted road fund monies, including excise tax monies, to other funds in the future.

Kearny's Response

The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Finding 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.

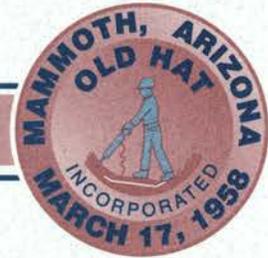
Kearny's Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Sincerely yours,

Gary Eide
Town Manager

Town Of Mammoth



June 16, 2011

Debra K. Davenport, CPA
Auditor General
Arizona Office of The Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

Pursuant to your request, the foregoing details the responses of the Town of Mammoth (Town) to your recommendations pertaining to the findings made by you in connection your audit of the excise tax revenues received by the Town during its fiscal years ended June 30, 2006, through 2010:

RECOMMENDATION 1.2:

The Town is steadfast in its belief that it has never "loaned" its excise tax revenues in any permanent way to any other portion of the Town or for any other purpose. Furthermore, the Town disagrees that there is any Arizona Revised Statute (A.R.S.) that directly or indirectly disallows the temporary transaction such that its financial statements at each fiscal year end may be properly reflected. Additionally, inasmuch as the net excise tax revenues of the Town have been reserved in amounts exceeding any above referenced temporary transaction within its fund, those net revenues are available for their future use as intended. Therefore, the Town has determined that the finding of the Auditor General is not agreed to, but the recommendation will be implemented, however, in a manner that is believed by the Town to eliminate any future finding which might otherwise result in any recommendation that may need to be made (directly or indirectly) to the Treasurer of the State of Arizona with respect to the future withholding of excise tax revenues under ARS section 28-6392 (B) as the Town is in complete disagreement with any such action. (See Auditor General's Reply, Page b-i)

RECOMMENDATION 1.5:

Although the Town believes that its formal and informal policies and procedures have been technically and practically sufficient to safeguard the use of publicly generated funds, the Town recognizes that such policies and procedures should be reviewed from time to time. As such, the finding of the Auditor General is agreed to and the audit recommendation will be implemented to enhance the policies and procedures of the Town with respect to the use of excise tax revenues including increased project documentation and public involvement in order to provide greater compliance with any applicable requirements.

RECOMMENDATION 1.6:

On occasion, the Town has inadvertently recorded the receipts of excise tax revenues to accounts other than the account established to receive those revenues. Although such transactions have never been made to intentionally divert those revenues to another purpose as evidenced by subsequent entries having been made to correct the original errors, the finding of the Auditor General is agreed to and the audit recommendation will be implemented to provide documentation during your future inspection that the amount identified has been credited ultimately and properly to the account related to the excise tax revenues.

RECOMMENDATION 2.2:

Although the Town believes that its formal and informal processes in connection with its road improvement projects have been performed in the best interest of those using the Town's roadways and its taxpayers, the Town realizes that a more cohesive process would likely further that goal. Accordingly, the finding of the Auditor General is agreed to and the audit recommendation will be implemented to expand the Town's road improvement planning process in an attempt to be comprehensive in the identification of transportation needs through the increased use of public involvement and interaction.

In general, the Town will strive to mitigate the findings detailed in your report with the specific objective of achieving your recommendations to the best of its ability by the time of your next scheduled inspection.

Sincerely,

Rachelle Sanchez,
Town Clerk



TOWN OF SUPERIOR

Town Hall • 271 W. Main Street • Superior, Arizona 85273
520-689-5752 • Fax: 520-689-5822 • TDD Relay 1-800-367-8938

June 13, 2011

Debra Davenport, Auditor General
Arizona Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport;

Superior's Response to Auditor General's Recommendation-

1.2 Recommendation-Superior needs 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.

Response-The finding of the Auditor General is not agreed to, but the recommend will be implemented if Superior is allowed to amend audits for 2007 and 2008, also be given 6 months to complete 2009 and 2010 audits. At that time Superior agrees to implement a payback schedule for inappropriately borrowed funds if any found after the completion of audits.

1.5 Recommendation-Superior should develop and implement written policies and procedures that outline the appropriate use of excise tax monies, and train staff on them.

Response-The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

2.1 Recommendation-The Town of Superior should develop a record-keeping mechanism for completed street and highway and transportation projects.

Response-The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Because we have not completed its fiscal years 2009 and 2010 audited financial statements; we are requesting 6 months to complete our audits. We are currently undergoing the 2009 and 2010 audit with Colby and Company, Gilbert AZ., and anticipate completion by the end of this Fiscal Year. We anticipate reporting these two instances in our report.

Thank you,

Melanie Oliver, Town Manager
Town of Superior



Arizona Department of Transportation
Transportation Services Group

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janice K. Brewer
Governor

John S. Halikowski
Director

John A. Bogert
Chief of Operations

June 3, 2011

Debra K. Davenport, CPA
Auditor General
State of Arizona
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

I am in receipt of your letter dated May 26, 2011 related to the performance audit of the Pinal County Transportation Excise Tax. I have also reviewed the preliminary report draft that accompanied your letter and, specifically, the portions of Finding 1 related to the Arizona Department of Transportation (ADOT) and provide the following comment:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The final report should be directed to my attention.

Sincerely,

John R. Fink
Assistant Director for Finance and Accounting
Financial Management Services

June 1, 2011

Ms. Debra Davenport, CPA
Auditor General
2910 North 44th Street
Suite 410
Phoenix, Arizona 85018

Re: City of Maricopa response
Pinal County Transportation Excise Tax audit

Dear Ms. Davenport,

The City of Maricopa is pleased to provide the following response to the findings and recommendation resulting from the Pinal County Transportation Excise Tax audit conducted by your office:

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

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

We appreciate the Auditor General's office in assisting the City of Maricopa to improve our processes and compliance. Please do not hesitate to contact me if you have any further needs.

Regards,

Brenda Fischer, ICMA-CM
City Manager

AUDITOR GENERAL REPLY TO RESPONSE

The following auditor comments are provided to address the statements the Town of Mammoth made related to Finding 1, Recommendation 1.2:

The Town of Mammoth's response indicates that it has not loaned its Pinal County transportation excise tax (excise tax) monies in any permanent way to any other portion of the Town or for any other purpose and that there is no statute that directly or indirectly disallows for a temporary transaction that may be made to properly reflect its financial statements. However, auditors' review of the Town of Mammoth's financial statements and other financial information found that Mammoth did not have sufficient general fund cash or other resources to pay for its operations. To help cover these shortfalls, Mammoth loaned monies from another fund, which primarily consists of restricted monies such as excise tax and Highway User Revenue Fund monies, to its general fund. This borrowing from its restricted fund, which has persisted in various amounts since June 30, 2006, (see Table 2, page 4) is considered a loan. Additionally, if no other revenue source besides its general fund existed, Mammoth would have had to borrow money or obtain a line of credit to pay for its operations. According to A.R.S. §28-6392(B), a town can only use the excise tax revenues for street and highway purposes or transportation projects. Therefore, the Town of Mammoth had no authority to loan these restricted monies, even on a temporary basis, to cover its general operations.

Performance Audit Division reports issued within the last 24 months

09-06	Gila County Transportation Excise Tax	10-04	Department of Agriculture—Food Safety and Quality Assurance Inspection Programs
09-07	Department of Health Services, Division of Behavioral Health Services—Substance Abuse Treatment Programs	10-05	Arizona Department of Housing
09-08	Arizona Department of Liquor Licenses and Control	10-06	Board of Chiropractic Examiners
09-09	Arizona Department of Juvenile Corrections—Suicide Prevention and Violence and Abuse Reduction Efforts	10-07	Arizona Department of Agriculture—Sunset Factors
09-10	Arizona Department of Juvenile Corrections—Sunset Factors	10-08	Department of Corrections—Prison Population Growth
09-11	Department of Health Services—Sunset Factors	10-L1	Office of Pest Management—Regulation
10-01	Office of Pest Management—Restructuring	10-09	Arizona Sports and Tourism Authority
10-02	Department of Public Safety—Photo Enforcement Program	11-01	Department of Public Safety—Followup on Specific Recommendations from Previous Audits and Sunset Factors
10-03	Arizona State Lottery Commission and Arizona State Lottery	11-02	Arizona State Board of Nursing
		11-03	Arizona Department of Veterans' Services—Fiduciary Program
		11-04	Arizona Medical Board

Future Performance Audit Division reports

Arizona Department of Veterans' Services—Veteran Home

