



A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Performance Audit

Gila County Transportation Excise Tax

June • 2014
REPORT NO. 14-102



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

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OFFICE OF THE
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DEPUTY AUDITOR GENERAL

June 27, 2014

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Gila County Board of Supervisors

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Gila 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.

Gila County agreed with the findings contained in this report, and because the report contains no recommendations, the County did not provide a response.

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

Sincerely,

Debbie Davenport
Auditor General

Attachment

cc: Mr. Don E. McDaniel Jr., County Manager
Gila County, Arizona



REPORT HIGHLIGHTS PERFORMANCE AUDIT

Excise tax history

Our Conclusion

Transportation excise tax money is statutorily restricted to street and highway purposes or transportation projects. Gila County demonstrated that it spent excise tax monies during calendar years 2009 through 2013 to address traffic safety and congestion issues and deteriorating road conditions. Also, in January 2014, the County completed the Gila County Transportation Study, which identified the most critical future transportation infrastructure needs and recommended projects to address those needs. We also determined that the County spent its excise tax monies solely for street and highway purposes or transportation projects as required by Arizona Revised Statutes §28-6392(B), and implemented all but one of our prior audit recommendations.

In 1994, Gila County voters passed a half-cent excise tax to pay for highway and street improvements and transportation projects within the County. The excise tax became effective on January 1, 1995, and will expire on December 31, 2014. Since the excise tax became effective through December 31, 2013, it has generated approximately \$51.1 million in revenue. During the period covered by this audit, January 1, 2009 through December 31, 2013, the excise tax generated approximately \$14.5 million in revenue and the County spent approximately \$9.6 million for transportation projects. As of December 31, 2013, the County had approximately \$5.5 million in remaining excise tax monies to pay for future projects. In June 2014, the County Board of Supervisors approved a resolution to request the Gila County voters to approve the half-cent transportation excise tax in a countywide election. If approved, the tax would be effective January 1, 2015, for a period of 20 years and would be shared with the County's cities and towns.

County projects improved traffic safety, congestion, and road conditions

County has used excise tax monies to address major transportation problems— Since our last performance audit in 2009 (see Auditor General Report No. 09-06), the County has used excise tax monies for projects that have helped address major transportation problems. The County used its 2006 Small Area Transportation Study to focus on projects that were identified to improve traffic safety, congestion, and road conditions. For example, one important project the County used its excise tax monies for was the Pine Creek Canyon Road project. This approximately 1-mile project, completed in December 2012, included road reconstruction to allow for improved emergency vehicle access to homes, safer driving conditions for residents, and replacing the aging drainage system to prevent flooding (see photo). This project cost approximately \$1.6 million, of which the County contributed \$1.3 million in excise tax monies. In addition, the Pine-Strawberry Water Improvement District contributed an additional \$260,000 for the project.

Pine Creek Canyon Road—before and after road improvements



2014

In addition to funding the Pine Creek Canyon Road project, the County used excise monies for projects to improve road conditions that were deteriorating throughout the County and to address traffic congestion. For example, to improve road conditions, the County completed chip seal road work on Fossil Creek Road and Cline Boulevard. Also, to address traffic congestion on State Route 260, the County added turn lanes into the maintenance yard.

County has planned for future transportation projects—To plan future projects, in January 2014, the County completed the Gila County Transportation Study. The Study identifies the County's most critical transportation infrastructure needs and recommends future near-term, mid-term, and long-term improvement projects that the County will finance with excise tax, Highway User Revenue Fund monies, and other local, regional, state and/or federal revenue sources. The projects are estimated to be completed in fiscal years 2015 through 2034, and have an estimated cost of approximately \$32.8 million for the near-term projects and \$133.4 million for the mid- and long-term projects.

County spent excise tax monies in accordance with the law and implemented all but one prior audit recommendation

From January 2009 through December 2013, County spent excise tax monies in accordance with statute—We found that the County spent its excise tax monies in compliance with Arizona Revised Statutes §28-6392(B). This statute requires that transportation excise tax monies be used only for street and highway purposes or for transportation projects. Street and highway purposes include costs of rights-of-way, construction, reconstruction, maintenance, repair, and roadside development of county, city, and town roads, streets, and bridges. In addition, the monies can be spent on costs that indirectly affect transportation projects.

County implemented 12 of 13 prior audit recommendations—In June 2009, we issued the prior Gila County Transportation Excise Tax performance audit report, which included 13 audit recommendations (see Report No. 09-06). As of our last follow-up report in January 2011, the County had not implemented eight recommendations related to its highway and street expenditures and travel policies. We followed up on these recommendations and determined that the County implemented all of the recommendations related to its highway and street expenditures, and all but one of the recommendations related to its travel policies. The County's travel policy was updated to include guidance on documentation and reimbursement of travel-related expenditures and revised per diem amounts. In addition, employees were trained on the policy, and we noted that they followed the updated policy. However, the updated policy has not been presented to the County Board of Supervisors for approval.

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Introduction

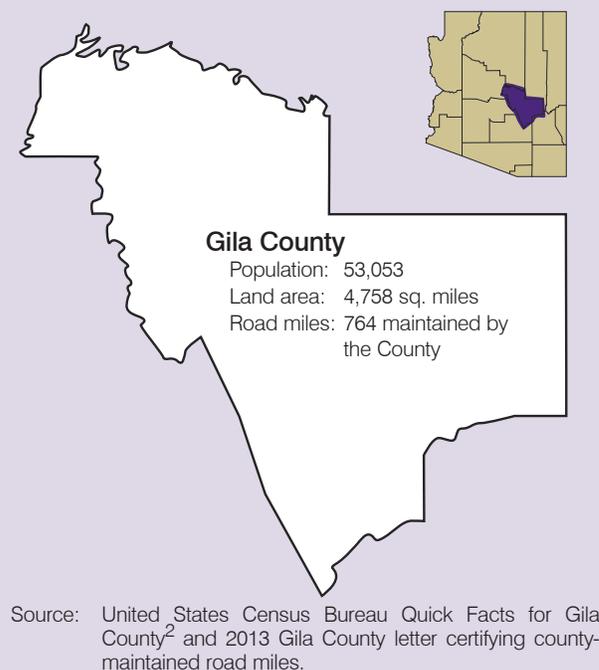
Audit scope and objectives

The Office of the Auditor General has conducted a performance audit of the Gila County Transportation Excise Tax (excise tax) in accordance with and under the authority vested to the Auditor General by Arizona Revised Statutes (A.R.S.) §41-1279.03(A)(6).¹ 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 third performance audit of the Gila County (County) excise tax since its initial establishment in 1995. As required, this audit reviewed past and future planned expenditures of the transportation excise tax revenues and determined the impact they had in solving the County's transportation problems. Also, this audit reviewed whether the County spent the excise tax monies in compliance with A.R.S. §28-6392(B), which requires they be used for street and highway purposes and transportation projects.

Excise tax history

In 1994, pursuant to A.R.S. §42-6107, Gila County voters passed a half-cent sales tax to pay for highway and street improvements and transportation projects. The Gila County Board of Supervisors (Board) felt the condition of many streets and roads in the County's unincorporated areas had deteriorated, and in general, the County needed improvements to existing roads or development of new streets and roads. The County contains the incorporated cities and towns of Globe, Hayden, Miami, Payson, Star Valley, and Winkelman, as well as a number of other unincorporated rural communities. Globe is the county seat and has the second-largest urban population (7,457 people) after Payson (15,215 people).² The County maintains 764 miles of road in the unincorporated areas of Gila County, including approximately 500 miles of Forest Service roads that the U.S. Department of Agriculture has contracted with the County to maintain (see Figure 1). The County's Public Works Division is

Figure 1: Gila County population, land area, and road miles maintained by the County



¹ A.R.S. §41-1279.03(A)(6) 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 external auditors will review this information during the fiscal year 2013 financial statement audit, it was not addressed in this audit.

² U.S. Census Bureau. (2014). *State and county quick facts*. Retrieved on April 7, 2014 from <http://quickfacts.census.gov>

responsible for maintaining the roads and ensuring the excise tax revenues are spent in accordance with A.R.S. §28-6392(B).

The Gila County excise tax became effective on January 1, 1995, and will expire on December 31, 2014. Since the excise tax became effective through December 31, 2013, it has generated approximately \$51.1 million in revenue. As shown in Table 1, from calendar years 2009 through 2013, the excise tax generated approximately \$14.5 million in revenue and the County spent approximately \$9.6 million for transportation projects. The County relies on the excise tax monies, along with Highway User Revenue Fund, Vehicle License Tax, and federal grant monies, to pay for its transportation projects. The excise tax monies are not shared with any of the County's municipalities.

**Table 1: Excise tax revenues and expenditures
Calendar years 2009 through 2013
(Unaudited)**

	2009	2010	2011	2012	2013	Total
Revenues	\$2,929,485	\$2,748,915	\$2,799,821	\$2,960,528	\$3,016,331	\$14,455,080
Expenditures	2,461,708	510,372	287,064	3,122,289	3,207,597	9,589,030

Source: Auditor General staff review of calendar years 2009 through 2013 reports from the County's accounting system.

As of December 31, 2013, the County had approximately \$5.5 million in remaining excise tax monies to pay for future projects. Any extension of the excise tax beyond December 31, 2014, will require voter approval. On June 24, 2014, the County's Board of Supervisors approved a resolution to request the Gila County voters to approve a half-cent transportation excise tax in a countywide election. If approved, the tax would be effective January 1, 2015, for a period of 20 years and would be shared with the County's cities and towns.

Excise tax impact

The County demonstrated that it spent excise tax monies during calendar years 2009 through 2013 to address traffic safety and congestion issues and deteriorating road conditions. Also, in January 2014, the County completed the Gila County Transportation Study, which identified the most critical future transportation infrastructure needs and recommended projects to address those needs.

County projects improved traffic safety, congestion, and road conditions

Since the Office of the Auditor General's last performance audit in 2009 (see Auditor General Report No. 09-06), Gila County (County) has used excise tax monies for projects that have helped address major transportation problems. The County used its 2006 Small Area Transportation Study¹ to focus on projects that were identified to improve traffic safety, congestion, and road conditions. The County adopted the study on November 21, 2006, as its 20-year transportation plan and implementation program to guide the County in meeting transportation needs. From the study, the County developed a 5-year plan to focus on the transportation projects that were considered the highest priority. Over the last 5 calendar years, the County has spent approximately \$9.6 million in excise tax monies to complete five major road projects, maintain existing roads, and begin one additional road project. According to the County, two of its most important projects were:

- **Pine Creek Canyon Road**—This approximately 1-mile project, completed in December 2012, included road reconstruction to allow for improved emergency vehicle access to homes, safer driving conditions for residents, and replacing the aging drainage system to prevent flooding (see Photo 1 for before and after photos). This project cost approximately \$1.6 million, of which the County contributed \$1.3 million in excise tax monies. In addition, the Pine-Strawberry Water Improvement District contributed an additional \$260,000 for the project.

Photo 1: Pine Creek Canyon Road—before and after road improvements



Source: Courtesy of Gila County Public Works Department.

¹ Lima & Associates. (2006). *Gila County small area transportation study*: Final report. Globe, AZ: Gila County.

- Fairground’s road entrance**—The fairground’s road entrance project was divided into two phases. Phase I was completed in October 2008, and Phase II was completed in February 2012. Phase I included engineering and reconstructing the pavement. During Phase II, the County resurfaced approximately 1.3 miles with chip seal to protect the pavement and extend the life of the road. The fairground’s road entrance is on a state highway that the County’s residents use extensively. The improved road entrance makes it safer to access the fairgrounds and reduces traffic congestion along the highway (see Photo 2 for before and after photos). This project cost approximately \$344,000 and was paid for with excise tax monies.

Photo 2: Fairground’s road entrance—before and after road improvements



Source: Courtesy of Gila County Public Works Department.

In addition to funding these two projects, the County has also used excise tax monies for projects to improve road conditions that were deteriorating throughout the County and to address traffic congestion. For example, to improve road conditions, the County completed chip seal road work on Fossil Creek Road and Cline Boulevard. Also, to address traffic congestion on State Route 260, the County added turn lanes into the maintenance yard (see Table 2 for major completed transportation road projects).

**Table 2: Major completed transportation road projects and excise tax monies expenditures
Calendar years 2009 through 2013**

Project	Expenditures
Pine Creek Canyon Road	\$1,298,861
Fossil Creek phase II	131,476
Fairgrounds road entrance phase II	61,482
Cline Boulevard	27,406
State Route 260	6,832

Source: Auditor General staff summary of information from the Gila County Public Works Department’s completed road projects list and the County’s accounting system.

Further, the County began the design phase of the Tonto Creek Bridge to help reduce the risk of accidents, deaths, and emergency service costs in response to drivers being stranded on one side of Tonto Creek. The total project is estimated to cost \$20 million, of which the County plans to contribute approximately \$1.1 million in excise tax monies. As of December 31, 2013, \$383,000 in excise tax monies had been spent on the project. Finally, the County spent approximately \$7.7 million of excise tax monies for road maintenance and other road projects that had been completed or were in process as of December 31, 2013, and for supplies, professional services, and capital equipment.

County has planned for future transportation projects

To plan future projects, in January 2014, the County completed the Gila County Transportation Study (Study) by working closely with experts at the Arizona Department of Transportation (ADOT).¹ The Study was completed with the assistance of a technical advisory committee that included members from the County, ADOT, San Carlos Apache Tribe, cities and towns within the County, and other members within the County's communities. The Study identifies the County's most critical transportation infrastructure needs and recommends future near-term, mid-term, and long-term improvement projects that the County will finance with excise tax, Highway User Revenue Fund monies, and other local, regional, state and/or federal revenue sources. The future near-term projects, scheduled to be completed in fiscal years 2015 through 2019, have a total estimated cost of approximately \$32.8 million (see Table 3 for a list of the major future near-term projects). In addition, the Study outlines future mid-term and long-term projects that are estimated to be completed in fiscal years 2020 through 2034. These include improvements to the County's roadways, bridges, and bicycle lanes and have a total estimated cost of approximately \$133.4 million.

Table 3: Major recommended future near-term projects and estimated costs As of January 2014

Project	Estimated cost
Pavement maintenance and improvements to the County's roads	\$25,500,000
Widen State Route 260 to a 4-lane highway by Lion Springs	2,200,000
Pave Pine Creek Canyon Drive from Pine Lane to the campground entrance	1,550,000
Monroe Street realignment from 7 th Street to the Gila County courthouse	890,000

Source: Auditor General staff summary of information from the Study's recommended future near-term projects.

¹ Kimley-Horn and Associates, Inc. (2014). *Gila County transportation study*: Final report. Phoenix, AZ: Arizona Department of Transportation.

Excise tax compliance

The County spent its excise tax monies solely for street and highway purposes or transportation projects as required by A.R.S. §28-6392(B). Also, the County implemented most prior Office of the Auditor General recommendations.

County spent excise tax monies in accordance with Arizona Revised Statutes

Auditors found that expenditures of Gila County's (County) excise tax monies for the period of January 1, 2009 through December 31, 2013, were in compliance with Arizona Revised Statutes (A.R.S.) §28-6392(B). This statute requires that transportation excise tax monies be used only for street and highway purposes or for transportation projects. Street and highway purposes include costs of rights-of-way, construction, reconstruction, maintenance, repair, and roadside development of county, city, and town roads, streets, and bridges. In addition, the monies can be spent on costs that indirectly affect transportation projects.

County substantially implemented prior audit recommendations

The County has implemented all but 1 of the 13 recommendations from the 2009 excise tax performance audit. In June 2009, the Office of the Auditor General issued the prior Gila County Transportation Excise Tax performance audit report, which included 13 audit recommendations (see Report No. 09-06). As of the last follow-up report in January 2011, the County had not implemented 8 recommendations related to its highway and street expenditures and travel policies. Therefore, auditors followed up on these outstanding recommendations and determined that all but one recommendation had been fully implemented. First, to ensure that the excise tax monies are spent according to statutory and constitutional requirements, the report recommended that the Public Works Division work with the County Attorney to update the Division's Approved Highway and Street Expenditures Policy to more clearly identify appropriate excise tax expenditures. According to the Public Works Director, and based on written guidance provided by the County Attorney's Office, the existing approved Highway and Street Expenditures Policy was sufficient, and during this current audit, auditors noted that it was being followed. Second, to ensure that county employees have proper guidance related to travel costs, the report recommended that the County should work with the County Attorney to update its travel policy to ensure that it reflects current approved practices and contains proper controls and guidance, obtain the Board of Supervisors' approval, train employees on the policy, and ensure it is followed. The County's travel policy was updated to include guidance on documentation and reimbursement of travel-related expenditures and revised per diem amounts. Employees were trained on the updated policy, and auditors noted that employees were following the updated policy. However, the updated policy has not been presented to the County Board of Supervisors for approval.

APPENDIX A

Methodology

This appendix provides information on the methods auditors used to meet the audit objectives. The Auditor General and staff express appreciation to the County Board of Supervisors, the County Manager, and their staff for their cooperation and assistance throughout the audit.

Auditors conducted this performance audit of the Gila County (County) Transportation Excise Tax 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.

Auditors used various methods to determine the impact of the excise tax on Gila County's transportation problems and to determine whether excise tax monies were being spent appropriately and according to statute. These methods included interviewing the County's management and staff; reviewing statutes, policies, and procedures; and evaluating the County's internal controls over excise tax expenditures, including those made with credit cards. Auditors also used the following specific methods:

- To determine past and future projects and expenditures of the transportation excise tax monies and their impact on solving transportation problems within the County, auditors reviewed the 2006 Gila County Small Area Transportation Study¹, the Public Works Division's Five-year Plan for road projects, the January 2014 Gila County Transportation Study² for future projects scheduled to be completed in fiscal years 2015 through 2034, and two transportation project files; interviewed the County Manager and each member of the County's Board of Supervisors; and observed various completed or in-progress projects.
- To assess the County's compliance with the excise tax's statutory requirements, auditors reviewed the Excise Tax Fund expenditures for the period January 1, 2009 through December 31, 2013, and examined supporting documentation. First, auditors analyzed the expenditures and applied a risk-based selection to isolate those transactions with the greatest risk of noncompliance. Auditors identified the riskiest areas as travel, indirect costs, and credit card transactions. Second, auditors reviewed all 7 travel and all 13 indirect costs expenditures and 24 of 269 credit card transactions. Finally, auditors reviewed a sample of 49 of the 1,102 expenditures from the remaining population of expenditures and \$1,360,343 of expenditures paid for the fairground's road entrance Phase II and Pine Creek Canyon Road projects.

¹ Lima & Associates. (2006). *Gila County small area transportation study*: Final report. Globe, AZ: Gila County.

² Kimley-Horn and Associates, Inc. (2014). *Gila County transportation study*: Final report. Phoenix, AZ: Arizona Department of Transportation.

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