



A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Performance Audit

Pinal County Transportation Excise Tax

County and Most Cities and Towns Used Excise Tax
Monies Appropriately and Were Able to Demonstrate Its
Impact, but Two Towns Need Improvement

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Report No. 16-106



Debra K. Davenport
Auditor General

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June 28, 2016

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Pinal County Transportation Excise Tax*. This report 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 Towns of Mammoth and Superior and the Arizona Department of Transportation agree with and plan to implement the recommendations directed to them.

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

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

Pinal County Transportation Excise Tax



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 2011 through 2015, the Towns of Mammoth and Superior inappropriately loaned and used excise tax monies for other purposes. Similar issues were identified during the previous audit. As a result of that audit, Mammoth implemented a repayment plan and should continue to repay its loaned monies. Superior did not implement a plan to repay its inappropriately loaned monies. As recommended in the previous audit, the State began withholding excise tax revenues from Superior in June 2015. In addition, both Towns should investigate previous expenditures to identify inappropriate use and repay those monies as well. Further, both Towns lack policies and procedures on appropriate excise tax use and should establish them and provide training. Finally, Pinal County and most municipalities can demonstrate the excise tax's impact. However, Mammoth and Superior can improve their planning procedures and documentation of the excise tax impact.



2016

Excise tax history

Pinal County residents authorized the current transportation excise tax in 2005. State law restricts the use of this excise tax to street and highway purposes and transportation projects. During fiscal years 2011 through 2015, the audit period, the excise tax generated \$67.5 million for Pinal County and its ten incorporated cities and towns.

Excise tax recipients, distributions, population, and lane miles maintained 2011 through 2015

Recipient	Fiscal years 2011 through 2015 excise tax distributions	Fiscal year 2015 population	Calendar year 2015 lane miles maintained
Pinal County—unincorporated	\$31,653,012	204,925	4,170
Apache Junction ¹	7,660,269	38,134	391
Casa Grande	8,846,569	51,744	890
Coolidge	2,253,761	12,187	416
Eloy	3,143,054	17,787	610
Florence	4,971,726	26,410	235
Kearny	427,544	2,023	29
Mammoth	346,015	1,480	37
Maricopa	7,531,774	48,374	531
Queen Creek ¹	75,958	475	20
Superior	600,097	2,929	55
Total	<u>\$67,509,779</u>	<u>406,468</u>	<u>7,384</u>

¹ Apache Junction and Queen Creek are located in both Maricopa and Pinal Counties. The lane miles listed in this table are for Pinal County only.

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

Two towns inappropriately used excise tax monies—The Towns of Mammoth and Superior inappropriately loaned excise tax or Road Fund monies to other funds during the audit period. As of June 30, 2013, the Town of Mammoth had an outstanding loan balance of more than \$1.1 million, and as of June 30, 2013, the Town of Superior had an outstanding loan balance of more than \$2.7 million. Both Towns loaned monies to cover cash deficits in other funds. As of this audit, it is unknown whether Mammoth's or Superior's loan balance has increased or decreased because they have not yet completed their financial audits for fiscal years 2014 and 2015. Similar issues were identified in the previous audit.

During fiscal year 2016, as recommended in the previous audit, the Town of Mammoth began making regular payments of \$500 per month to repay its loan. The Town of Superior has not implemented a repayment plan.

In addition to inappropriate loans, the Towns of Mammoth and Superior recorded excise tax expenditures for purposes other than streets and highways or transportation projects. For example, the Town of Mammoth recorded an expenditure of \$15,254 for a water tank in its Road Fund. However, the water tank expenditure should have been recorded in the Water Fund.

Two towns lack policies and procedures—Mammoth and Superior should develop policies and procedures governing the appropriate use of excise tax monies. The Towns should train all individuals responsible for the use of excise tax monies on the new policies and procedures.

Recommendations

- Mammoth should continue to repay its inappropriately loaned excise tax monies and Superior should implement a plan to repay its inappropriately loaned excise tax monies.
- If necessary, after our 6- and 18-month followups, the State should withhold excise tax monies from Mammoth if it does not continue to repay its loans.
- Mammoth and Superior should examine excise tax expenditures recorded during fiscal years 2011 through 2015 to identify inappropriately spent monies. The Towns should repay any inappropriate expenditures.
- Mammoth and Superior should develop and implement policies and procedures governing the use of excise tax monies and train personnel on them.

Pinal County and most entities can adequately demonstrate impact; two towns need improvement

The County and most cities and towns used excise tax monies to address a variety of issues—During the audit period, Pinal County used its excise tax revenues to improve congestion, driver safety, pollution, and road conditions. For example, the County is working on a project to widen 9.6 miles of Hunt Highway, the main thoroughfare connecting northern Pinal County and the Metropolitan Phoenix Southeast Valley. The project is being completed in five phases with the final phase expected to be complete in June 2019.

Most cities and towns can also demonstrate the impact of their use of excise tax monies, using excise tax monies for road maintenance, new road construction, dust abatement, and equipment to maintain and repair roads. For example, the City of Apache Junction completed an overlay and drainage project in its Superstition Villa subdivision (see Photo).

Superstition Villa subdivision before and after improvement

Before



After



Two towns can improve planning and recordkeeping procedures—The Towns of Mammoth and Superior can improve their planning and recordkeeping by implementing procedures similar to those used in other cities and towns. For example, the Town of Mammoth should consider completing a study to evaluate its road systems similar to one completed by the City of Apache Junction. The Town of Superior is in the process of completing a similar study.

Also, the Towns of Mammoth and Superior should develop and implement a formalized planning process to prioritize transportation projects and create project lists. The process should consider transportation studies, town needs, public works analysis, and public concerns.

Finally, the Towns of Mammoth and Superior should document recordkeeping policies to help them demonstrate the impact of transportation excise tax revenues in addressing transportation issues.

Recommendations

- The Town of Mammoth should consider conducting a transportation study to evaluate its road systems.
- The Towns of Mammoth and Superior should develop and implement a planning process to help identify and prioritize projects and implement policies and procedures detailing appropriate recordkeeping for the use of Road Fund monies.

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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) in accordance with and under the authority vested in 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 fifth performance audit of the Pinal County (County) excise tax since its initial establishment in 1987. 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 and incorporated cities and towns that received excise tax revenues spent the excise tax monies in compliance with A.R.S. §28-6392(B), which requires that they be used for street and highway purposes and transportation projects.

Pinal County transportation excise tax

Excise Tax History

In 1986 and again in 2005, pursuant to A.R.S. §42-6107, Pinal County voters passed a half-cent sales tax to pay for highway and street improvements and transportation projects in Pinal County and its incorporated cities and towns of Apache Junction, Casa Grande, Coolidge, Eloy, Florence, Kearny, Mammoth, Maricopa, Queen Creek, and Superior (see Figure 1 below). Florence is the county seat and has the fourth-largest urban population (26,410 people), and Casa Grande has the largest population with 51,744 people.² Pinal County and its incorporated cities and towns maintain 7,384 lane miles of road (see Figure 2 on page 2).³ The County's Public Works Department is responsible for maintaining 4,170 lane miles in the unincorporated areas of Pinal County (see Table 1 on page 2).

Figure 1: Map of Pinal County and its incorporated cities and towns that receive excise tax revenue



¹ The City of Apache Junction and the Town of Queen Creek are located in both Maricopa County and Pinal County.

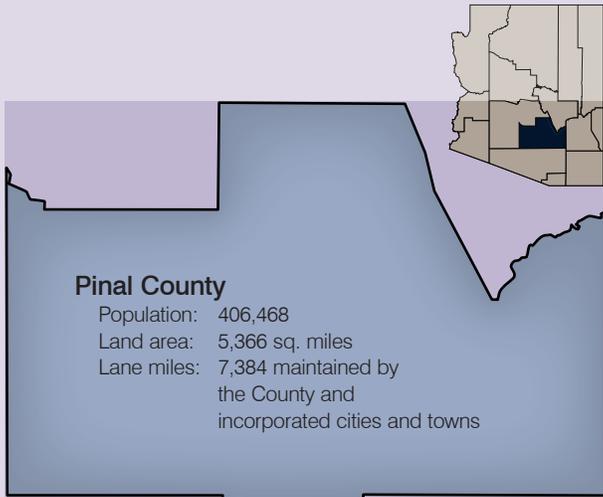
Source: Auditor General staff reproduction of <https://www.google.com/maps/place/Pinal+County+AZ>.

¹ A.R.S. §41-1279.03(A)(6) also requires a review of the distributions of Highway User Revenue Fund monies to ensure compliance with A.R.S. Title 28, Ch. 18, Art. 2 (A.R.S. §28-6531 et seq). Because external auditors review this information during financial statement audits, it was not addressed in this audit.

² Arizona Department of Administration-Employment and Population Statistics. (2016). July 1, 2015 Population Estimates for Arizona's Counties, Incorporated Places and Unincorporated Balance of Counties. Retrieved on May 4, 2016, from <https://population.az.gov/population-estimates>.

³ Lane miles are the length of the lane measured along the center line of each lane. For example, 1 mile of a two-lane road equals 2 lane miles. Lane miles reported included both paved and unpaved roads but exclude portions of roads such as turning and median lanes.

Figure 2: Pinal County population, land area, and lane miles maintained



Source: Auditor General staff analysis of July 1, 2015, population estimates from the Arizona Department of Administration-Employment and Population Statistics Web site; United States Census Bureau Quick Facts for Pinal County; and calendar year 2015 lane miles information provided by the Arizona Department of Transportation.

Excise tax revenues and distribution

Since its inception, the Pinal County excise tax has generated more than \$251 million in revenue for the County and its incorporated cities and towns. During fiscal years 2011 through 2015, the period covered by this audit, the tax generated over \$67.5 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 monies.

Table 1: Excise tax recipients, distributions, population, and lane miles maintained 2011 through 2015

Recipient	Fiscal years 2011 through 2015 excise tax distributions	Fiscal year 2015 population	Calendar year 2015 lane miles maintained
Pinal County—unincorporated	\$31,653,012	204,925	4,170
Apache Junction ¹	7,660,269	38,134	391
Casa Grande	8,846,569	51,744	890
Coolidge	2,253,761	12,187	416
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Queen Creek ¹	75,958	475	20
Superior	600,097	2,929	55
Total	\$67,509,779	406,468	7,384

¹ Apache Junction and Queen Creek are located in both Maricopa and Pinal Counties. The lane miles listed in this table are for Pinal County only.

Source: Auditor General staff analysis of Pinal County Treasurer’s Office transportation excise tax distribution data for fiscal years 2011 through 2015; July 1, 2015, population estimates from the Arizona Department of Administration-Employment and Population Statistics Web site; and calendar year 2015 lane miles information provided by the Central Arizona Governments, using its public mileage database and the Arizona Department of Transportation’s Highway Performance Monitoring System.

FINDING 1

The Towns of Mammoth and Superior inappropriately used transportation excise tax (excise tax) monies for purposes other than highways and streets during fiscal years 2011 through 2015. Statute requires excise tax monies be used only for street and highway purposes or transportation projects. Similar issues were identified during the previous audit. As a result of that audit, the Town of Mammoth implemented a plan to repay its inappropriately used excise tax monies. If it does not continue to repay those monies, it would be appropriate to invoke statutory provision of Arizona Revised Statutes (A.R.S.) §28-6392(B) that would withhold further excise tax distributions until the Town of Mammoth can resume repaying the inappropriately used monies. The Town of Superior did not implement a plan to repay its inappropriately used excise tax monies. As recommended in the previous audit followup and as required by statute, 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. Further, the Towns of Mammoth and Superior should develop and implement policies and procedures to govern the use of excise tax monies 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(B) 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 acquisitions, 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.

Two towns inappropriately loaned excise tax monies and spent excise tax monies for purposes other than highways and streets or transportation projects

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 2011 through 2015. For most of these entities, excise tax monies were used for purposes authorized by statute. However, auditors determined that the Towns of Mammoth and Superior inappropriately loaned excise tax monies. In addition, auditors determined the Towns of Mammoth and Superior recorded excise tax expenditures for purposes other than highways and streets or transportation projects. Both towns were cited for inappropriate use of excise tax monies in prior performance audits.

Current audit found inappropriate loans of excise tax monies—As shown in Table 2 (see page 4), auditors found that the Towns of Mammoth and Superior inappropriately loaned excise tax or Road Fund monies to other funds during the audit period.¹ As of June 30, 2013, the Town of Mammoth had an outstanding loan balance of more than \$1.1 million in its HURF/LTAF (Road) Fund. The Town of Mammoth loaned monies to cover cash deficits in its General, Grants, and various enterprise funds. In addition, as of June 30, 2013, the Town of Superior had an outstanding loan balance of more than \$2.7 million in its HURF/LTAF (Road) Fund. The

¹ The Towns of Mammoth and Superior deposit all road monies into their HURF/LTAF fund, including HURF, Local Transportation Assistance Fund monies (LTAF), and transportation excise taxes. No LTAF funds were received during the audit period.

**Table 2: Inappropriate loans of Road Fund monies due from other funds¹
As of June 30, 2010 through 2013²**

	2010	2011	2012	2013
Mammoth	\$ 338,766	\$ 646,795	\$ 909,278	\$1,148,048
Superior	2,609,840	2,646,691	2,808,006	2,727,993

¹ Mammoth and Superior combine excise tax monies with other restricted road monies, such as Highway User Revenue Fund monies, into a single fund. Therefore, the amounts include other restricted road monies.

² Mammoth and Superior had yet to complete their annual financial audits for fiscal years 2014 and 2015 at the time of this performance audit; therefore, auditors were unable to determine if the towns had repaid these loans or made additional loans.

Source: Auditor General staff analysis of the Towns of Mammoth's and Superior's fiscal years 2010 through 2013 audited financial statements.

Town of Superior loaned monies to cover cash deficits in its General, Grants, and Ambulance funds. Auditors were unable to determine whether either town had made additional loans of excise tax monies or reduced the outstanding loan balance during fiscal years 2014 and 2015 because the towns had yet to complete their annual financial statement audit for each of these fiscal years. However, during fiscal year 2016, as recommended in the previous audit, the Town of Mammoth began making regular payments to repay the loan. Specifically, starting in July 2015, the Town of Mammoth began making loan repayments of \$500 each month. The Town of Superior has not implemented a repayment plan, as was recommended in the previous audit.

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.

Excise tax expenditures for purposes other than highways and streets or transportation projects—In addition to the inappropriate loans discussed earlier, auditors found that the Towns of Mammoth and Superior recorded excise tax expenditures for purposes other than highways and streets or transportation projects. Auditors reviewed work completed as part of the previous excise tax audit followup, issued January 19, 2016, and determined that both Mammoth and Superior recorded inappropriate excise tax expenditures and expenditures for which they could not provide support.¹ In addition, as part of the current audit, auditors examined a sample of expenditures that occurred between April 1, 2014 and June 30, 2015, and noted similar inappropriate expenditures.

For example, during the examination period of April 1, 2014 through June 30, 2015, the Town of Mammoth recorded an expenditure of \$15,254 for a water tank in its Road Fund. However, the water tank expenditure should have been recorded in the Water Fund. In addition, auditors determined that the Town of Mammoth charged the Road Fund for expenditures that should have been allocated to various funds within the Public Works Department (e.g., roads, water, parks). For example, auditors sampled three uniform expenses charged to the Road Fund and determined that all three applied to all Public Works Department activities and should have

¹ The Office of the Auditor General (Office) completed several follow-up reports of the Office's 2011 performance audit (Report No. 11-05). The followups covered the audit period July 1, 2010 through March 31, 2014.

been allocated to the various funds within the Public Works Department. Based on discussion with Mammoth officials, auditors determined it is likely that all uniform expenses during the examination period were used for all Public Works Department activities. Therefore, the uniform expenses should have been proportionally charged to those activities using an appropriate allocation factor, such as the amount of payroll expenses by fund. Auditors extended test work and examined recorded payroll for the examination period and determined that approximately 49 percent of all Public Works Department payroll was charged to the Road Fund. In addition, auditors examined expenditure reports and determined that during the examination period, Mammoth recorded 70 expenditures totaling \$10,650 for uniform expenses in its Road Fund. As such, Mammoth should have charged 49 percent of uniform expenses, or \$5,219, to the Road Fund. The remaining \$5,432 should have been charged to other funds.

During the examination period, the Town of Superior recorded \$3,949 of gas and oil expenditures in its Road Fund. Auditors selected a sample of four gas and oil expenditures totaling \$1,382 and determined that Superior did not have sufficient supporting documents for \$938 of the expenditures. As a result, these expenditures may have been inappropriately charged to the Road Fund.

Previous audits identified various issues, including inappropriate loans

In previous audits, auditors identified a variety of issues regarding the use of excise tax monies, some of which have not been corrected.¹ For example, during the 2011 performance audit (see Report No. 11-05), auditors identified the following:

- **Three entities**—Kearny, Mammoth and Superior—inappropriately loaned excise tax monies. The Town of Kearny repaid its inappropriate loan prior to this audit and has not inappropriately loaned monies since. However, as discussed above, Mammoth and Superior continue to have outstanding loan balances.
- **Three entities**—Mammoth, Maricopa and Superior—lacked policies and procedures defining appropriate use of excise tax monies. The City of Maricopa has since developed and implemented appropriate policies and procedures; however, Mammoth and Superior have not.
- **One entity**—Mammoth—inappropriately deposited some excise tax revenues in other funds. This issue has been corrected.

¹ See the Office's 1998 (Report No. 98-8), 2001, 2006 (Report No. 06-03), and 2011 (Report No. 11-05) performance audits for further details. The 2001 performance audit was conducted by KPMG LLP under contract with the Arizona Office of the Auditor General.

Further action needed to correct issues

Auditors identified several actions that are needed to help comply with statutory requirements for spending excise tax monies. These actions include, where appropriate, (1) repaying inappropriately loaned monies, (2) investigating previous expenditures to identify and repay inappropriate expenditures, and (3) developing and implementing formal written policies and procedures.

Towns should repay loans and investigate inappropriate expenditures—The two towns that inappropriately loaned excise tax monies and spent excise tax monies for purposes other than highways and streets or transportation projects should take the following actions:

- The Town of Superior should repay its Road Fund for the inappropriately loaned restricted Road Fund monies and discontinue the practice of loaning restricted Road Fund monies, including excise tax monies, to other funds. If resources are not currently available to completely repay the loans, a repayment schedule should be developed and implemented.
- The Town of Mammoth should ensure it continues to repay its Road Fund for the inappropriately loaned restricted Road Fund monies. Also, Mammoth 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 should examine excise tax expenditures recorded during fiscal years 2011 through 2015 to identify monies spent for purposes other than highways and streets or transportation projects. Once identified, Mammoth and Superior should repay the inappropriate expenditures.

As discussed earlier, in July 2015, the Town of Mammoth implemented a plan to make monthly payments to repay its inappropriately loaned excise tax monies. If it does not continue to repay those monies, the State should take the additional step of withholding excise tax monies from the Town of Mammoth. 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 Department of Transportation (Department), upon notification by the Auditor General, shall notify the Arizona State Treasurer (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 an unrestricted revenue source equal to the amount of excise tax monies inappropriately spent.

The Town of Superior did not implement a plan to repay its inappropriately loaned excise tax monies. As a result, in September 2014, the Office of the Auditor General informed the Department to notify the 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.

Towns should develop and implement policies and procedures—The Towns of Mammoth and Superior do not have written policies and procedures governing the use of excise tax monies. Given the recurring problems of inappropriate loans and expenditures of

excise tax monies, Mammoth and Superior should develop and implement written policies and procedures that define the allowable uses of excise tax monies and outline step-by-step procedures for reviewing and approving excise tax expenditures. Further, the Towns should train all individuals responsible for the use of excise tax monies on the new policies and procedures. These actions would provide the appropriate individuals with the tools they need to properly manage the use of excise tax monies.

In addition, Mammoth and Superior should develop policies and procedures requiring reconciliations of excise tax revenues at least annually, to help ensure all excise tax monies are received and recorded appropriately and are available to help address the Towns' transportation issues.

Recommendations:

- 1.1 The Town of Superior should repay its Road Fund for the inappropriately loaned restricted road fund monies and discontinue the practice of loaning restricted Road Fund monies, including excise tax monies, to other funds. If resources are not currently available to completely repay the loans, a repayment schedule should be developed and implemented.
- 1.2 The Town of Mammoth should ensure it continues to repay its Road Fund for the inappropriately loaned restricted Road Fund monies. Also, Mammoth should ensure that it does not loan any restricted Road Fund monies, including excise tax monies, to other funds in the future. If the Office of the Auditor General determines at its 6- or 18-month followup that the Town of Mammoth did not continue to repay its inappropriately used excise tax monies, in accordance with the provisions of A.R.S. §28-6392(B), the Arizona Department of Transportation, upon notification by the Auditor General, should notify the Arizona State Treasurer to withhold excise tax revenues from the Town of Mammoth until it can present satisfactory evidence to the Auditor General that it has repaid inappropriately loaned monies.
- 1.3 The Towns of Mammoth and Superior should examine excise tax expenditures recorded during fiscal years 2011 through 2015 to identify monies spent for purposes other than highways and streets or transportation projects. Once identified, Mammoth and Superior should repay the inappropriate expenditures.
- 1.4 The Towns of Mammoth and Superior should develop and implement policies and procedures that, at a minimum:
 - Define the allowable uses of excise tax monies;
 - Outline step-by-step procedures for the review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies; and
 - Reconcile excise tax revenues recorded at least annually.

The Towns should then train all individuals responsible for the use of excise tax monies on the new policies and procedures.

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 helped address transportation problems in their respective communities. Further, most have planning procedures in place that allow them to identify how to spend these monies effectively in the future. However, although most entities have satisfactory planning procedures, the Towns of Mammoth and Superior can improve their planning procedures and documentation of the excise tax impact.

Most entities can adequately demonstrate impact; two towns need improvement

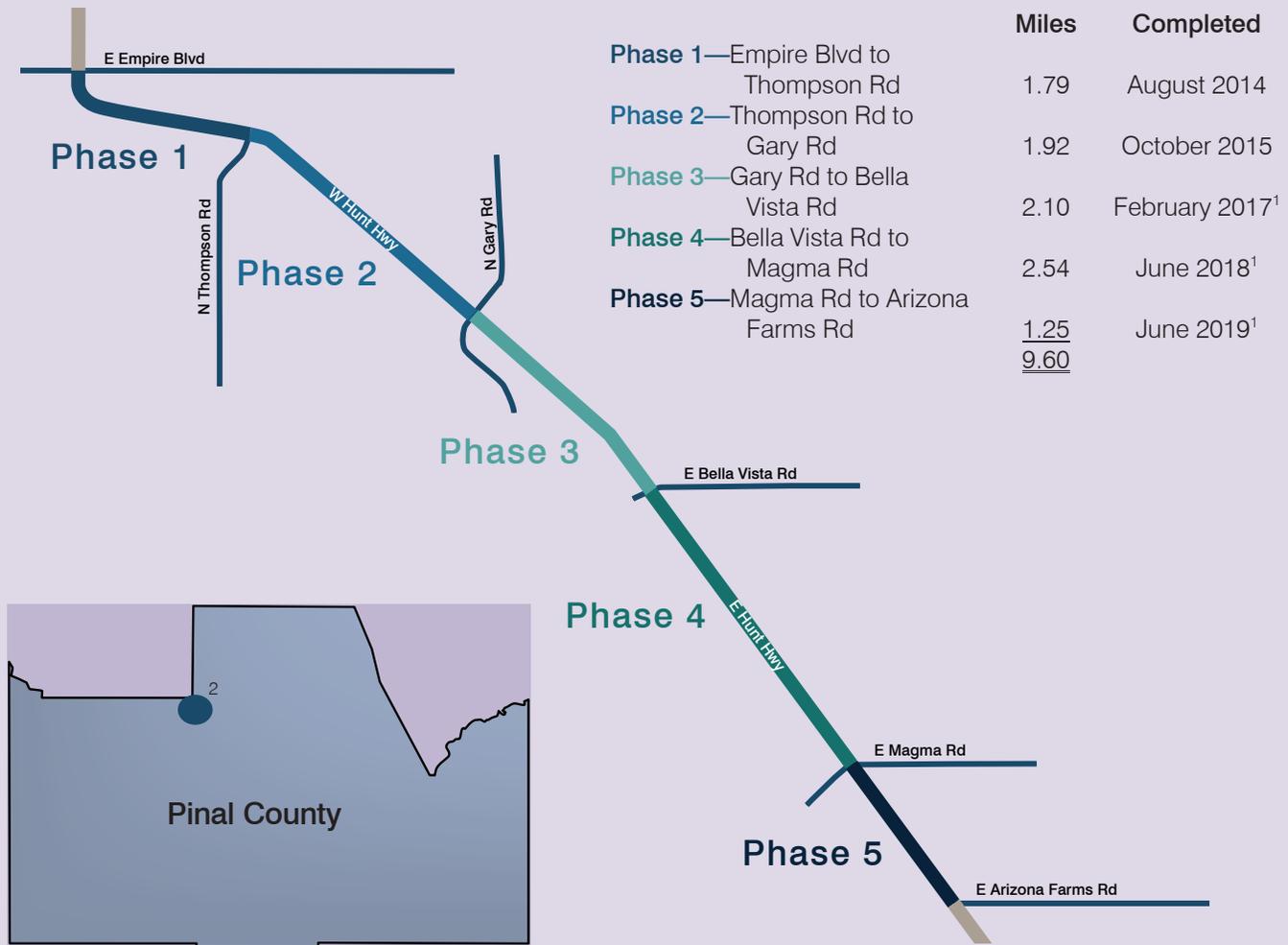
County used excise tax to address significant issues in its transportation plan

The County was able to demonstrate that it used its fiscal years 2011 through 2015 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 its Transportation Advisory Committee to identify transportation needs and develop a 5-year plan to address those needs.

County projects improved congestion, driver safety, pollution, and road conditions—Since the Auditor General's last performance audit in 2011 (see Report No. 11-05), the County has used excise tax monies for projects that have helped address major transportation problems. Those projects include:

- **Hunt Highway**—The County is reducing traffic congestion by widening Hunt Highway, the main thoroughfare connecting northern Pinal County with the Metropolitan Phoenix Southeast Valley, from Empire Boulevard to Arizona Farms Road, a total of 9.6 miles (see Figure 3 on page 10). This project is being completed in five phases. Phase 2 was completed in October 2015; construction on Phase 3 began in January 2016. The County expects to complete all phases of the Hunt Highway project by June 2019. The project has cost approximately \$16.0 million through Phase 2, of which the County contributed approximately \$6.0 million in excise tax monies. The remaining \$10.0 million was funded from Highway User Revenue Fund (HURF) monies, federal grant funds, and development funds. The County considers this one of its most important projects.
- **Hanna Road**—The County paved a 4.0-mile section of Hanna Road from Estrella Road to La Palma Road, reducing dust emissions from the previously unpaved road. The project improved driver safety by increasing driver visibility and also addressed air pollution concerns. The total cost of the project was approximately \$541,000, of which the County contributed approximately \$303,000 in excise tax monies. The remaining amount was funded through an intergovernmental agreement with the Town of Eloy.
- **Maricopa-Casa Grande Highway, Santa Cruz Wash Crossing**—The County is in the process of constructing a crossing for the main highway between the Cities of Maricopa and Casa Grande to alleviate road closures and detours resulting from water from the Santa Cruz

Figure 3: Hunt Highway project



¹ Estimated completion dates provided by Pinal County.
² Hunt Highway widening project is primarily located in San Tan Valley in this general area of Pinal County.

Source: Auditor General staff summary of Pinal County Hunt Highway project details.

Wash crossing the highway. The County’s Public Works Department is forced to close the highway when flooding occurs to prevent motorists from hydroplaning at high speeds, and motorists are diverted along a 9-mile detour. Through the end of fiscal year 2015, the project cost approximately \$506,000, all funded from excise tax monies. The project is expected to be complete by June 30, 2016.

County uses Committee to identify transportation needs—The County uses a Transportation Advisory Committee (Committee) made up of ten members—two from each supervisory district—to annually review, update, and recommend a 5-year Transportation Improvement and Maintenance Program (transportation plan). According to the Committee’s bylaws, projects included in the transportation plan consider traffic safety, long-range transportation and land-use planning, economic development, and environment and quality of life issues. The Committee holds public meetings where the County’s Public Works Department presents potential projects, including project details, cost estimates, and recommendations.

The Committee also obtains citizen input at the public meetings. The Committee drafts a 5-year transportation plan to be presented to the County Board of Supervisors for approval. According to its most recent Transportation Improvement and Maintenance Program, some of the County’s planned projects include continuing to widen Hunt Highway, improvements to the Florence-Kelvin Highway, and various maintenance projects throughout the County.

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

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 future needs. However, the Towns of Mammoth and Superior should develop and implement a planning process to help identify and prioritize projects. In addition, the Towns of Mammoth and Superior should better document their completed projects.

Cities and towns used excise tax monies in various ways—Since the last performance audit in 2011, 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:

- **Apache Junction overlay**—The City of Apache Junction completed an overlay and drainage project in its Superstition Villa subdivision to improve drainage and repair pavement in poor condition (see Photo 1 below). The project cost a little more than \$1.3 million and was funded by a combination of excise tax and HURF monies.

Photo 1: Superstition Villa subdivision before and after improvement

Before



After



Source: Photos courtesy of the City of Apache Junction.

- **Casa Grande Downtown Streets project**—The City of Casa Grande completed a transportation study, design process, and construction on its downtown streets. Traffic flow, visual impact,

and road conditions were all improved by the project. The project expenditures were approximately \$2.8 million during the audit period and were funded by excise tax monies.

- **Coolidge purchased equipment**—The City of Coolidge purchased an asphalt zipper, pneumatic roller, and various other road maintenance equipment to help construct and maintain its roads. This equipment was purchased with excise tax monies and totaled more than \$375,000.

Cities and towns use various planning methods to identify transportation needs—The cities and towns use different planning methods to identify appropriate projects and uses of excise tax monies. Seven municipalities have long-term planning processes to identify transportation projects. Specifically, the Cities of Apache Junction, Casa Grande, Coolidge, Eloy, and Maricopa, and the Towns of Florence and Queen Creek, 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 Town of Kearny does not have a long-term planning process, but has implemented a process that identifies projects based on current road conditions and community input that is sufficient to meet its transportation needs. However, the Towns of Mammoth and Superior did not have a documented planning method or recent transportation study. In addition, neither entity was able to produce documentation that demonstrates the impact its use of excise tax had in addressing transportation issues.

Two towns can improve planning and recordkeeping process—Auditors identified ways in which the Towns of Mammoth and Superior can improve their processes based on analysis of the other cities and towns. For example:

- The Town of Mammoth should consider completing a study to evaluate its road systems. The City of Apache Junction completed a Comprehensive Transportation Study in May 2012. The study was a joint effort by the City of Apache Junction and the Arizona Department of Transportation that helped identify the City's transportation issues. This type of study would help Mammoth identify its most critical current and future transportation issues. The Town of Superior recently began a similar study that is expected to be completed in December 2016.
- The Towns of Mammoth and Superior should develop and implement a formalized planning process to prioritize transportation projects and create project lists. The process should include gathering information from transportation studies, town management including public works personnel, and, when appropriate, the public. That information should be used to develop a project list for current and future transportation needs. For example, the City of Maricopa has a schedule of planned capital improvements, including street and highway projects, as well as other capital improvements.
- The Towns of Mammoth and Superior should document recordkeeping policies to help them demonstrate the impact of transportation excise tax revenues in addressing transportation issues. For example, the City of Coolidge has formally documented policies explaining appropriate recordkeeping for the use of Road Fund monies.

Recommendations:

- 2.1 The Town of Mammoth should consider conducting a transportation study to evaluate its road systems and identify the most critical current and future transportation needs to help it prioritize its use of excise tax monies.
- 2.2 The Towns of Mammoth and Superior should develop and implement a planning process to help identify and prioritize projects.
- 2.3 The Towns of Mammoth and Superior should develop and implement policies and procedures detailing appropriate recordkeeping for the use of Road Fund monies.

APPENDIX A

Sampling methodology

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 (County) transportation excise tax expenditures, auditors obtained and analyzed the County's, cities', and towns' revenue and expenditure data for fiscal years 2011 through 2015.¹ Auditors reconciled the Pinal County Treasurer's excise tax disbursements for fiscal years 2011 through 2015 to the County's, cities', and towns' respective funds into which they deposit excise tax monies.² To determine if the data was reasonably complete, auditors compared the general ledger data the County, cities, and towns provided to their fiscal years 2011 through 2015 audited financial statements or account summaries. However, auditors were unable to determine whether all the data the Towns of Mammoth and Superior provided was reasonably complete because their fiscal years 2014 through 2015 financial statement audits were not yet completed. For the County and each city and town, auditors tested judgmental or random samples of excise tax transactions ranging from 2 to 40 items. For judgmental samples, transactions were selected for 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. For the County and the Cities and Towns of Apache Junction, Casa Grande, Coolidge, Eloy, Florence, Kearny, Maricopa, and Queen Creek, samples were pulled from fiscal years 2011 through 2015. However, for the Towns of Mammoth and Superior, auditors reviewed work completed as part of the previous performance audit followup and selected samples from April 1, 2014 through June 30, 2015, the period subsequent to the follow-up review.³
- 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 2011 through 2015, including project costs, descriptions, and contract information. Auditors also reviewed information related to

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.

² The Cities of Apache Junction, Casa Grande, and Eloy and the Towns of Florence, Kearny, 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 in their accounting records.

³ The Office of the Auditor General completed several follow-up reports of its 2011 performance audit (Report No. 11-05). The followups covered the audit period July 1, 2010 through March 31, 2014.

future project planning and selection processes, including a 5-year transportation plan, small area transportation studies, and capital improvement plans.

- 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 Mammoth



June 23, 2016

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

Dear Ms. Davenport;

Mammoth's Responses to Auditor General Recommendations:

1.2 Recommendation: The Town of Mammoth should ensure it continues to repay its Road Fund for the inappropriately loaned restricted Road Fund monies. Also, Mammoth should ensure that it does not loan any restricted Road Fund monies, including excise tax monies, to other funds in the future. If the Office of the Auditor General determines at its 6 to 18 month follow-up that the Town of Mammoth did not continue to repay its inappropriately used excise tax monies, in accordance with the provisions of A.R.S. §28-6392(B), the Arizona Department of Transportation, upon notification by the Auditor General, should notify the Arizona State Treasurer to withhold excise tax revenues from the Town of Mammoth until it can present satisfactory evidence to the Auditor General that it has repaid inappropriately loaned monies.

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

1.3 Recommendation: The Town of Mammoth should examine excise tax expenditures recorded during fiscal years 2011 through 2015 to identify monies spent for purposes other than highways and streets or transportation projects. Once identified, Mammoth should repay the inappropriate expenditures.

Response – The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented if the Town finds that expenditures were made from excise tax revenues for purposes other than highways and streets or transportation projects because they are currently under a payment plan.

1.4 Recommendation: The Town of Mammoth should develop and implement policies and procedures that, at a minimum:

- Define the allowable uses of excise tax monies;

Handicapped individuals with special accessibility needs may contact the ADA Coordinator for the Town of Mammoth, at (520) 487-2331 (V/TDD)

- Outline step-by-step procedures for the review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies; and
- Reconcile excise tax revenues recorded at least annually.

The Town should then train all individuals responsible for the use of excise tax monies on the new policies and procedures.

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

2.1 Recommendation: The Town of Mammoth should consider conducting a transportation study to evaluate its road systems and identify the most critical current and future transportation needs to help it prioritize its use of excise tax monies.

Response – The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented. The Town may have someone with the expertise to complete the study or apply for a Grant through ADOT.

2.2 Recommendation: The Town of Mammoth should develop and implement a planning process to help identify and prioritize projects.

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

2.3 Recommendation: The Town of Mammoth should develop and implement policies and procedures detailing appropriate recordkeeping for the use of road fund monies.

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

We have just released our final FY13 audit and the FY14 audit started on 6-22-16. After completion of the FY14 audit, we move on to FY15 and will have completed by the end of the year. If you have any questions, please let me know.

Mayor Don Jones
Town of Mammoth, Arizona

6-23-16

Date



TOWN OF SUPERIOR

Town Hall • 199 N. Lobb Ave., PO Box 218 • Superior, Arizona 85173
520-689-5752 • Fax: 520-689-5822 • TDD Relay 1-800-367-8938

June 3, 2016

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

Re: Pinal County Excise Tax Audit

Dear Ms. Davenport,

The Town of Superior (Town) appreciates the opportunity to provide this response to the Auditor's General's report draft on the Pinal County Excise Tax Audit. The Town values the collaborative effort of the Auditor General's staff throughout this audit.

Enclosed is the Town's response to each individual recommendation. Thank you again for the opportunity to provide feedback, we believe that the information in the Auditor General's report will be constructive in helping the Town to improve its accounting procedures for excise tax funds.

Sincerely,

Todd Pryor
Town Manager



TOWN OF SUPERIOR

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The Town of Superior's response to the Auditor General's recommendations is described below:

Recommendation 1.1

The Town of Superior should repay its Road Fund for the inappropriately loaned restricted road fund monies and discontinue the practice of loaning restricted Road Fund monies, including excise tax monies, to other funds. If resources are not currently available to completely repay the loans, a repayment schedule should be developed and implemented.

Town of Superior Response:

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

The town has begun repaying its Road Fund, and the fund imbalance is decreasing. This is documented by an inter-fund transfer in our adopted budget.

Recommendation 1.3

The Town of Superior should examine excise tax expenditures recorded during fiscal years 2011 through 2015 to identify monies spent for purposes other than highways and streets or transportation projects. Once identified, Superior should repay the inappropriate expenditures.

Town of Superior Response:

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

The town is the process of completing its audits for the 2014 and 2015 fiscal years and they will be completed by the end of the 2016 calendar year. The town will review the expenditures applied to excise and verify their applicability. The Town will continue to pay down the fund imbalance as revenues become available.

Recommendation 1.4

The Town of Superior should develop and implement policies and procedures that, at a minimum:

- Define the allowable uses of excise tax monies;
- Outline step-by-step procedures for the review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies; and

- Reconcile excise tax revenues recorded at least annually.

The Town should then train all individuals responsible for the use of excise tax monies on the new policies and procedures.

Town of Superior Response:

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

The Town of Superior has a contract with a CPA firm to perform financial oversight and reconciliations. As a part of this agreement, the accounting firm will develop a set of financial policies and procedures. The Town will be implementing these policies and procedures, and training all employees within the 2017 fiscal year.

Recommendation 2.2

The Town of Superior should develop and implement a planning process to help identify and prioritize projects.

Town of Superior Response:

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

The Town is in the process of completing a pavement assessment study in cooperation with ADOT, including a maintenance and improvement plan. This plan will be completed by the first quarter of 2017, and will be used to prioritize future projects.

Recommendation 2.3

The Town of Superior should develop and implement policies and procedures detailing appropriate recordkeeping for the use of road fund monies.

Town of Superior Response:

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

The Town will be implementing policies and procedures and training all employees on these policies within the 2017 fiscal year.



June 16, 2016

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

Dear Ms. Davenport:

I am in receipt of your letter dated June 9, 2016 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,

Kristine Ward
Chief Financial Officer

Performance Audit Division reports issued within the last 12 months

15-CR1	Independent Review—Arizona's Child Safety System and the Arizona Department of Child Safety
15-CR1SUPP	Supplemental Report to the Independent Review—Arizona's Child Safety System and the Arizona Department of Child Safety
15-106	Arizona State Retirement System
15-CR2	Independent Operational Review of the Arizona State Retirement System's Investment Strategies, Alternative Asset Investment Procedures, and Fees Paid to External Investment Managers
15-107	Arizona Sports and Tourism Authority
15-108	Arizona Department of Administration—Personnel Reform Implementation
15-109	Arizona Department of Administration—Sunset Factors
15-110	Arizona Foster Care Review Board
15-111	Public Safety Personnel Retirement System
15-CR3	Independent Operational Review of the Public Safety Personnel Retirement System Investment Strategies, Alternative Asset Investment Procedures, and Fees Paid to External Investment Managers
15-112	Arizona Commerce Authority
15-113	Arizona Department of Transportation—Transportation Revenues
15-114	Arizona Department of Transportation—Sunset Factors
15-115	Arizona Radiation Regulatory Agency, Arizona Radiation Regulatory Hearing Board, and Medical Radiologic Technology Board of Examiners
15-116	Arizona Department of Revenue—Security of Taxpayer Information
15-117	Arizona Department of Revenue—Sunset Factors
15-118	Arizona Department of Child Safety—Child Safety, Removal, and Risk Assessment Practices
15-119	Arizona Department of Environmental Quality— Vehicle Emissions Inspection Program
15-120	A Comparison of Arizona's Two State Retirement Systems
15-121	Alternatives to Traditional Defined Benefit Plans
16-101	Arizona Department of Education—K-3 Reading Program
16-102	Arizona Department of Child Safety—Differential Response and Case Screening
16-103	Arizona State Board of Respiratory Care Examiners
16-104	Arizona Board of Osteopathic Examiners in Medicine and Surgery
16-105	Arizona Criminal Justice Commission

Future Performance Audit Division reports

Arizona Department of Education—Empowerment Scholarship Accounts Program

