

# Arizona Department of Transportation

Department developed processes to meet various statutory responsibilities but failed to fully address fraud and security incidents, potentially not notifying affected customers and not recovering public monies, and had identified but not yet addressed issues related to legislative appropriations for transportation purposes

Performance Audit and  
Sunset Review

September 2023  
Report 23-110

A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





The Arizona Auditor General’s mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

## The Joint Legislative Audit Committee

Representative **Matt Gress**, Vice Chair  
Representative **Tim Dunn**  
Representative **Alma Hernandez**  
Representative **Beverly Pingerelli**  
Representative **Marcelino Quiñonez**  
Representative **Ben Toma** (ex officio)

Senator **Sonny Borrelli**, Chair  
Senator **Eva Diaz**  
Senator **David C. Farnsworth**  
Senator **Anthony Kern**  
Senator **Juan Mendez**  
Senator **Warren Petersen** (ex officio)

## Audit Staff

**Jeff Gove**, Director  
**Miguel Caro Mateus**, Manager  
**Paul Solding**, Manager

**Jessika Hallquist**, Team Leader  
**Mia Buller**  
**Timmy Sutton**

## Contact Information

Arizona Auditor General  
2910 N. 44th St., Ste. 410  
Phoenix, AZ 85018-7271

(602) 553-0333

[contact@azauditor.gov](mailto:contact@azauditor.gov)

[www.azauditor.gov](http://www.azauditor.gov)



LINDSEY A. PERRY  
AUDITOR GENERAL

ARIZONA  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

September 22, 2023

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Ms. Jennifer Toth, Director  
Arizona Department of Transportation

Transmitted herewith is the Auditor General's report, *Arizona Department of Transportation—Performance Audit and Sunset Review*. This report is in response to a December 17, 2020, resolution of the Joint Legislative Audit Committee. The performance audit and sunset review was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Arizona Department of Transportation agrees with all the findings and plans to implement all the recommendations. My Office will follow up with the Arizona Department of Transportation in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Director Toth and Department staff for their cooperation and assistance throughout the audit.

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

Sincerely,

*Lindsey A. Perry*

Lindsey A. Perry, CPA, CFE  
Auditor General

## Arizona Department of Transportation

Department developed processes to meet various statutory responsibilities but failed to fully address fraud and security incidents, potentially not notifying affected customers and not recovering public monies, and had identified but not yet addressed issues related to legislative appropriations for transportation purposes

### Audit purpose

To determine whether the Department addressed fraud and security incident risks related to its Motor Vehicle Division (MVD) system; ensured compliance with State purchasing card, conflict-of-interest, and 5-Year Transportation Facilities Construction Program (Construction Program) requirements; and to provide responses to the statutory sunset factors.

### Key findings

- The Department is statutorily required to plan, construct, and maintain the State highway system; register motor vehicles and aircrafts; license drivers; and operate the State's motor vehicle fleet (State fleet) and airport, and has developed processes and/or taken steps to meet its responsibilities in some areas we reviewed, such as identifying highway maintenance goals, expending monies to carry out State highway transportation projects, and recovering its State fleet operation costs through various fees.
- The Department did not conduct required investigations of potential MVD system security incidents and failed to report to authorities and/or identify all potentially fraudulent accounts, potentially not notifying affected customers, not recovering \$198,358 of public monies, and possibly hampering authorities' response to the incidents.
- The Department has a process for identifying and prioritizing transportation projects but has not addressed issues with initial project cost estimates it identified. Specifically, the Department reported that initial transportation project cost estimates did not always include inflation, causing some transportation project actual costs to be higher than estimated, and reported that it was developing a cost estimation tool to standardize these estimates but did not have an estimated completion date. Additionally, it lacks a comprehensive stakeholder education process to obtain information it reported was necessary to carry out Legislature-directed transportation projects, such as detailed project scopes.
- The Department did not always use purchasing card, employee travel card, and central travel accounts consistent with State and/or Department policy requirements, including lacking documentation demonstrating that some transactions had a public purpose. Further, the Department did not comply with some State conflict-of-interest and open meeting law requirements.

### Key recommendations

The Department should:

- Comply with State laws for reporting, investigating, and notifying customers of security incidents.
- Continue to develop and implement a cost estimation tool to standardize project cost estimates.
- Implement a stakeholder education process for obtaining and providing information on Legislature-directed transportation projects.
- Comply with purchasing card and travel policies; and conflict of interest requirements and open meeting laws.



# TABLE OF CONTENTS

<b>Introduction</b>	1
<b>Finding 1: Department failed to fully address fraud and security incidents, which resulted in it potentially not notifying affected customers, not recovering \$198,358 of public monies, and possibly hampering authorities' response</b>	8
Department is responsible for safeguarding public monies and for investigating and reporting security incidents and notifying affected individuals	
Department failed to address instances of fraudulent patterns related to its new MVD system and failed to investigate potential security incidents involving customers' personal information	
The Department's failure to conduct required investigations resulted in it not notifying potentially affected customers that personal information may have been available for fraudulent use, it had not recovered at least \$198,358 of public monies, and it may have hampered authorities from fulfilling responsibilities	
The Department failed to follow its policies for tracking and reporting suspected security incidents, establish procedures for reporting fraud, implement a risk management process, and conduct a comprehensive review of customer accounts	
Recommendations	
<b>Sunset factors</b>	15
<b>Summary of recommendations: Auditor General makes 19 recommendations to the Department</b>	35
<b>Appendix A: Summary of 77 legislative appropriations for specific transportation purposes made in the 2019, 2021, and 2022 legislative sessions</b>	a-1
<b>Appendix B: Status of 8 sampled legislative appropriations and applicable Department transportation projects</b>	b-1
<b>Appendix C: State Highway Fund revenues, expenditures, and changes in fund balances</b>	c-1
<b>Appendix D: Scope and methodology</b>	d-1
<b>Department response</b>	
<b>Figures</b>	
1 Department operates 2 fleets with 6,438 vehicles and equipment, as of February 2023 (Unaudited)	16
2 Department works with stakeholders and uses a scoring process to identify and prioritize transportation projects for inclusion on the Construction Program	18



# TABLE OF CONTENTS

3	Department's initial Construction Program cost estimates were not within 5 percent of most contract bid awards that we reviewed	22
4	Department's I-17 transportation project, expected to be completed in 2025, has gone through several key phases and milestones, including a \$76.2 million budget shortfall	b-2

## Photos

1	Highway maintenance on State Route 89A	2
2	Dynamic messaging sign	30

## Tables

1	Schedule of revenues, expenditures, and changes in fund balances Fiscal years 2021 through 2023 (In millions) (Unaudited)	5
2	Department charges monthly State fleet fees to agencies to cover the cost of operating the State's fleet	17
3	Department sets goals for highway conditions in different areas of the State	20
4	Examples of closure reasons for Department OIG cases opened in calendar year 2022	31
5	Department-reported summary information for 77 legislative transportation-related appropriations passed between the 2019 and 2022 legislative sessions As of March 2023 (Unaudited)	a-2
6	Schedule of State Highway Fund revenues, expenditures, and changes in fund balances Fiscal years 2020 through 2022 (In millions) (Unaudited)	c-2



The Arizona Auditor General has released the third in a series of 3 audit reports of the Arizona Department of Transportation (Department) as part of the Department's sunset review. The first performance audit determined whether the Department's motor vehicle division (MVD) ensured authorized third parties issued vehicle titles, drivers licenses, and identification cards only to qualified/authorized individuals.<sup>1</sup> The second performance audit determined whether MVD timely inspected commercial driver license providers and examiners in accordance with federal requirements and whether MVD held commercial driver license providers and examiners accountable for addressing inspection violations.<sup>2</sup> This sunset review determined whether the Department addressed fraud and security incident risks related to its MVD system, and ensured compliance with State purchasing card, conflict-of-interest, and 5-Year Transportation Facilities Construction Program (Construction Program) requirements. This sunset review report also includes responses to the statutory sunset factors.

## Mission and responsibilities

The Department is statutorily required to plan, design, construct, and maintain all components of the State highway system, register motor vehicles and aircrafts, license drivers, and operate the State's motor vehicle fleet and the State-owned airport.<sup>3</sup> The Department carries out these responsibilities in various ways, including by performing the following activities:

### Department mission

Connecting Arizona. Everyone. Everywhere.  
Every Day.

Source: Auditor General staff review of the Department's *Fiscal Year 2023 Strategic Plan*.

- **Conducting State transportation planning**—The Department is responsible for conducting State transportation planning, such as developing a long-range State-wide transportation plan that establishes strategic transportation goals and objectives for the Department. For example, the Department's 2040 long-range transportation plan objectives included preservation, modernization, and expansion of the State highway system.<sup>4</sup> As of August 2023, the Department was developing the 2050 long-range State-wide transportation plan. Further, the Department develops the 5-Year Transportation Facilities Construction Program (Construction Program), which is subject to approval by the State Transportation Board (Board).<sup>5</sup> The Construction Program includes estimated expenditures, locations, and descriptions for transportation projects planned to occur during the following 5 fiscal years and establishes the priorities for State-wide highway and airport transportation projects (see Sunset Factor 2, pages 18 through 22, for more information on the Construction Program).
- **Designing and constructing the State highway system**—The Department is responsible for designing and constructing the State highway system. For example, the Department designs transportation projects, such as widening highways or constructing highway interchanges, and coordinates the construction of

<sup>1</sup> See Arizona Auditor General report 23-105 *Arizona Department of Transportation—Motor Vehicle Division's (MVD) oversight of third parties*.

<sup>2</sup> See Arizona Auditor General report 23-106 *Arizona Department of Transportation—Motor Vehicle Division's (MVD) oversight of commercial driver license (CDL) examination third parties*.

<sup>3</sup> Arizona Revised Statutes (A.R.S.) §28-332.

<sup>4</sup> According to the Department, the long-range State-wide transportation plan is updated approximately every 5 years.

<sup>5</sup> A.R.S. §28-302 establishes the Board within the Department.

transportation projects through contracts awarded by the Board. According to the Department, as of May 2023, it had 108 transportation projects under construction State-wide.

- **Maintaining the State highway system**—The Department is responsible for maintaining the State highway system. For example, the Department makes repairs to highway features such as guardrails, pavement, lighting, and signage as part of routine maintenance and in response to emergency incidents such as wildfires, rockslides, car accidents, and extreme weather (see Photo 1). According to Department data, in calendar year 2021, the Department owned and was responsible for maintaining over 30,700 lane miles in the State.<sup>6</sup> Additionally, the Department provides traffic control and cleanup assistance to law enforcement when responding to traffic incidents on highways.

### Photo 1 Highway maintenance on State Route 89A



Source: Photo courtesy of the Department.

- **Licensing drivers and registering motor vehicles and aircraft**—The Department is responsible for various motor vehicle-related functions. For example, MVD issues identification cards, driver licenses, commercial driver licenses, and vehicle titles and registrations. According to the Department, there were approximately 5.9 million licensed drivers, 120,000 licensed commercial drivers, and 7.8 million registered motor vehicles in Arizona in fiscal year 2022. In addition, MVD issues driver licenses and identification cards that comply with the provisions of the federal REAL ID Act of 2005 and allow the holder access to federally regulated facilities, including boarding a commercial airline.<sup>7</sup> As of May 2023, the Department had issued a total of more than 2 million REAL ID Act compliant driver licenses and identification cards, known as “Travel IDs.”
- **Depositing and distributing transportation-related revenues**—The Department is responsible for depositing revenues from transportation-related fees and taxes into the Arizona Highway User Revenue Fund (HURF).<sup>8</sup> The Department is then responsible for distributing these revenues to counties, cities, towns, and the State Highway Fund according to statutory formulas.<sup>9,10</sup> In fiscal year 2022, the Department distributed approximately \$326 million to counties, \$523.4 million to cities and towns, and \$866.5 million to the State Highway Fund from the HURF.
- **Operating the State motor vehicle fleet (State fleet)**—The Department is responsible for operating the State fleet, which includes motor vehicles that the State owns, leases, or rents to transport State officers

<sup>6</sup> Lane miles represent the total length of a road, including the number of lanes. As of August 14, 2023, the calendar year 2021 information was the most recent available from the Department.

<sup>7</sup> The federal REAL ID Act of 2005 established minimum security standards for credentials and prohibited federal agencies from accepting credentials for official purposes that did not meet these standards, such as boarding an aircraft or entering restricted federal buildings. Federal agencies were prohibited from accepting a credential for official purposes that did not comply with the minimum standards beginning October 1, 2020; however, the deadline was extended to May 7, 2025.

<sup>8</sup> A.R.S. §28-6533 establishes the HURF to deposit highway user revenues, such as special license plate administration fees, and various fees, penalties, and fines collected according to statute.

<sup>9</sup> A.R.S. §28-6991 establishes the State Highway Fund to pay for, among other costs, Departmental operational costs and costs associated with engineering, construction, and improvement of State highways and roadways, as authorized by A.R.S. §28-6993.

<sup>10</sup> According to A.R.S. §28-6533(B), HURF monies can only be used for the purposes prescribed in the Arizona Constitution, Article IX, §14, which states that monies derived from fees, excises, or license taxes relating to registration, operation, use of vehicles on the public highways, or to fuels are required to be spent on highway and street-related purposes, such as the cost of administering the State highway system.



and employees.<sup>11</sup> According to A.R.S. §28-472, the Department's State fleet operation responsibilities include keeping detailed records on each State-owned vehicle such as cost, operation, maintenance, and mileage. The Department charges State agencies fees to recover the costs of operating the State fleet, including fees related to State fleet vehicles' maintenance, acquisition, and sale. As of February 2023, the Department-administered State fleet included approximately 1,700 vehicles such as sedans, sport utility vehicles (SUVs), vans, trucks, medium- and heavy-duty vehicles, and equipment (see Sunset Factor 2, pages 15 through 17, for more information on the State fleet).

- **Operating the State-owned Grand Canyon National Park Airport**—The Department is responsible for State-owned airports, including establishing fees for use of State-owned airports such as landing and takeoff fees for commercial aircraft and facility use fees. Specifically, the Department owns and operates 1 airport, the Grand Canyon National Park Airport in Tusayan, AZ, and has established fees and charges for services related to the use of facilities and equipment at the airport.

## Organization, division responsibilities, and staffing

As of July 2023, the Department reported having 3,656 full-time equivalent (FTE) positions and 121 vacancies and is organized into the following 7 offices:<sup>12</sup>

- **Director's Office (7 FTE, 3 vacancies)**—According to the Department, this office provides overall leadership and direction for the Department and is composed of the Department Director and leadership staff.
- **State Engineer's Office (1,696 FTE, 53 vacancies)**—This office includes the State engineer and Department divisions such as Multimodal Planning, Infrastructure Delivery and Operations, and Transportation Systems Management and Operations.<sup>13</sup> According to the Department, this office is responsible for various Department functions such as managing and maintaining the State highway system; planning, designing, and constructing new highways; and traffic safety.
- **Motor Vehicle Division and Enforcement Office (1,126 FTE, 26 vacancies)**—This office includes the MVD and Enforcement and Compliance Division. The MVD is responsible for providing various vehicle and licensing services such as commercial and noncommercial drivers licensing, vehicle title and registration, vehicle dealer licensing, and noncommercial aircraft registration.<sup>14</sup> According to the Department, the Enforcement and Compliance Division is responsible for conducting criminal and administrative investigations related to Department operations, such as titling, registration, and licensing, as well as promoting compliance with all applicable State and federal commercial vehicle laws and regulations.<sup>15</sup>
- **Business Enterprise Office (327 FTE, 15 vacancies)**—This office includes the Administrative Services Division, *Arizona Highways Magazine*, and customer and stakeholder relations functions. According to the Department, the Administrative Services Division provides administrative support to the Department, including equipment services and facilities management, and oversees the Grand Canyon National Park Airport.

---

<sup>11</sup> The State fleet includes all motor vehicles that the State owns, leases, or rents, excluding the vehicles of State agencies exempted from participation in the State fleet. According to A.R.S. §28-472(F), some of the State agencies excluded from State fleet participation include the Arizona Department of Public Safety, the Arizona Department of Economic Security, and the Arizona Department of Child Safety.

<sup>12</sup> Although the Department was appropriated 4,554 FTE positions in fiscal year 2024, it reported it does not have the budget capacity to fill approximately 775 of these appropriated FTE positions. The 3,656 FTE positions and 121 vacancies reflect the positions the Department reported it has budget capacity to fill.

<sup>13</sup> According to A.R.S. §28-6921, the Department director is required to appoint a State engineer, who is a civil engineer registered to practice in the State and is familiar with the theory and experienced in the practice of highway construction, maintenance, design, or engineering.

<sup>14</sup> In addition to providing these services, MVD contracts with and is responsible overseeing authorized third parties that provide services on behalf of MVD (see Sunset Factor 2, pages 25 through 26, for more information about authorized third parties).

<sup>15</sup> The enforcement and compliance division includes law enforcement officers.

- **Financial and IT Operations Office (259 FTE, 12 vacancies)**—This office includes the Department’s Financial Management Services Division, Information Technology Group, and budget and research and procurement functions. According to the Department, this office is responsible for managing the Department’s finances, such as collecting, distributing, and accounting for all monies available to construct and maintain the State highway system, and supporting the Department’s technology needs.
- **Law and Policy Office (50 FTE, 5 vacancies)**—This office includes the Department’s executive hearing office and government relations, risk management, and administrative counsel functions. According to the Department, this office is responsible for administering the Department’s rules and holding hearings on matters of Department regulatory actions.
- **Chief Operating Officer’s Office (191 FTE, 7 vacancies)**—This office includes various Department business functions including employee and business development, communications and public involvement, human resources, and audit.

Additionally, statute establishes the Board and a committee within the Department.<sup>16</sup> Specifically:

- The Board includes 1 or 2 Governor-appointed members from each of the 6 transportation districts established by statute and as of June 2023, comprised 7 members.<sup>17</sup> The Board’s responsibilities include approving the Construction Program and the long-range State-wide transportation plan, and awarding contracts for transportation project construction.<sup>18</sup> The Board holds public meetings on at least a monthly basis.
- The Priority Planning Advisory Committee (Committee) comprises Department staff appointed by the Director and as of June 2023, included 9 members.<sup>19</sup> The Committee’s statutory responsibilities include annually reviewing the Construction Program and making recommendations to the Board regarding priorities for transportation projects.<sup>20</sup> The Committee generally holds public meetings on a monthly basis.

## Revenues and expenditures

The Department receives federal monies along with State and other monies, such as taxes and fees, federal aid, and reimbursements from Arizona counties and cities. As shown in Table 1 (see pages 5 through 7), during fiscal year 2022, the Department’s revenues totaled approximately \$4.2 billion and are estimated to total approximately \$5.4 billion in fiscal year 2023. The Department’s fiscal year 2022 expenditures totaled approximately \$3.8 billion and are estimated to total approximately \$4.2 billion in fiscal year 2023. Most of the Department’s expenditures were distributions of shared tax revenues for transportation-related purposes to counties, cities, towns, and other State agencies, primarily from vehicle license tax and HURF collections.

<sup>16</sup> A.R.S. §§28-302(A), 28-6951(B).

<sup>17</sup> A.R.S. §28-302(B) requires that 1 member be appointed from each transportation district with less than 2.2 million persons, and 2 members from each district with more than 2.2 million persons. According to the Board, as of June 2023, there was only 1 transportation district with more than 2.2 million people.

<sup>18</sup> A.R.S. §§28-304, 28-6953(A)(1).

<sup>19</sup> Statute does not specify the number of members the Department Director must appoint to the Committee.

<sup>20</sup> A.R.S. §28-6951(C).

**Table 1**  
**Schedule of revenues, expenditures, and changes in fund balances**  
**Fiscal years 2021 through 2023**

(In millions)  
(Unaudited)

	2021 (Actual)	2022 (Actual)	2023 (Estimate)
<b>Revenues</b>			
Taxes and fees			
Vehicle registration, title, license, and related taxes and fees	\$1,909.8	\$1,754.9	\$1,782.0
Fuel and motor carrier taxes and fees	868.1	856.0	905.0
Prop 400—Maricopa County transportation excise tax <sup>1</sup>	376.9	448.2	467.4
Flight property taxes <sup>2</sup>	17.3	14.0	12.8
Transaction privilege tax transfers <sup>3</sup>			946.0
Other taxes and fees <sup>4</sup>		33.7	41.6
Federal aid <sup>5</sup>	803.4	880.3	948.5
Reimbursement from Arizona counties and cities <sup>6</sup>	10.6	39.2	15.9
Distributions from other State agencies <sup>7</sup>	40.7	97.3	85.5
Other <sup>8</sup>	67.9	75.5	154.9
<b>Total revenues<sup>9</sup></b>	<b>4,094.7</b>	<b>4,199.1</b>	<b>5,359.6</b>
<b>Expenditures</b>			
Administration <sup>10</sup>	145.7	160.1	161.7
Highway and highway maintenance <sup>11</sup>	290.7	340.2	531.6
Motor vehicle <sup>12</sup>	211.5	173.2	187.7
Distributions to counties, cities, towns, and other State agencies <sup>13</sup>	2,047.5	1,887.1	1,956.1
Debt service principal and interest, and bond issuance costs	313.9	313.3	310.7
Noncapital <sup>14</sup>	411.4	475.5	526.5
Capital outlay <sup>15</sup>	400.7	473.6	493.3
<b>Total expenditures</b>	<b>3,821.4</b>	<b>3,823.0</b>	<b>4,167.6</b>

**Table 1 continued**

	2021 (Actual)	2022 (Actual)	2023 (Estimate)
Net change in fund balances	273.3	376.1	1,192.0
Fund balances, beginning of year	1,261.2	1,534.5	1,910.6
<b>Fund balances, end of year</b>	<b>1,534.5</b>	<b>1,910.6</b>	<b>3,102.6</b>
Restricted <sup>16</sup>	877.3	1,089.4	1,193.2
Unrestricted <sup>17</sup>	\$657.2	\$821.2	\$1,909.4

<sup>1</sup> Proposition 400 is a Maricopa County half-cent sales tax that was approved by Maricopa County voters in November 2004 and ends December 31, 2025. According to the Department, it is responsible for administering 66.7 percent of these monies, which includes using monies for design, right of way, construction, and maintenance of freeways and State highways in Maricopa County; and the Maricopa County Regional Public Transportation Authority is responsible for administering the remaining 33.3 percent.

<sup>2</sup> Flight property taxes are assessed annually on aircraft that are registered within the State by MVD.

<sup>3</sup> Laws 2022, Ch. 321, §20, required the State Treasurer to distribute approximately \$925.4 million and \$20.6 million of transaction privilege tax revenues to the Department’s State Highway Fund and State Aviation Fund, respectively.

<sup>4</sup> Other taxes and fees include monies received pursuant to Proposition 207, which was passed into law in November 2020. It imposed an excise tax and fees related to the adult use of nonmedical marijuana. These taxes and fees are distributed in accordance with A.R.S. §36-2856, which states that the HURF receives an annual share of 25.4 percent of the monies remaining after administrative and enforcement costs are paid.

<sup>5</sup> Federal aid monies include reimbursements from the federal government for transportation construction projects and other federal grants and reimbursements. For example, the Department receives monies from the U.S. Department of Transportation to administer the Highway Planning and Construction Cluster program to assist with the planning and development of the National Highway System.

<sup>6</sup> Reimbursements from Arizona counties and cities are for construction costs related to Department-administered transportation construction projects that have county and city participation. According to the Department, these reimbursements increased in fiscal year 2022 because of a larger transportation project that commenced in fiscal year 2022. Specifically, according to the Department, Pima County had a joint project agreement with the Department that required Pima County to contribute over \$22 million to a project. In addition, the Department reported the number of transportation projects with local participation increased between the 2 fiscal years.

<sup>7</sup> According to the Department, distributions from other State agencies increased in fiscal year 2022 primarily because the Governor’s Office transferred approximately \$38.1 million of American Rescue Plan Act monies to the Department for a broadband infrastructure project to provide broadband connectivity to rural areas in Arizona.

<sup>8</sup> According to the Department, other revenues consisted of monies collected from land sales of right of ways. According to the Department, other revenues increased in fiscal year 2023 primarily because of an increase in investment income that was generated from the balance of the transaction privilege tax transfers described in footnote 3.

<sup>9</sup> Total revenues include State General Fund appropriations. For example, Laws 2021, Ch. 406, and Laws 2022, Ch. 309, appropriated monies to the Department from the State General Fund for specific transportation purposes. See Appendix A, pages a-1 through a-10, for more information about appropriations for specific transportation purposes, including State General Fund appropriations and related expenditures.

<sup>10</sup> According to the Department, these expenditures are the administration costs of the Administrative Services Division, Financial Management Services Division, and the business and finance units within the Department.

<sup>11</sup> According to the Department, highway and highway maintenance costs include all expenditures associated with the maintenance of highways that are not included in the Department’s Construction Program, such as landscaping and guard rail repairs.

<sup>12</sup> According to the Department, motor vehicle costs consist of all expenses associated with the Department’s MVD field offices and programs.

<sup>13</sup> Distributions to Arizona counties, cities, towns, and other State agencies are shared tax revenues that are distributed based on statutory requirements and are primarily from the vehicle license tax collections and HURF collections.

<sup>14</sup> According to the Department, noncapital expenditures are expenditures related to the preservation and maintenance of the transportation system, such as for fixing potholes.

<sup>15</sup> Capital outlay includes expenditures for real property or infrastructure, such as bridges and roads.

<sup>16</sup> The Department’s fund balance was restricted primarily for transportation construction projects.

## Table 1 continued

<sup>17</sup> The Department's unrestricted ending fund balance primarily consisted of monies committed for transportation construction and maintenance projects; however, these monies are not restricted solely for this use and can be used on other Department needs.

Source: Auditor General staff analysis of the Department's Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds within its *Annual Comprehensive Financial Report* for fiscal years 2021 and 2022 and Department-prepared estimates for fiscal year 2023.



## Department failed to fully address fraud and security incidents, which resulted in it potentially not notifying affected customers, not recovering \$198,358 of public monies, and possibly hampering authorities' response

### Department is responsible for safeguarding public monies and for investigating and reporting security incidents and notifying affected individuals

#### Department is responsible for safeguarding public monies by implementing internal controls to prevent and detect fraud, theft, waste, and abuse; and for promptly responding to and reporting instances of these acts to the appropriate authorities—

According to the *State of Arizona Accounting Manual* (SAAM), safeguarding public monies is a responsibility of paramount importance. Accordingly, State agencies are required to develop and implement effective internal controls that prevent and detect fraud, theft, waste, and abuse. The SAAM also requires all State employees and contractors who receive a report of an activity that is suspected of involving fraud, theft, waste, or abuse related to State activities to report it to the Arizona Department of Administration (ADOA), the Arizona Auditor General, the Arizona Attorney General, and applicable law enforcement organizations (collectively herein, appropriate authorities) within 1 business day. Finally, according to the U.S. Government Accountability Office, responding promptly and consistently to instances of fraud can reduce the likelihood that offenders will be able to commit similar fraudulent acts in the future and can help remedy the harm caused by fraudulent actions.<sup>21</sup>

#### Department is also responsible for investigating security incidents and notifying affected individuals of security system breaches—

Security system breach notification is a matter of State-wide concern.<sup>22</sup> In accordance with State law, when State agencies that maintain unencrypted and unredacted computerized personal information become aware of a security incident, they are required to conduct an investigation to promptly determine whether a security system breach occurred (see textbox, page 9, for key terms).<sup>23</sup> A.R.S. §41-4282 also requires State agencies to report security incidents to the Arizona Department of Homeland Security's Statewide Information Security and Privacy Office immediately on discovery and deploy mitigation strategies as directed.<sup>24</sup> State agencies are required to notify the affected individuals within 45 days if the investigation determines that there has been a security system breach.<sup>25</sup> Specifically, State agencies are

<sup>21</sup> U.S. Government Accountability Office. (2015). *A framework for managing fraud risks in federal programs*. Washington, DC. Retrieved 8/10/23 from <https://www.gao.gov/assets/gao-15-593sp.pdf>.

<sup>22</sup> A.R.S. §18-552

<sup>23</sup> A.R.S. §§18-551, 18-552.

<sup>24</sup> Prior to September 2022, statute established the Statewide Information Security and Privacy Office within ADOA.

<sup>25</sup> In accordance with A.R.S. §18-552, State agencies may delay notifying affected individuals if a law enforcement agency advises the State agency that the notifications will impede a criminal investigation.

required to provide notification of the approximate date of the breach, a description of the personal information included, and contact information for consumer reporting agencies and applicable federal authorities.

## Key terms

**Personal information**—An individual's first name or first initial and last name in combination with one or more specified data elements, such as social security, driver license, and passport numbers; and medical treatment or diagnosis information.<sup>1</sup>

**Security incident**—An event that creates reasonable suspicion that a person's information systems or computerized data may have been compromised or that measures put in place to protect the information systems or computerized data may have failed.

**Security system breach**—An unauthorized acquisition of and unauthorized access that materially compromises the security or confidentiality of unencrypted and unredacted computerized personal information maintained as part of a database of personal information regarding multiple individuals.

<sup>1</sup> Personal information also means an individual's username or email address in combination with a password or security question and answer that allows access to an online account.

Source: Auditor General staff review of A.R.S. §18-551.

## Department failed to address instances of fraudulent patterns related to its new MVD system and failed to investigate potential security incidents involving customers' personal information

**Department identified a fraudulent pattern in its MVD system in 2019 and failed to report anything to appropriate authorities or conduct required investigations related to security incidents**—In 2017, the Department began rolling out a new online system that all customers could use to access their information and purchase various MVD services online. According to the Department, in November of 2019, it became aware of a fraudulent pattern that was being used for theft of public monies through the MVD system. According to Department records, this fraudulent pattern included unauthorized access to legitimate customer accounts in the MVD system, which sometimes included access to personal information. Specifically, the Department reviewed some of these accounts and determined that the accounts were fraudulently created and accessed for financial gain without customer authorization and included the access to and use of unsuspecting customers' personal information. Despite publicly reporting in an unrelated previous incident that it had "zero tolerance" for identity thieves and that it would better partner with law enforcement (see page 11 for more information about this unrelated incident), the Department failed to report the suspected fraud to external authorities and conduct security incident investigations in accordance with A.R.S. §18-552 to promptly determine whether a security system breach occurred.

**Despite the Department identifying a fraudulent pattern in 2019, incidents continued for over 2 years**—In August 2022, nearly 3 years after the Department first became aware of the fraudulent activity, the Department reported the potential fraudulent pattern to appropriate authorities. Specifically, the Department identified and reported 177 customer accounts were potentially impacted by this fraudulent pattern totaling \$382,408.<sup>26,27</sup> Department records indicate that fraud potentially occurred in these 177 customer accounts from May 2020 through March 2022.

<sup>26</sup> Throughout the audit, the Department asserted that only private individual customer accounts may have been affected. However, in July 2023, after most of our audit work had been completed, the Department reported that it was actively investigating some business accounts that may have also been affected by a similar potentially fraudulent pattern.

<sup>27</sup> According to the Department, this amount includes service fees and penalties.

The Department reported it established some security enhancements since the initial launch of its MVD system, which were implemented as early as November 2019. Beginning in late 2021 and nearly 2 years after it discovered the fraudulent activity, the Department disabled functionalities in its system that allowed the potentially fraudulent activities to occur. Further, the Department reported that it froze all 177 customer accounts, and its internal Office of Inspector General investigated a small portion of these accounts for possible theft. In addition, the Department's Financial Management Services Division (FMS) evaluated all 177 customer accounts to determine if any monies could be recovered. Of the \$382,408, FMS recovered \$216,412. Additionally, in some instances, FMS placed nonsufficient fund fees on certain impacted accounts and reported sending letters to customers notifying them of such and requesting repayment of outstanding balances.<sup>28</sup>

Finally, in August 2023, the Department acknowledged that some of these incidents may be security incidents. However, it had not conducted statutorily required investigations. Further, the Department stated that it could not determine how unsuspecting customer accounts were accessed and did not retroactively evaluate whether its own system was hacked.

**Although the Department identified and reported 177 MVD customer accounts with suspected fraud, it did not report and/or identify 83 additional accounts that appeared to exhibit a similar potentially fraudulent pattern**—Our review of MVD financial reports from September 2017 through April 2023 identified 83 additional customer accounts that appear to have a similar fraudulent pattern as the 177 Department identified and reported accounts.<sup>29</sup> Specifically, of these 83 additional customer accounts, the Department:

- **Identified but failed to report fraudulent activity related to 11 customer accounts that its Office of Inspector General investigated**—In response to our request to review the 83 accounts we identified, in June 2023, the Department reported that its Office of Inspector General had already investigated 11 of these accounts. According to the Department, for 10 of these 11 accounts, customers claimed to be a victim of identity theft. However, the Department did not report these 11 accounts to external authorities.
- **Had not identified nor investigated 72 customer accounts that appeared to exhibit a similar fraudulent pattern**—The Department did not identify the remaining 72 accounts until we brought them to its attention and thus had not investigated or reported them to appropriate authorities, as applicable. Upon further review, in August 2023, the Department reported that 5 of these 72 customer accounts merited additional investigation by its Office of Inspector General because, amongst other criteria, it believed that the activity in the account could benefit someone other than the customer.

**The Department's failure to conduct required investigations resulted in it not notifying potentially affected customers that personal information may have been available for fraudulent use, it had not recovered at least \$198,358 of public monies, and it may have hampered authorities from fulfilling responsibilities**

**Department's failure to conduct required investigations may have resulted in it not identifying and notifying all affected customers that their personal information was potentially obtained and available for fraudulent use**—Because the Department failed to conduct required investigations related to possible security incidents, customers may be unaware that their personal information may have been improperly obtained (see textbox, page 11, for examples of customers' personal information we identified in MVD system customer accounts).

<sup>28</sup> The Department reported that for customers with nonsufficient fund fees, it addressed each instance as the customer dealt with the notification letters. As of August 2023, the Department reported some customers complained about these letters and that it sent those complaints to its Office of Inspector General for investigation. It also reported that other customers paid outstanding balances and penalty fees.

<sup>29</sup> We reviewed the 83 accounts that included potentially fraudulent transactions of \$1,000 or more and that were not reported to appropriate authorities in August 2022.



As previously discussed, if a security incident investigation determines that a security breach has occurred, State law requires State agencies to notify the affected individuals. Absent a notification that a breach has occurred, customers would be unable to take steps to mitigate potential identity threats, such as notifying consumer reporting agencies, or taking action against confirmed identity thieves, which the Department previously reported it has “zero tolerance for.”<sup>30</sup> For example, in an unrelated previous incident, the Department publicly reported that identity thieves used MVD’s online system to obtain fraudulent duplicate driver licenses. In addressing that incident, the Department offered to issue new driver license numbers to affected individuals. Additionally, common consequences of identity threats for victims include bank accounts being zeroed out, credit histories being ruined, and the loss of valuable possessions and jobs. Further, some victims are arrested for crimes they did not commit.

**Department had not recovered at least \$198,358 of public monies that otherwise would have been used for Department expenditures—**As

previously discussed, of the \$382,408 the Department initially identified, at the time of the audit, it recovered \$216,412. However, the Department had not recovered the remaining \$165,996 of public monies. Further, the Department had not recovered \$32,362 related to the additional 83 customer accounts that appear to have a similar potentially fraudulent pattern. As such, the Department had not recovered at least \$198,358. According to the Department, these monies would have been used for Department expenditures.

**Department’s failure to promptly report these instances may have hampered authorities from fulfilling responsibilities for potential fraud, theft, and suspected security system breach—**

Because the Department did not promptly report all potential fraud/theft or investigate suspected security incidents to determine if there was a security system breach, authorities, including ADOA, the Arizona Department of Homeland Security, the Arizona Attorney General’s Office, and our Office, were unable to fulfill their responsibilities to address risks of potential fraud and theft and a suspected security system breach. For example, appropriate authorities may have conducted financial investigations and prosecuted responsible individuals, as applicable.

**The Department failed to follow its policies for tracking and reporting suspected security incidents, establish procedures for reporting fraud, implement a risk management process, and conduct a comprehensive review of customer accounts**

**Department failed to follow its policies and procedures for tracking and reporting suspected security incidents—**

Although the Department has established policies and procedures to ensure it complies with A.R.S. §18-552’s requirements related to security incidents and its employees and contractors sign an acknowledgement agreeing to abide by its policies and procedures, it failed to follow them. The Department’s policies and procedures include requirements that employees track and document IT security incidents and report suspected security incidents to its Information Technology Group within 1 hour of

**Customers’ personal information accessible through MVD system**

We found the following personal information in the MVD system’s customer accounts:

- Full names.
- Driver license numbers.
- Customer photographs.
- Birth dates.
- Addresses.

We found documents in MVD system’s customer accounts that included information such as:

- Full social security numbers.
- Medical conditions and past medical procedures.
- Vehicle registration and title information.

Source: Auditor General staff review of MVD customer accounts.

<sup>30</sup> For example, criminal penalties may be imposed on and civil causes of action may be brought against a person who obtains personal information from a motor vehicle record for any use not specifically authorized in law. See A.R.S. §§28-455 through 28-457 and the Driver’s Privacy Protection Act of 1994, 18 United States Code §§2721 through 2725.

knowledge of the incident. However, as of August 2023, the Department's Information Technology Group reported it had not received any reports of suspected security incidents related to the MVD system.

In August 2023, MVD officials acknowledged that at least some of the instances that displayed the potentially fraudulent pattern were indeed security incidents and that the Department would consider reviewing these instances at a future date. Shortly thereafter, the Department reported that it conducted additional analysis and found that of the 177 customers first identified, its Office of Inspector General investigated 26 customer accounts and confirmed some customers did not make the transactions in the MVD system and were victims of identity theft, while for some other customers, the Department found these customers used their own accounts to commit fraud. For the 151 accounts that were not investigated by its Office of Inspector General, the Department believed that most customers were using their own accounts to commit fraud.<sup>31</sup>

Finally, the Department reported that it did not have any reason to suspect system intrusion, nor does it believe any occurred. However, in the instances where Department staff became aware of unauthorized access to customer accounts, it did not report these instances to its Information Technology Group, as required by its policies and procedures. The Department reported that although its MVD system service contractor conducts security reviews on an ongoing basis, the contractor did not complete an assessment of these incidents. However, Information Technology Group officials stated that if these incidents had been reported to them, they would have conducted required investigations, including assessing whether the MVD system was hacked.

**Department failed to establish policies and procedures for reporting fraud in accordance with State requirements**—As of July 2023, the Department stated that it was assessing which of its divisions or offices should be responsible for reporting fraud in accordance with the SAAM. However, it had not yet developed policies and procedures establishing roles and responsibilities for complying with the SAAM's fraud reporting requirements.

**Department failed to implement an effective risk management process to lessen the risk of further potential fraud and IT-related incidents**—The Department reported that in 2019 the fraudulent pattern appeared to have affected only a limited number of customers. Further, it reported that when attempted fraud related to MVD services occurs, it seeks to eliminate the fraud rather than eliminating the affected services. However, the Department fully implemented the MVD system without establishing a comprehensive formalized process to effectively manage fraud risk, thereby allowing other potentially fraudulent incidents to occur. Further, as of July 2023, the Department did not have a documented and comprehensive process to effectively manage MVD fraud risk, including describing how it will implement control activities to prevent fraud and how it will respond to instances of fraud, as recommended by the U.S. Government Accountability Office (see textbox, page 13, for key elements of an effective fraud risk management process).<sup>32,33</sup>

---

<sup>31</sup> According to the Department, it used certain criteria to make this determination, including whether someone else aside from the account holder could have benefited from the fraudulent behavior.

<sup>32</sup> For example, as of August 2023, the Department reported that it has not implemented mandatory enhanced authentication measures for customers to access online personal records for reasons such as not all customers having cell phones. However, the Department reported that it had not conducted an analysis or taken other steps to determine how many customers would be impacted by additional authentication measures.

<sup>33</sup> The Department reported it has ongoing meetings to discuss trends or issues related to potential fraud; however, it does not maintain any policies and procedures related to addressing fraud.

## Key elements of an effective fraud risk management process

According to the U.S. Government Accountability Office, an effective fraud risk management process includes:

- Planning regular fraud risk assessments tailored to the agency's objectives.
- Identifying and assessing risks to determine a fraud risk profile.<sup>1</sup>
- Determining risk responses and documenting an antifraud strategy based on the fraud risk profile.
- Designing and implementing specific control activities to prevent and detect fraud.
- Conducting risk-based monitoring and evaluating all components of the fraud risk management process, including monitoring and evaluating fraud risk management activities with a focus on measuring outcomes.

<sup>1</sup> A fraud risk profile includes information about all fraud risks that may affect a program.

Source: U.S. Government Accountability Office, 2015.

The Department also lacked a comprehensive internal process to manage IT risks related to its MVD system. Effectively managing risk includes a risk assessment process that involves members of the Department's administration and IT management.<sup>34</sup> The risk assessment should include:

- Determining the risks the MVD faces as it seeks to achieve its objectives to not only protect its IT systems and data but to also carry out its overall mission and service objectives.
- Providing the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the MVD might be subjected.
- Analyzing identified risks and developing a plan to respond within the context of MVD's defined objectives and risk tolerances. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information.

**Department failed to conduct a comprehensive review of customer accounts that exhibited similar potentially fraudulent patterns**—As noted on page 10, we identified an additional 83 customer accounts with a similar potentially fraudulent pattern. The Department did not conduct a comprehensive review of all of these accounts and reported that based on its preliminary review, the transactions it reviewed appeared to be associated with normal account activity. However, without conducting a comprehensive review of these accounts, the Department is unable to truly assess whether these accounts were a part of a similar potentially fraudulent pattern and whether other customers were affected. For these 83 customer accounts, the MVD system automatically prevented the loss of most monies and froze the accounts; however, customers' personally identifiable information may have been accessed, resulting in identity risks.

### Recommendations:

The Department should:

1. Follow its policies and procedures to comply with State laws related to security incidents, including investigating security incidents and timely notifying all affected customers if it determines that a security breach occurred.
2. Conduct a risk-based review of MVD system customer account data from 2019 through 2022 to determine whether any other customer accounts exhibit similar potentially fraudulent patterns and conduct all related investigations and required followup.

<sup>34</sup> Arizona Auditor General report State of Arizona: *Single Audit Report—Year ended June 30, 2021*.

3. At a minimum, comprehensively review and investigate the identified 260 customer accounts to determine if potential security incidents occurred. If it identifies security incidents after reviewing and investigating the 260 customer accounts, the Department should report to and work with the Arizona Department of Homeland Security to address these incidents.
4. Develop and implement policies and procedures for timely and effective reporting of fraud to appropriate authorities, as required by the SAAM.
5. Continue its efforts to recover all monies it had not recovered.
6. Establish a documented, comprehensive process to effectively manage MVD fraud risk, including conducting regular fraud risk assessments, identifying risk responses and anti-fraud strategies, designing and implementing specific control activities to prevent and detect fraud, and monitoring and evaluating its fraud risk management process.
7. Establish a documented and comprehensive IT risk assessment process that involves members of the Department's administration and Information Technology Group for its MVD system and that includes:
  - a. Determining the IT risks that MVD faces as it seeks to achieve its objectives.
  - b. Providing the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which MVD might be subjected.
  - c. Analyzing identified risks and developing a plan to respond within the context of the MVD's defined objectives and risk tolerances, including the risk of unauthorized access and use, modification, or loss of sensitive information.

**Department response:** As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.



Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Department. The sunset factor analysis includes additional findings and recommendations not discussed earlier in the report.

**Sunset factor 1: The objective and purpose in establishing the Department and the extent to which the objective and purpose are met by private enterprises in other states.**

The Department was established in 1974 to provide an integrated and balanced State transportation system. According to statute, the Department has jurisdiction over transportation systems, including State highways and routes, and State-owned airports.<sup>35</sup> The Department is responsible for planning, constructing, and maintaining the State's transportation system, registering motor vehicles and aircrafts, licensing drivers, and enforcing laws related to motor vehicles. Additionally, the Department is responsible for operating the only State-owned airport, the Grand Canyon National Park Airport in Tusayan, AZ.

The Board and Committee also have responsibilities related to transportation planning. Specifically, the Department develops the Construction Program that includes transportation project priorities for the following 5 fiscal years, and the Committee reviews and the Board approves the Construction Program (see sunset factor 2, pages 18 through 22, for more information about the Construction Program). Additionally, the Board is also responsible for adopting the State's long-range State-wide transportation plan and awarding construction contracts for transportation projects.

According to the Federal Highway Administration, all 50 states have a state-level transportation agency. We did not identify any states that met the Department's objective and purpose through private enterprises.

**Sunset factor 2: The extent to which the Department has met its statutory objective and purpose and the efficiency with which it has operated.**

The Department has developed processes and/or taken steps related to meeting its statutory objectives and purposes in several areas we reviewed. Specifically, the Department:

- **Transitioned and operates the State fleet**—In addition to operating its own fleet of vehicles, effective June 30, 2021, and according to A.R.S. §28-332(B)(6), the Department is required to operate a State fleet for all motor vehicles that the State owns, leases, or rents (see Figure 1, page 16, for more information about the composition of the Department's fleet and the State fleet).<sup>36</sup> The Department completed transitioning the State fleet from ADOA in April 2023, including transferring vehicle titles to list the State as the owner and added the vehicles to its fleet management system.<sup>37</sup> The Department reported that during this transition it identified and incorporated into the State fleet approximately 700 vehicles owned by approximately 20 State agencies outside of the State fleet managed by ADOA, despite these State

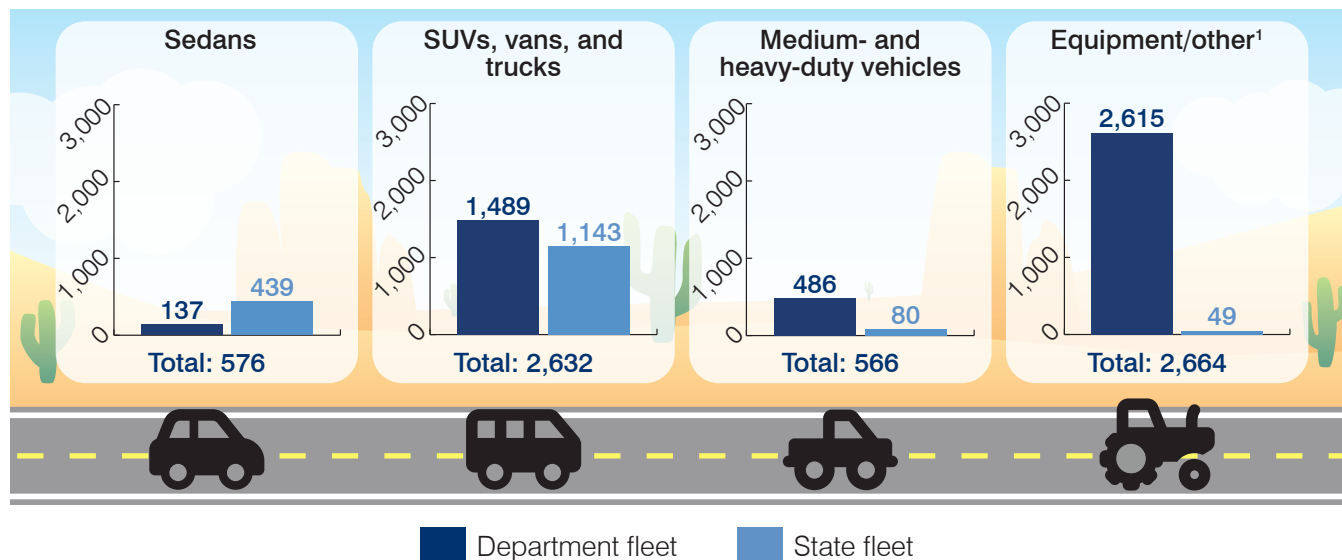
<sup>35</sup> A.R.S. §28-332(A).

<sup>36</sup> Laws 2021, Ch. 413, §25, transferred the authority, powers, duties, and responsibilities of operating the State fleet from ADOA to the Department.

<sup>37</sup> The Department's fleet management system is an IT system that tracks information about State fleet vehicles such as their mileage, acquisition cost, and expected vehicle life.

agencies not being statutorily exempt from participating in the State fleet.<sup>38</sup> As of February 2023, State fleet vehicles and equipment included models from 1987 to 2023, but most vehicles and equipment were 2015 or newer models. Additionally, according to the Department, the State fleet had a replacement value of approximately \$64 million in February 2023.<sup>39</sup>

**Figure 1**  
**Department operates 2 fleets with 6,438 vehicles and equipment, as of February 2023**  
 (Unaudited)



<sup>1</sup> Includes equipment such as compressors, cranes, forklifts, sweepers, and golf carts.

Source: Auditor General staff review of Department-provided State fleet tracking documentation.

Statute requires that the Department recover all costs associated with operating the State fleet.<sup>40</sup> Our review of the Department’s fees and fee-setting processes found they generally align with government fleet fee-setting recommended practices, which include that fleet fees should cover all operation costs and be reviewed periodically to ensure that they are sufficient to recover costs incurred.<sup>41</sup> Specifically, the Department recovers its State fleet operation costs through various fees charged to agencies, such as monthly fees that cover routine maintenance and vehicle insurance (see Table 2, page 17). Additionally, the Department has a process to periodically review its fees to determine if they cover the Department’s cost for operating the State fleet and revise its fees accordingly. For example, the Department conducted a mid-fiscal year review and updated its fees in December 2022 due to inflation affecting vehicle parts and services and salary increases for State employees, including State fleet employees, which went into effect after the Department had established its fiscal year 2023 fees.







<sup>38</sup> According to A.R.S. §28-472(H), a State agency may not purchase, lease, or rent a motor vehicle unless the agency is excluded from participating in the State motor vehicle fleet.

<sup>39</sup> Replacement value is the total cost of replacing the entire State fleet with comparable vehicles and equipment.

<sup>40</sup> A.R.S. §§28-7006(C), 28-472(E).

<sup>41</sup> McCorkhill Jr., J. & Stinson, M. & Hunt, J. (2020). *The concise manual for calculating public fleet rates* (2nd ed.). Kansas City, MO: American Public Works Association.

**Table 2****Department charges monthly State fleet fees to agencies to cover the cost of operating the State's fleet**

Monthly fee <sup>1</sup>	Fee description
 <b>Maintenance and repair</b>	Covers the cost of vehicle preventative maintenance and repair services.
 <b>Indirect cost allocation plan</b>	Reimburses the Department for indirect services, such as human resources, supporting its State fleet management group.
 <b>Management service charge</b>	Reimburses the Department for the direct services of its State fleet management group.
 <b>Global positioning systems (GPS)</b>	Covers the cost of GPS systems installed in State fleet vehicles.
 <b>Risk Management</b>	Covers the vehicle insurance premiums and deductibles costs the Department pays on accident claims.
 <b>Vehicle replacement</b>	Collects monies to pay for future agency vehicle replacements.

<sup>1</sup> The Department charges additional nonmonthly fees, as needed, such as when it sells a vehicle on behalf of an agency.

Source: Auditor General staff review of Department State fleet fee documentation.

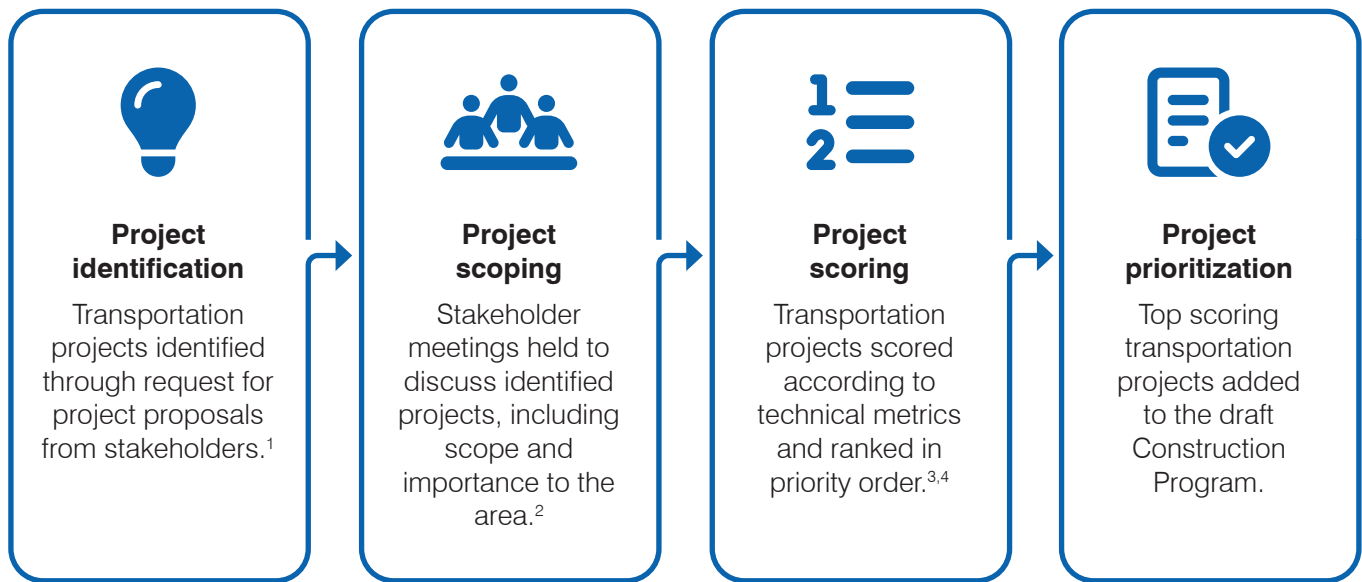
- Sustained improvements related to MVD field office wait times**—Our 2015 performance audit of the Department's MVD found that field office wait times may have been longer than data showed because MVD did not capture the time a customer spent waiting in line to receive a numbered ticket from a greeter.<sup>42</sup> We recommended that the Department take steps to capture more complete wait-time information, and our 24-month follow-up report found that MVD had reconfigured its process to capture more complete wait times. MVD has sustained improvements related to capturing a customer's complete wait time at field office locations since the 24-month followup to our 2015 performance audit. Specifically, MVD no longer has greeters at field office locations and instead uses a ticketing system that captures a customer's total experience from the time the customer enters the office to when the customer completes a transaction with a customer service representative (CSR). MVD reported that its goal is to average 25 minutes for total customer experience time across all its field offices monthly. According to MVD data, in calendar year 2022, MVD's average customer experience time was lower than its 25-minute goal every month and ranged from approximately 15 to 20 minutes for each month in calendar year 2022. Further, Laws 2021, Ch. 408, §88, required the Department to submit an annual report to the Joint Legislative Budget Committee (JLBC) on its progress in improving MVD wait times. According to MVD's 2022 annual report to JLBC, the average total customer experience time in fiscal year 2022 in urban field offices was 21.4 minutes and 19.8 minutes in nonurban field offices.<sup>43</sup>

<sup>42</sup> See Auditor General report 15-104 *Arizona Department of Transportation—Motor Vehicle Division—Division should improve field office customer service, better regulate the ignition interlock program, and continue to enhance its oversight of third party offices.*

<sup>43</sup> MVD classifies field offices as either urban or nonurban. As of February 2023, there were a total of 43 field offices, including 14 urban field offices and 29 nonurban field offices.

- **Developed processes for designing and constructing State transportation facilities**—According to A.R.S. §28-332, the Department is required to design and construct transportation facilities in accordance with a priority plan. Consistent with this requirement, the Department has developed processes for:
  - **Developing the Construction Program**—Statute requires the Department to develop the Construction Program annually, and that the Construction Program include a prioritized list of transportation projects, including estimated expenditures, for the following 5 fiscal years.<sup>44</sup> The Department has developed and documented a process, known as Planning to Programming (P2P), for identifying and prioritizing transportation projects to be included in a Construction Program draft (see Figure 2 for more information about key P2P process steps).<sup>45</sup> After annually completing its P2P process, the Department develops a draft Construction Program that includes the highest-scoring transportation projects identified and prioritized through the P2P process.<sup>46</sup>

**Figure 2**  
**Department works with stakeholders and uses a scoring process to identify and prioritize transportation projects for inclusion on the Construction Program**



<sup>1</sup> Stakeholders include transportation officials and representatives from councils of governments and metropolitan planning organizations.

<sup>2</sup> Each transportation project’s scope includes information about the expected work to be conducted, including what is being constructed and what features are involved, such as pavement, fencing, bridges, and cattle guards; materials needed for the project, such as asphalt, signage, and guardrails; where the expected transportation project will take place, including route number and starting and ending mile post; and a preliminary cost estimate for completing the transportation project.

<sup>3</sup> The scoring includes components such as technical, policy, and safety measures. For example, the scoring process considers various technical measures that are recognized and used by other state transportation professionals and recommended by the Federal Highway Administration. These measures relate to assessing the quality and safety of infrastructure, such as the cracking and rutting of pavement.

<sup>4</sup> In conjunction with this step, the Department’s P2P process requires it to annually rescore and reprioritize transportation projects that were identified in previous years but not previously included on the Construction Program.

Source: Auditor General staff review of Department P2P guidelines and process documents, draft Construction Programs, and Federal Highway Administration information.

<sup>44</sup> A.R.S. §§28-6951 through 28-6954.

<sup>45</sup> Arizona Department of Transportation. (2020). *ADOT Planning to Programming scoring guidebook*. Phoenix, AZ. The Department’s guidelines are publicly available and as of August 2023, can be accessed from the Department’s website at [https://azdot.gov/sites/default/files/media/2020/09/FY20\\_P2P\\_Guidebook.pdf](https://azdot.gov/sites/default/files/media/2020/09/FY20_P2P_Guidebook.pdf).

<sup>46</sup> The draft Construction Program also includes continuing transportation projects from the previous year’s Program.



In addition to the transportation projects identified through P2P, the Legislature has directed the Department to conduct transportation projects (see pages 22 through 23, Appendix A, pages a-1 to a-10, and Appendix B, pages b-1 to b-4, for more information about the transportation projects the Legislature has directed the Department to conduct).

- **Assisting the Board with the Construction Program approval process**—After the Department develops the draft Construction Program, the Committee and Board review the draft Construction Program during meetings. The Committee, composed of Department staff, presents the draft Construction Program to the Board. A.R.S. §28-6952(B) requires that the Board hold an annual public hearing to review the draft Construction Program and hear objections and protests.<sup>47</sup> As part of the public hearing process, the Department posts notice of the Board’s hearing and holds a public comment period during which the public can submit comments to the Department regarding the draft Construction Program via email, phone, physical mail, or an online comment form (see Sunset Factor 2, page 21, for issues we identified related to the Department providing required notices for these hearings).<sup>48</sup> For example, for the fiscal year 2023 draft Construction Program, the Department received 442 public comments.<sup>49</sup> Additionally, after the hearing and prior to the Board’s approval of the Construction Program, the Department presents the Board with a summary of comments from the public comment period and the Board’s hearing, including major themes and how the tentative Construction Program or Department’s ongoing work relates to those comments.<sup>50</sup> For example, for the fiscal year 2023 draft Construction Program, the Department received comments related to widening or improving State Route 93, and the Department reported to the Board that 3 projects were included in the Construction Program scheduled for fiscal years 2024 through 2027 that were related to the comments received.
- **Expending monies to carry out transportation projects**—The Department had established processes for reviewing and approving construction-related and consultant-related transportation project expenditures. Specifically, the Department used documentation of daily onsite observations of construction work and invoices and applicable supporting documentation of consultant work to review and approve transportation project expenditures. Our review of 14 transportation project expenditure transactions—consisting of a judgmental sample of 6 construction-related and 8 consultant-related transactions from fiscal years 2021 and 2022—found that these expenditures were related to corresponding transportation projects, including payments for materials such as reinforcing steel, asphalt, and signage.<sup>51</sup> Further, our review found that the expenditures were supported by applicable documentation.

The Department expends monies from the State Highway Fund for transportation-related purposes, including monies it receives from HURF revenues and federal and State General Fund appropriations (see Appendix C, pages c-1 through c-3, for additional information about State Highway Fund revenues, expenditures, and changes in fund balances). For example, according to Department documentation, in fiscal year 2022, the Department expended monies from the State Highway Fund for several purposes including highway projects, preventative surface treatments, and vehicle and heavy

---

<sup>47</sup> The Board generally holds its public hearing in May.

<sup>48</sup> In addition to holding public comment during the hearing, the Board also hears public comments as part of its regular Board meetings. In fiscal year 2022, public comments at Board meetings included requests for new projects and complaints related to road quality or safety from individuals such as community members, tribal leaders, business representatives, and local elected officials.

<sup>49</sup> The Department received these comments through email, phone, physical mail, an online comment form, and the Board’s public hearing held in May 2022 for the draft Construction Program.

<sup>50</sup> A.R.S. §28-6953 requires the Board to annually approve the Construction Program before June 30.

<sup>51</sup> We selected a random sample of 6 of 349 transportation projects included in the Construction Program with expenditures in the Arizona Financial Information System (AFIS) exceeding \$50,000 between fiscal years 2021 and 2022. Within these 6 selected projects, we reviewed a judgmental sample of 6 of 34 construction-related and 8 of 288 consultant-related transportation project expenditure transactions in 2021 and 2022. We selected these transactions based on their dollar amount.

equipment replacements.<sup>52</sup> The Legislature generally appropriates monies from the State Highway Fund to the Department through the annual general appropriation and capital outlay appropriation bills. The Legislature’s annual capital outlay appropriations bill has a provision that states that any balances and collections in the State Highway Fund that exceed the specific amounts appropriated in the general appropriations bill and the capital outlay appropriation bill are appropriated to the Department for the purposes of highway planning and construction. For example, if the HURF revenues distributed to the State Highway Fund are higher than expected, this provision allows the Department to use those additional monies for transportation-related purposes. According to the Department, it considers the State Highway Fund as a continuously appropriated fund and, as such, it does not monitor the State Highway Fund expenditures against appropriated amounts for the purposes of the Construction Program. Instead, the Department developed a process for reviewing monthly balances and collections in the State Highway Fund for the purpose of ensuring that it maintains required cash balances and has sufficient monies to support expenditures from the State Highway Fund.

- **Identifying highway maintenance goals**—A.R.S. §28-332 requires the Department to maintain State highways. To help meet this statutory requirement, the Department has established a process to identify highway maintenance goals. Specifically, the Department has a process to conduct annual inspections of the State highway system on a sample basis to compile specific data about highway conditions State-wide, such as the length of asphalt surface cracks, the number of broken guardrail posts, or the number of damaged fence posts. Using the inspection data, the Department sets specific goals for individual highway features, such as pavement, guardrails, and fencing in different areas of the State using a letter grade, A through F, scale (see Table 3 for examples of the Department’s highway feature maintenance goals).<sup>53</sup>

**Table 3**  
**Department sets goals for highway conditions in different areas of the State**

	Fiscal year 2021 highway feature condition	Department goal for feature in fiscal year 2022	Fiscal year 2022 highway feature condition	Department goal for feature in fiscal year 2023
<b>Fencing</b>				
Central Arizona	A-	A-	A	A
Southeast Arizona	C+	C+	B-	B-
<b>Guardrail</b>				
Central Arizona	B+	B+	B+	B+
Southeast Arizona	B	B	A-	A-

Source: Auditor General staff review of Department maintenance tracking documentation.

<sup>52</sup> According to the Department, preventative surface treatments, such as spraying liquid asphalt, are proactive treatment of road surfaces to maintain the useful life of roads and avoid more expensive surface replacement/repair costs.

<sup>53</sup> In addition to this process, maintenance needs can be identified in response to emergency incidents such as wildfires, car accidents, and extreme weather.

However, the Department can better meet its statutory objective and purpose and/or improve its efficiency in the following areas:

- **Department did not follow some statutory requirements related to developing the Construction Program**—Based on our review of the Construction Program development process for calendar years 2020 through 2023, the Department did not follow all statutory requirements related to the public hearing the Board is required to hold to review the draft Construction Program and how the Construction Program should be structured. Specifically:
  - From calendar years 2021 through 2023, the Department did not publish a notice of the public hearing to review the draft Construction Program in newspapers before the first Monday in May, as required by statute.<sup>54,55</sup> The Department reported that publishing the hearing’s notice in a newspaper is an outdated process.
  - In calendar years 2022 and 2023, the Board did not hold a public hearing to review the Construction Program and hear objections and protests from the public before the third Monday in May, as required by statute.<sup>56</sup> Instead, the Board held the hearings on the Friday after the required date because, according to the Department, the third Friday of the month was the Board’s reoccurring meeting date.
  - From calendar years 2020 through 2023, the Department did not structure the Construction Program with transportation projects listed by priority and grouped by the fiscal year when construction is estimated to begin, as required by statute.<sup>57</sup> Instead, the Department reported that it organized the Construction Program by route and mile post number because it makes the Construction Program easier to read.

To address these issues, the Department reported that it plans to pursue statutory changes related to the Construction Program hearing and structure requirements during the 2024 legislative session (see Sunset Factor 8, page 32, for additional information about the Department’s planned statutory changes).

- **Department has not addressed issues it identified with initial transportation project cost estimates included in the Construction Program**—The Department includes transportation project cost estimates in the Construction Program consistent with statutory and federal requirements.<sup>58</sup> The Department develops initial cost estimates for transportation projects on the Construction Program. Additionally, the Department updates these cost estimates at various points in the transportation project’s development. However, the Department identified issues with its initial transportation project cost estimates during a continuous improvement process it began in October 2020. Specifically, the Department identified that its initial transportation project cost estimates did not always include inflation, causing some transportation project actual costs to be higher than estimated. The Department’s continuous improvement process established a target that contractor bids for transportation project construction contracts be within 5 percent of original transportation project construction cost estimates. Our review of 18 transportation projects found that most awarded contract bid amounts were not within 5 percent of the initial cost estimate amounts (see Figure 3, page 22, for more information).<sup>59,60</sup> Specifically, 8 awarded contract bid amounts

<sup>54</sup> A.R.S. §28-6952(B) states that the public hearing’s notice should be posted on or before the first Monday in May of each year in a newspaper of general circulation in each county in which construction projects are planned under the State-wide 5-year transportation facilities construction program for the following 5 fiscal years.

<sup>55</sup> Although the Department published a notice in a newspaper in 2023, it did not do so by the first Monday in May.

<sup>56</sup> A.R.S. §28-6952(B).

<sup>57</sup> A.R.S. §28-6954(A)(3).

<sup>58</sup> A.R.S. §28-6954 (A)(1) and 23 Code of Federal Regulations §450.218(i)(2).

<sup>59</sup> We reviewed the 18 construction contract bid awards for individual transportation projects included in the Construction Program during Board meetings between November 2022 and March 2023.

<sup>60</sup> According to Board meeting minutes, there are various reasons why a transportation project construction cost estimate and awarded contract bid amount may differ such as the complexity of the transportation project’s scope, inflation, and the location of the project relative to the contractor’s location.

were more than 5 percent over the initial cost estimate amounts, and 8 awarded contract bid amounts were more than 5 percent under the initial cost estimate amounts. The Department's initial cost estimates for the 18 projects we reviewed totaled approximately \$174 million, and the contract bid awards totaled approximately \$182 million, and as such, the total awarded contract bid amounts were approximately \$8 million, or 4.6 percent more than the Department's total initial cost estimates.

The Department reported that it is in the process of developing a new tool for cost estimation that is intended to standardize cost estimates and make them more accurate. However, the Department did not provide us documentation related to its efforts to develop the standardized cost-estimation tool or an estimated date when it plans to have the cost-estimation tool developed.

**Figure 3**  
**Department's initial Construction Program cost estimates were not within 5 percent of most contract bid awards that we reviewed**



Source: Auditor General staff review of Board meeting minutes between November 2022 and March 2023.

- Department has not developed a comprehensive process to obtain information it reported was necessary to carry out transportation projects the Legislature has directed it to conduct**—In the 2019, 2021, and 2022 legislative sessions, the Legislature appropriated monies to the Department 77 times for specific transportation purposes (see Appendix A, pages a-1 through a-10, and Appendix B, pages b-1 through b-4, for more information about these appropriations).<sup>61,62</sup> The Department reported that it initiates transportation projects when the Legislature appropriates monies to it. However, it also reported that some transportation projects' scopes included in legislation are not sufficiently detailed and must be further clarified through communication with legislators or local officials before the Department can begin the transportation projects.<sup>63</sup> Additionally, the Department reported that the monies appropriated for some transportation projects were not always consistent with the cost of carrying out the transportation projects, and that for transportation projects that were under-appropriated, it worked with the Legislature to request additional monies. For example, in the 2021 legislative session, the Department received an appropriation of \$46.7 million to "repave State Route 95 in Mohave County."<sup>64</sup> The Department reported that after working with legislators and officials in Mohave County to obtain more details about the scope of this project, it identified that the intended scope included additional upgrades to State Route 95 not referenced in the appropriation, such as new lighting and sidewalks on 2 sections of State Route 95 that were 25 miles apart in Bullhead City and Lake Havasu City's SARA Park. The Department reported that this expanded scope required additional monies, and the Legislature appropriated the Department \$19.5 million for this work in the 2022 legislative session.

The Department's process for initiating transportation projects that the Legislature has directed it to conduct differs from the P2P process that the Department uses to identify and prioritize transportation projects. As part of the P2P process, the Department requests transportation project proposals from and meets with stakeholders, and establishes a preliminary scope for transportation projects before their inclusion in the Construction Program. However, through the P2P process, the Department does not

<sup>61</sup> Laws 2019, Ch. 264; Laws 2021, Ch. 406; Laws 2022, Ch. 309; Laws 2022, Ch. 331.

<sup>62</sup> Laws 2023, Ch. 135, appropriated the Department additional monies for specific transportation purposes.

<sup>63</sup> According to the Department, as of May 2023, it was working on obtaining information related to these appropriated transportation projects, such as transportation project scopes, through the Governor's Office of Strategic Planning and Budgeting.

<sup>64</sup> Laws 2021, Ch. 406, §33.

request project proposals from or meet with legislators.<sup>65</sup> Further, the Department has not developed a comprehensive process to proactively obtain information, such as detailed project scopes, that it reported was necessary to carry out transportation projects the Legislature has directed it to conduct. Specifically, the Department did not have a process to proactively solicit transportation project requests from the Legislature or conduct stakeholder education with the Legislature regarding the type of information it considers necessary to plan and conduct a transportation project; the type of information it can provide to the Legislature, such as information to help the Legislature determine the estimated amount of monies needed to complete a project; or its processes. Instead, as of July 2023, the Department reported it only provides information to the Legislature upon request.<sup>66</sup>

Finally, the Department maintains an internal tracking document that includes varying levels of information on the stage and status of legislative appropriations and associated transportation projects.<sup>67</sup> Additionally, annual capital outlay appropriations bills require the Department to provide quarterly status reports to JLBC on these appropriations. However, these laws only require the Department to report on some of the appropriations. For example, Laws 2022, Ch. 309, required the Department to provide a quarterly status report to JLBC for 26 of 45 appropriations that the Legislature made to it for specific transportation purposes in the 2022 legislative session. Our review of the Department's fiscal year 2023 quarter 1 and quarter 2 status reports for the appropriations made in Laws 2022, Ch. 309, found that the Department complied with the reporting requirement by providing JLBC the status of these 26 appropriations. However, although not required by these laws, the Department did not report the status of the remaining 19 appropriations. Providing the Legislature with additional information about these appropriations, including corresponding projects' updated scopes and budgets, statuses, monies spent, and estimated completion dates, could help the Department improve transparency for and communication with the Legislature related to these projects and appropriations.

- **MVD has not developed all recommended information technology (IT) procedures or addressed known IT access control gaps related to the system it uses to complete MVD transactions—** MVD's Motor Vehicle Modernization (MVM) project was focused on replacing MVD's legacy system, ServiceArizona, and led to the development of the MVD MAX system. MVD uses the MVD MAX system to process the majority of transactions it and third-party contractors complete for its customers, such as issuing vehicle titles and registrations and driver licenses.<sup>68</sup> However, MVD had not developed IT recovery and restoration procedures or addressed known IT access control gaps. Specifically, MVD had not:
  - Developed an IT contingency plan that contains all elements required by Arizona Department of Homeland Security's State-wide information security policies and IT security recommended practices.<sup>69</sup> Specifically, the contingency plan should encompass all activities necessary to continue business operations after a disruption, including procedures for recovering and restoring IT systems to business functionality. As of April 2023, MVD had developed a contingency plan, but had not developed recovery

<sup>65</sup> According to the Department, it has not requested input from the Legislature as part of the P2P process because the stakeholders that it involves in this process, such as councils of governments, lobby State legislators for the same transportation projects that the stakeholders are recommending to the Department. For example, the Department reported that several transportation projects stakeholders have recommended as part of the P2P process have received legislative appropriations.

<sup>66</sup> According to the Department, it provides the Legislature with information such as transportation project cost estimates, results of transportation studies, and descriptions of previous and ongoing transportation projects in the area under consideration upon request. For example, the Department gave a presentation during a Senate Transportation and Technology Committee meeting in April 2023 providing information on the P2P process and answering questions regarding legislative appropriations.

<sup>67</sup> Appendix A (see pages a-1 through a-10) provides information on appropriations using the Department's tracking information. However, because the Department's tracking information did not have a consistent level of detail across all appropriations, we developed Appendix B (see pages b-1 through b-4) to provide additional detailed status information on a judgmental sample of these appropriations and their associated transportation projects and purposes.

<sup>68</sup> In calendar year 2020, the Department increased its MVM project budget, which was supported by nonappropriated Department fees, by approximately \$5.5 million to add driver license security measures to the system.

<sup>69</sup> National Institute of Standards and Technology (NIST). (2020). *NIST Special Publication 800-53, Revision 5: Security and privacy controls for information systems and organizations*. Gaithersburg, MD. Retrieved 9/9/22 from <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP800-53r5.pdf>.

and restoration procedures and reported that it was working with its MVD MAX service contractor to develop these procedures.

- Addressed MVD MAX access control gaps identified in 2 Department internal audits completed in June 2021 and December 2022. Specifically, according to 2 Department internal audit reports, MVD was not monitoring users for inactivity so that it could remove MVD MAX access from inactive users and did not have restrictions in place to ensure employees do not access their own MVD records, which increased the risk of unnecessary access to sensitive information or unauthorized system access. For example, the Department identified 1 employee who had not accessed MVD MAX for at least 1 year and had transitioned to a position that no longer required MVD MAX access. Although these control gaps were expected to be corrected by May 2023, the Department reported that it had not done so by the expected date.
- **Department did not always use purchasing card, employee travel card, and central travel accounts consistent with the SAAM and/or Department policy requirements**—Our review of 85 fiscal year 2022 Department purchasing card, employee travel card, and central travel account transactions totaling \$80,129 found that 24 of these transactions did not comply with the SAAM and/or internal Department policy requirements.<sup>70</sup> Specifically, of the 85 transactions we reviewed:
  - **Thirteen transactions, totaling approximately \$15,355, lacked required approvals on monthly purchase logs**—The Department did not have evidence that 11 purchasing card transactions totaling approximately \$14,125 were approved through monthly purchase logs. According to Department staff, it uses monthly purchase logs to comply with the SAAM, which requires State agencies to review purchasing card statements and match them to submitted charges to verify the transactions are for a valid public purpose. Similarly, we identified 2 central travel account transactions totaling approximately \$1,230 with no evidence of approval on purchase logs, inconsistent with the Department’s central travel accounts policy.
  - **Fourteen transactions, totaling approximately \$5,900, lacked supporting documentation that demonstrated their public purpose**—We identified 14 transactions that lacked documentation such as itemized receipts and/or required travel forms to support the expenditure’s public purpose. For example, we found 3 transactions for 3 airline tickets totaling approximately \$1,900 that did not have documentation supporting the public purpose of the travel, such as a Department-required travel authorization form.<sup>71</sup> The SAAM requires original receipts for purchasing card transactions, adequate records for central travel account transactions, and authorization for in-State and out-of-State travel.
  - **Six employee travel card transactions, totaling approximately \$700, included personal purchases**—We identified 6 transactions that were for personal purchases such as medication and a personal flight with upgrades. Although the Department reported that it did not reimburse employees for these personal purchases, the SAAM prohibits personal purchases on employee travel cards.
- **The Department failed to fully address fraud and security incidents, which resulted in it potentially not notifying affected customers, not recovering \$198,358, and possibly hampering authorities’ response**—As reported in Finding 1 (see pages 8 through 14), the Department is responsible for safeguarding public monies and reporting instances of fraud, theft, waste, and abuse to appropriate authorities, such as the Attorney General’s Office and our Office. The Department is also responsible for investigating security incidents and notifying affected individuals of security system breaches.

---

<sup>70</sup> We judgmentally selected a sample of 85 of 48,353 Department fiscal year 2022 purchasing card, employee travel card, and central travel account transactions. These 48,353 transactions totaled approximately \$16 million. We selected the 85 transactions based on risk of noncompliance with State and Department requirements, fraud, waste, and abuse. These transactions had high-risk characteristics, such as transactions occurring on weekends and the vendor type.

<sup>71</sup> According to Department receipts, 2 of the 3 flights were commercial flights in coach class on weekdays. The Department had no documentation for 1 flight.

In November 2019, the Department became aware of a fraudulent pattern that was being used for theft of public monies through its MVD system. According to Department records, this fraudulent pattern included unauthorized access to legitimate customer accounts in the MVD system. However, the Department failed to report the suspected fraud to external authorities and conduct security incident investigations to promptly determine whether a security system breach occurred. In August 2022, nearly 3 years after the Department first became aware of the fraudulent activity, the Department reported the potential fraudulent pattern to appropriate authorities. Specifically, the Department identified and reported 177 customer accounts were potentially impacted by this fraudulent pattern totaling \$382,408. Further, in August 2023, the Department acknowledged that some of these incidents may be security incidents. However, it had not conducted security incident investigations. Finally, although the Department identified and reported 177 MVD customer accounts with suspected fraud, it did not report and/or identify 83 additional accounts that appeared to exhibit a similar potentially fraudulent pattern.

The Department's failure to conduct required security incident investigations may have resulted in it not identifying and notifying all affected customers that their personal information was potentially obtained and available for fraudulent use. Additionally, at the time of the audit, the Department had been able to recover \$216,412 of the \$382,408 it identified, but it had not recovered the remaining \$165,996 of public monies. Further, the Department had not recovered \$32,362 related to the additional 83 customer accounts that appear to have a similar potentially fraudulent pattern. As such, the Department had not recovered at least \$198,358 that otherwise would have been used for Department expenditures. Finally, because the Department did not promptly report all potential fraud/theft or investigate suspected security incidents to determine if there was a security system breach, authorities, including ADOA, the Arizona Department of Homeland Security, the Arizona Attorney General's Office, and our Office, were unable to fulfill their responsibilities to address risks of potential fraud, theft, and a suspected security system breach.

- **Our 2023 performance audits of MVD found that it did not properly oversee some contractors that provide services on behalf of the State**—A.R.S. §28-5101 authorizes the Department to contract with third parties to provide some vehicle and driver services across the State, including issuing vehicle titles, vehicle registrations, driver licenses, and identification cards, and administering commercial driver license (CDL) skills tests to CDL applicants. The Department's MVD carries out the Department's statutory responsibilities related to third parties. Although the Department's MVD is statutorily required to supervise and regulate all contracted third parties, MVD failed to oversee some contractors we reviewed. Specifically, MVD:
  - **Failed to ensure authorized third parties (third parties) consistently issued vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities**—Statute authorizes the Department to contract with private companies, known as third parties, to provide some of the same services provided at MVD field offices, including issuing vehicle titles, driver licenses, and identification cards. The Department's MVD is statutorily required to establish minimum quality standards of service for third parties and a quality assurance program to ensure they are complying with these standards. MVD's quality assurance process requires third parties to daily self-review 3 percent of the transactions they processed on the previous day, which are randomly selected by MVD staff, such as by reviewing the transaction's supporting documents, and MVD has access to review the results of these self-reviews. However, some third parties have not reviewed all transactions selected for self-review; issued vehicle titles, driver licenses, and identification cards without documentation confirming individuals/entities were qualified/authorized to receive these documents; reported to MVD that inappropriately processed transactions were error free; and have not resolved some errors identified through the quality assurance process within the 7 days as required by MVD procedures. When vehicle titles, driver licenses, and identification cards are issued to individuals/entities who have not demonstrated they are qualified and/or authorized to obtain these documents, public safety and welfare can be at risk. Specifically, unqualified drivers who receive driver licenses pose safety risks on public roadways; unauthorized and/or fraudulent vehicle title transfers increase the risk of financial hardship for victims; and fraudulently obtaining identification documents may facilitate criminal activity, including fraud, identity theft, and terrorism.

We found that MVD had not sustained third-party monitoring and oversight processes consistent with our previous recommendations from our 2015 performance audit of MVD and established processes inconsistent with recommended practices. We made various recommendations to MVD, including that it should ensure third parties issue vehicle titles, driver licenses, and identification cards only to qualified and/or authorized individuals/entities by developing and implementing written policies, procedures, and guidance for its third-party quality assurance process. These policies, procedures, and guidance should include procedures and required time frames for monitoring third-party completion of self-reviews, following up with third parties to ensure errors and other performance deficiencies are resolved, and taking enforcement action in response to third-party noncompliance. See Arizona Auditor General report 23-105 *Arizona Department of Transportation—Motor Vehicle Division’s (MVD) oversight of third parties*.

- **Has not timely inspected some CDL providers and most CDL examiners in accordance with federal requirements and did not hold some CDL providers and examiners accountable for addressing inspection violations**—A.R.S. §28-3223 requires individuals to obtain a CDL to operate a commercial motor vehicle, and federal regulations and statute require individuals to pass both a written knowledge and skills test that meet federal minimum standards to obtain a CDL. Federal regulations and Department policy require the CDL skills test to be administered in 3 sections—vehicle inspection, basic vehicle control, and on-road driving. MVD contracts with CDL providers, including school districts and private companies, and certifies these providers’ examiners to administer CDL skills tests to CDL applicants. Federal regulations require MVD to conduct inspections of CDL providers and monitor CDL examiners every 2 years to ensure the integrity of the State’s CDL skills testing program. However, MVD has not inspected some CDL providers and most CDL examiners within the federally required 2-year time frame, and it had not used inspection methods required by federal regulations, such as conducting covert examiner inspections. MVD attributed some inspection delays to staffing, but incomplete and inaccurate data and lack of inspection tracking and monitoring policies and procedures contributed to untimely inspections. Additionally, its inspection procedures were inconsistent with federal regulations.

MVD also failed to hold some CDL providers and examiners accountable for violations it identified during inspections, including failing to monitor and follow through on most enforcement actions it issued in response to inspection violations. We found MVD has not established comprehensive processes, including policies, procedures, and guidance, to appropriately and consistently administer enforcement actions that address identified violations.

We made various recommendations to MVD, including that it should assess its staffing and take action to ensure it has a sufficient number of inspectors to timely inspect CDL providers and examiners; and develop and implement written policies, procedures, and guidance for ensuring CDL inspection violations identified are corrected and enforcement action issued is consistent and appropriate. See Arizona Auditor General report 23-106 *Arizona Department of Transportation—Motor Vehicle Division’s (MVD) oversight of commercial driver license (CDL) examination third parties*.

## Recommendations

The Department should:

8. Comply with statutory requirements related to the Board’s public hearing for the Construction Program and the Construction Program’s structure. If the Department believes that changes to these statutory requirements are needed, it should work with the Legislature to modify statute.
9. Continue to develop and implement a cost-estimation tool to standardize transportation project cost estimates, including accounting for inflation in the cost estimates. Once implemented, the Department should conduct an analysis to determine whether its cost estimates are more accurate and make any necessary changes to its cost-estimation tool, as appropriate.



10. Develop and implement a documented stakeholder education process for obtaining and providing information related to transportation projects the Legislature directs it to conduct to enhance transparency and communication related to these projects, including:
  - a. Providing stakeholder education about the type of information it considers necessary to scope a transportation project and the type of information it can provide to stakeholders, including information related to project costs.
  - b. Expanding its reporting to the Legislature to periodically provide the Legislature with information about all legislative appropriations for specific transportation purposes, including appropriations without a legally mandated reporting requirement. Information that the Department could provide includes information on appropriations and associated transportation projects such as legislative and updated scopes and budgets, statuses, monies spent, and estimated completion dates.
11. Develop and implement a process to seek legislative input on potential transportation projects, such as through its P2P process initial request for project proposals and stakeholder meetings.
12. Develop and implement an IT contingency plan that contains all required elements to ensure compliance with State IT requirements, including procedures for recovering and restoring its MVD MAX system.
13. Develop and implement documented processes to address identified MVD MAX access control gaps, including monitoring users for inactivity and restricting employees from accessing their own MVD records.
14. Train staff who use purchasing cards, travel cards, and central travel accounts and supervisory staff responsible for reviewing related transactions to ensure that these transactions comply with the SAAM and Department policies and procedures.

**Department response:** As outlined in its [response](#), the Department agrees with the findings and will implement the recommendations.

**Sunset factor 3: The extent to which the Department serves the entire State rather than specific interests.**

The Department serves the entire State by planning, designing, constructing, and maintaining a State-wide transportation system, operating the Grand Canyon National Park Airport, and providing vehicle and driver services through MVD. MVD has also taken steps to better serve the entire State. For example, MVD:

- **Offers vehicle and driver services at various physical locations throughout the State and through other technological mechanisms**—MVD customers can access and/or inquire about titling, registration, and driver licensing services in-person at State-wide MVD field offices and third-party providers, and by phone, online live-chat, and through MVD's online customer service portal on its website.<sup>72,73</sup> For example, customers can transfer vehicle titles, order replacement license plates, and renew driver licenses through MVD's online customer service portal on its website.
- **Modified its driver license road test process to help ensure consistent test administration Statewide**—The Department requires some Arizonans to take a road test prior to receiving a driver license, such as Arizona residents who are 16 to 18 years old and who have already obtained their drivers permit.<sup>74</sup> In August 2021, MVD identified that its field offices had inconsistent administration, scoring, and routes for road tests, which led to an inconsistent experience for Arizona customers State-wide. Therefore, it implemented a trial program to standardize its road test administration process in 12 of 43 MVD field offices. MVD determined that this process improved the consistency of road test administration in 11 of

<sup>72</sup> As of February 2023, MVD operated 43 field offices across all the State's 15 counties.

<sup>73</sup> As of October 2022, there were 96 third-party companies operating in 175 locations in 9 of the State's 15 counties: Cochise, Coconino, Maricopa, Mohave, Navajo, Pima, Pinal, Yavapai, and Yuma.

<sup>74</sup> A.R.S. §28-3164 authorizes the Department to examine an applicant for a driver license, which includes a test of the applicant's knowledge of safe driving practices and a demonstration of the applicant's ability to operate a vehicle.

these 12 field offices. As such, in October 2022, it implemented its new process for road test administration at all MVD field offices and third parties. Specifically, MVD:

- Developed requirements for field office road test routes which outline what customers should demonstrate and encounter during a road test to demonstrate their driving ability, such as navigating a school zone, traffic lights, or turns.
  - Updated its policies and procedures to provide guidance to road test examiners on how to administer the road test and score applicants.
  - Made changes to the road test to require applicants to demonstrate basic driving knowledge prior to taking the road test, such as demonstrating how to engage emergency brakes and use hand signals.
- **Identified some areas for improvement in the accessibility of its MVD field office locations**—In April 2023, MVD conducted a field office location analysis and identified inconsistencies in field office locations relative to its goal that State residents in urban areas live no more than approximately 10 miles from an MVD field office.<sup>75</sup> According to the initial field office analysis report, MVD identified areas where residents have to travel farther than the 10-mile goal to access an MVD field office. For example, MVD identified that the San Tan Valley was the largest population center in the State that is farthest from an MVD office and is nearly double the 10-mile radius goal. The field office analysis report included proposals, such as identifying a location for a new MVD office in San Tan Valley after obtaining the necessary approvals. In May 2023, MVD staff reported that MVD was in the process of finalizing the location analysis report and planned to work with Department leadership to begin addressing the report's findings and proposals.

We also assessed whether the Department serves the entire State rather than special interests by reviewing its conflict-of-interest practices. The State's conflict-of-interest requirements exist to remove or limit the possibility of personal influence from impacting a decision of a public agency employee or public officer. Specifically, statute requires employees of public agencies and public officers, including Board members, to avoid conflicts of interest that might influence or affect their official conduct.<sup>76</sup> These laws require employees/public officers to disclose substantial financial or decision-making interests in a public agency's official records, either through a signed document or the agency's official minutes. Statute further requires that employees/public officers who have disclosed conflicts refrain from participating in matters related to the disclosed interests. To help ensure compliance with these requirements, ADOA's State Personnel System employee handbook and conflict-of-interest disclosure form (disclosure form) require State employees to disclose if they have any business or decision-making interests, secondary employment, and relatives employed by the State at the time of initial hire and anytime there is a change. The ADOA disclosure form also requires State employees to attest that they do not have any of these potential conflicts, if applicable, also known as an "affirmative no." Finally, A.R.S. §38-509 requires public agencies to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest and to make this file available for public inspection.

Additionally, in response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employees/public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities.<sup>77</sup> Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employees/public officers of the importance of complying with the

---

<sup>75</sup> The April 2023 field office location analysis was an update to a previous analysis completed in calendar year 2017. The analysis did not include a review of third-party provider locations, which may charge customers an additional fee to process MVD transactions. Additionally, not all third-party providers offer the same services as the MVD field offices. For example, as of October 2022, 108 of 175 third-party locations were not authorized to issue driver licenses and identification cards.

<sup>76</sup> A.R.S. §38-503.

<sup>77</sup> See, for example, Auditor General reports 21-402 *Higley Unified School District—Criminal Indictment—Conspiracy, Procurement Fraud, Fraudulent Schemes, Misuse of Public Monies, False Return, and Conflict of Interest*, 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

State's conflict-of-interest laws.<sup>78</sup> Specifically, conflict-of-interest recommended practices indicate that all public agency employees and public officers complete a disclosure form annually. These recommended practices also indicate that agencies develop a formal remediation process and provide periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met.

We found that the Department has complied with some State conflict-of-interest requirements by requiring its staff to complete the ADOA disclosure form when hired. For example, our review of a random sample of 30 of the 657 Department employees hired in fiscal year 2022 found that the Department complied with the at-hire conflict-of-interest disclosure requirement. Further, the Department has policies and procedures requiring employees to complete conflict-of-interest disclosure forms annually, management to review and remediate potential conflicts of interest, and the Department to maintain a special file of substantial conflict-of-interest disclosures. However, as of April 2023, the Department had not implemented its conflict-of-interest policy, including requiring employees to complete an annual conflict-of-interest disclosure form. According to the Department, it was unaware of the requirements in its conflict-of-interest policy. Finally, the Department reported that, as of November 2022, it had not received any disclosures of substantial conflicts of interest and did not have a special file.

## Recommendations

The Department should:

15. Continue finalizing the MVD field office location analysis report and develop and implement a plan for addressing the report's findings and proposals.
16. Implement its conflict-of-interest policy to help ensure compliance with State conflict-of-interest requirements and recommended practices by:
  - a. Requiring employees/public officers to annually complete a disclosure form, including attesting that no conflicts exist, if applicable.
  - b. Storing all substantial interest disclosures in a special file available for public inspection.
  - c. Providing periodic training on its conflict-of-interest policy to all employees and public officers.

**Department response:** As outlined in its [response](#), the Department agrees with the findings and will implement the recommendations.

## Sunset factor 4: The extent to which rules adopted by the Department are consistent with the legislative mandate.

Our review of the Department's statutes and rules indicates that the Department has adopted rules when required to do so.<sup>79</sup>

---

<sup>78</sup> Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2022). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 08/09/2023 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 08/09/2023 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 08/09/2023 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>.

<sup>79</sup> To help conduct this assessment, we used a Department-provided list of 43 statutes that the Department determined required rules and the Department's corresponding rules. We selected a random sample of 22 of the 43 statutes in the Department's list and judgmentally selected 2 additional statutes. We selected these 2 additional statutes because the Department-provided list of statutes and corresponding rules did not list the corresponding rules for these 2 statutes.

**Sunset factor 5: The extent to which the Department has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.**

The Department has encouraged input from the public before adopting rules. Specifically, the Department informed the public of its recent rulemakings and their expected impacts and provided opportunities for public input as part of the 3 rulemakings it finalized in November 2021 and July 2022 related to oversized and overweight special permits; title, registration, and driver licenses; and commercial programs. For these rulemakings, the Department published notices of its proposed rulemakings in the Arizona Administrative Register and included a statement detailing these proposed rules' impact on the public. Additionally, the Department provided contact information in the notices for Department staff who would receive public input about the proposed rulemaking and allowed the public to submit written comments on proposed rule changes for at least 30 days after it published the first notice. The Department received public input for 1 of the proposed rulemakings we reviewed.<sup>80</sup> Specifically, 1 organization provided comments on the rules the Department was proposing to adopt.<sup>81</sup>

The Department also provides information to the public through its website and other media. For example, the Department has provided information about its ongoing transportation projects, such as the interstate 17 expansion from Anthem Way to the Sunset Point Rest Area, and transportation studies, such as the Sonoran Corridor transportation study (see Appendix B, pages b-1 through b-3, for more information about this transportation project and study).<sup>82</sup> The Department also provides an opportunity for members of the public to comment on transportation studies, such as through community meetings. Additionally, the Department provides information regarding highway conditions throughout the State through mediums such as dynamic highway messaging signs (see Photo 2 for example).

**Photo 2**  
**Dynamic messaging sign**



Source: Photo courtesy of the Department.

However, we attended and observed 8 public meetings held between September 2022 and April 2023—5 Board and 3 Committee meetings—and found that the Board and Committee did not consistently comply with open meeting law requirements we reviewed. Specifically:

- For 2 of 5 Board meetings and all 3 Committee meetings we observed, the Board and the Committee did not post meeting notices at least 24 hours in advance in all locations identified in their disclosure statements, as required by A.R.S. §38-431.02. Specifically, for the September 2022 Board meeting, the Board did not post the meeting notice in all listed locations and reported that its disclosure statement was outdated. During the audit, Department staff revised the Board's disclosure statement to reflect updated posting locations; however, the notice was not posted in all locations for the January 2023 Board meeting. Additionally, Department staff reported that notices are not posted at all locations identified in the Committee's disclosure statement.

<sup>80</sup> According to the Department's *Notice of Final Rulemaking* published in the Arizona Administrative Register, no public comments were received for 2 of the 3 rulemakings we reviewed.

<sup>81</sup> Although the Department did not revise its rules to incorporate the input that it received from this organization, it provided explanations for not incorporating the input.

<sup>82</sup> The Department maintains webpages for many of its transportation projects that as of August 2023 can be accessed from <https://azdot.gov/projects>. According to the Department, its federally approved public involvement plan indicates that it creates websites for its transportation studies and transportation projects that have ongoing public involvement or notification requirements. Further, the Department reported that it maintains websites for its larger design and construction transportation projects, such as widening and bridge projects, and transportation studies for larger transportation projects.

- For 1 of 5 Board meetings and 1 of 3 Committee meetings we observed, the Board and the Committee did not make meeting minutes or recordings available within 3 working days after meetings upon request, as required by A.R.S. §38-431.01.

The Department had not developed comprehensive policies and procedures related to open meeting law requirements. Written policies and procedures can help employees understand their duties and responsibilities regarding open meeting law requirements, thus helping to ensure the Board’s and the Committee’s compliance with these requirements.

**Recommendations**

The Department should:

17. Comply with open meeting law requirements, including:
  - a. Ensuring Board and Committee meeting notices are posted at least 24 hours in advance in all locations identified in their disclosure statements.
  - b. Ensuring minutes or recordings are available upon request within 3 working days of Board and Committee meetings.
18. Develop and implement open meeting law policies and procedures to help ensure its compliance with open meeting law requirements.

**Department response:** As outlined in its [response](#), the Department agrees with the findings and will implement the recommendations.

**Sunset factor 6: The extent to which the Department has been able to investigate and resolve complaints that are within its jurisdiction and the ability of the Department to timely investigate and resolve complaints within its jurisdiction.**

The Department’s Office of the Inspector General (OIG) is responsible for investigating complaints of criminal violations involving Department programs. For example, the OIG investigates allegations of document fraud, including driver licenses, identification cards, and titles and registrations. According to OIG reports, the OIG opened 2,289 cases in calendar year 2022. Types of cases the OIG investigated involved unlicensed vehicle dealers, and fraudulent vehicle titles, addresses, and documents. According to OIG reports, as of April 2023, 2,214 of the 2,289 cases were closed, or approximately 97 percent.<sup>83</sup> Additionally, according to the OIG reports, the cases were closed for various reasons including a cease and desist letter issued and a director letter issued (see Table 4 for examples of closure reasons). According to the OIG, the Department issues director letters to change the listed ownership of a vehicle title within the MVD system, including to transfer a vehicle title to the rightful owner when the OIG determines that a vehicle’s ownership was fraudulently transferred to another individual.

In addition, MVD has established processes for receiving and resolving customer inquiries and complaints. Specifically, MVD reported that its MVD chat feature, which went live on August

**Table 4**  
Examples of closure reasons for Department OIG cases opened in calendar year 2022

Referred to another agency	9
Arrest	31
Criminal or civil citation issued	31
Cease and desist letter issued	46
Director letter issued	78
Cleared adult, no arrest	90
Unfounded	101
Information only report	153
Vehicle dealer audit performed	191
No action taken	293

Source: Auditor General staff review of the Department’s 2022 OIG report.

<sup>83</sup> Statute does not include time frames for OIG criminal investigations.

1, 2022, receives and resolves customer inquiries. According to MVD guidance, MVD customer service representatives should maintain a 5-to-7-minute average talk time for chats.<sup>84</sup> Based on our review of MVD reports for November 2022 through April 2023, MVD answered 146,781 chats and maintained an average monthly talk time between approximately 2.5 and 3.5 minutes, which was below its target of 5-to-7 minutes. Additionally, for November 2022 through April 2023, the total average chat time, including the talk time, the time customers waited for a CSR to respond, and the time when the CSR is researching the customer's question and not actively talking with the customer, was between approximately 9 and 10 minutes.

However, we found that MVD has not implemented a process for tracking customer complaints against third parties that provide vehicle and driver services across the State, including if and how the complaints were resolved. Specifically, MVD drafted procedures for tracking customer complaints against third parties, but as of April 2023, MVD had not implemented these procedures and did not have an expected date to do so.

## Recommendation

The Department should:

19. Implement its MVD procedures for tracking customer complaints against third parties, including complaint resolutions.

**Department response:** As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation.

### Sunset factor 7: The extent to which the Attorney General or any other applicable agency of State government has the authority to prosecute actions under the enabling legislation.

The Attorney General serves as the Department's legal advisor and provides legal services as the Department requires, according to A.R.S. §§41-192(A) and 28-333. Additionally, according to A.R.S. §28-333, the Attorney General has the authority to prosecute and defend in the name of the State all actions pursuant to A.R.S. Title 28 (Transportation).

### Sunset factor 8: The extent to which the Department has addressed deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.

According to the Department, it has not identified any deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate. However, in response to the statutory noncompliance we identified concerning the Department and Board processes for developing the Construction Program (see Sunset Factor 2, page 21), the Department reported it would be pursuing statutory changes to the Construction Program development and approval process in the 2024 legislative session, including:

- Revising A.R.S. §28-6954(A)(3) to require that the Construction Program lists projects by route number rather than by priority.
- Revising A.R.S. §28-6952 to change the Board's Construction Program hearing notice requirement from newspapers to an online posting. The Department also reported that it would pursue changes to statutory requirements related to the dates by when the Board must review and hold a hearing on the Construction Program.

### Sunset factor 9: The extent to which changes are necessary in the laws of the Department to adequately comply with the factors listed in this sunset law.

We did not identify any needed changes to the Department's statutes.

---

<sup>84</sup> Average talk time comprises the time the CSR is active with the customer.

**Sunset factor 10: The extent to which the termination of the Department would significantly affect the public health, safety, or welfare.**

Terminating the Department would affect the public's safety and welfare if its responsibilities were not transferred to another entity. For example, the Department is responsible for designing, constructing, and maintaining State highways, roads, airports, and bridges, which facilitates the delivery of goods, materials, and services. According to Department data, in calendar year 2021 the Department owned and maintained over 30,700 lane miles in the State. Department maintenance projects include repairs to transportation infrastructure such as pavement, fences, and guardrails. Further, the Department also responds to traffic incidents and assists law enforcement personnel and first responders with cleanup and traffic control. Additionally, the Department is responsible for distributing HURF revenues to cities, towns, counties, and the State Highway Fund according to statutory formulas.

The Department is also responsible for registering motor vehicles and licensing drivers, including performing driving examinations that help ensure that those who obtain a driver license can safely operate a vehicle. According to the Department, there were approximately 5.9 million licensed drivers and 7.8 million registered motor vehicles in Arizona in fiscal year 2022. Additionally, the Department investigates allegations of document fraud, including driver licenses, identification cards, and title and registration.

**Sunset factor 11: The extent to which the level of regulation exercised by the Department compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.**

The level of regulation exercised by the Department is generally similar to the level of regulation as compared to the western states we judgmentally selected—California, Idaho, Oregon, and Wyoming. Specifically, Arizona and the 4 other states we reviewed generally regulate similar areas, including regulating motor vehicles through driver licensing, vehicle registration, and vehicle dealers. For example, Arizona and the 4 other states we reviewed issue federal REAL ID Act compliant driver licenses and identification cards (credentials).<sup>85</sup> Additionally, similar to Arizona, in 3 of the states we reviewed—California, Idaho, and Oregon—obtaining REAL ID Act compliant credentials is optional, and they also issue noncompliant credentials.<sup>86</sup> However, we identified some differences related to the states' regulation of personal aircraft and regulatory structure. For example:

- **Personal aircraft**—Arizona and 2 other states, Oregon and Idaho, require personal aircraft to be registered at the state level in addition to the federal requirement for registration with the Federal Aviation Administration, unlike California and Wyoming.
- **Regulatory organizational structure**—Although each state we reviewed has a state transportation agency, some of the Department's regulatory responsibilities are overseen by different agencies in other states. For example, counties issue vehicle registrations in Wyoming; California has a separate regulatory agency that licenses drivers and vehicle dealers and regulates motor vehicles; and Oregon has a separate regulatory agency that regulates personal aircraft.

**Sunset factor 12: The extent to which the Department has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.**

The Department uses private contractors in the performance of its mission-critical functions. For example, the Department contracts with third parties that conduct drivers' examinations and issue driver licenses, and vehicle registrations and titles. The Department also contracts for driver license production services and

---

<sup>85</sup> In fiscal year 2023, the Department received a 1-time appropriation of approximately \$6 million from the State Highway Fund for the anticipated increase in REAL ID Act-compliant credentials that it would have to issue. The Department was also appropriated \$2.26 million from the State Highway Fund and Motor Vehicle Liability Insurance Enforcement Fund for driver license security software upgrades to a system that automates the process of photo image matching when someone applies for a new credential and, according to the Department, its OIG uses it to review allegations of potential fraud.

<sup>86</sup> As of 2011, all credentials issued in Wyoming are REAL ID Act compliant.

for transportation project management, design, and construction. We contacted 4 other states—California, Wyoming, Idaho, and Oregon—to obtain information regarding their state transportation and motor vehicle entities' use of private contractors for mission-critical activities. The 4 states generally reported making use of private contracts to perform the same mission-critical functions as the Department, with 1 exception. Specifically, although all 4 states reported using third parties for some functions performed by the Department's MVD, the scope of those functions was more limited when compared to Arizona. For example, none of the states use third parties to issue driver licenses.

We did not identify any areas where the Department should consider using private contractors.





# SUMMARY OF RECOMMENDATIONS

## Auditor General makes 19 recommendations to the Department

The Department should:

1. Follow its policies and procedures to comply with State laws related to security incidents, including investigating security incidents and timely notifying all affected customers if it determines that a security breach occurred (see Finding 1, pages 8 through 14, for more information).
2. Conduct a risk-based review of MVD system customer account data from 2019 through 2022 to determine whether any other customer accounts exhibit similar potentially fraudulent patterns and conduct all related investigations and required followup (see Finding 1, pages 8 through 14, for more information).
3. At a minimum, comprehensively review and investigate the identified 260 customer accounts to determine if potential security incidents occurred. If it identifies security incidents after reviewing and investigating the 260 customer accounts, the Department should report to and work with the Arizona Department of Homeland Security to address these incidents (see Finding 1, pages 8 through 14, for more information).
4. Develop and implement policies and procedures for timely and effective reporting of fraud to appropriate authorities, as required by the SAAM (see Finding 1, pages 8 through 14, for more information).
5. Continue its efforts to recover all monies it had not recovered (see Finding 1, pages 8 through 14, for more information).
6. Establish a documented, comprehensive process to effectively manage MVD fraud risk, including conducting regular fraud risk assessments, identifying risk responses and anti-fraud strategies, designing and implementing specific control activities to prevent and detect fraud, and monitoring and evaluating its fraud risk management process (see Finding 1, pages 8 through 14, for more information).
7. Establish a documented and comprehensive IT risk assessment process that involves members of the Department's administration and Information Technology Group for its MVD system and that includes:
  - a. Determining the IT risks that MVD faces as it seeks to achieve its objectives.
  - b. Providing the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which MVD might be subjected.
  - c. Analyzing identified risks and developing a plan to respond within the context of the MVD's defined objectives and risk tolerances, including the risk of unauthorized access and use, modification, or loss of sensitive information (see Finding 1, pages 8 through 14, for more information).
8. Comply with statutory requirements related to the Board's public hearing for the Construction Program and the Construction Program's structure. If the Department believes that changes to these statutory requirements are needed, it should work with the Legislature to modify statute (see Sunset Factor 2, pages 15 through 27, for more information).
9. Continue to develop and implement a cost-estimation tool to standardize transportation project cost estimates, including accounting for inflation in the cost estimates. Once implemented, the Department should conduct an analysis to determine whether its cost estimates are more accurate and make any

necessary changes to its cost-estimation tool, as appropriate (see Sunset Factor 2, pages 15 through 27, for more information).

10. Develop and implement a documented stakeholder education process for obtaining and providing information related to transportation projects the Legislature directs it to conduct to enhance transparency and communication related to these projects, including:
  - a. Providing stakeholder education about the type of information it considers necessary to scope a transportation project and the type of information it can provide to stakeholders, including information related to project costs.
  - b. Expanding its reporting to the Legislature to periodically provide the Legislature with information about all legislative appropriations for specific transportation purposes, including appropriations without a legally mandated reporting requirement. Information that the Department could provide includes information on appropriations and associated transportation projects such as legislative and updated scopes and budgets, statuses, monies spent, and estimated completion dates (see Sunset Factor 2, pages 15 through 27, for more information).
11. Develop and implement a process to seek legislative input on potential transportation projects, such as through its P2P process initial request for project proposals and stakeholder meetings (see Sunset Factor 2, pages 15 through 27, for more information).
12. Develop and implement an IT contingency plan that contains all required elements to ensure compliance with State IT requirements, including procedures for recovering and restoring its MVD MAX system (see Sunset Factor 2, pages 15 through 27, for more information).
13. Develop and implement documented processes to address identified MVD MAX access control gaps, including monitoring users for inactivity and restricting employees from accessing their own MVD records (see Sunset Factor 2, pages 15 through 27, for more information).
14. Train staff who use purchasing cards, travel cards, and central travel accounts and supervisory staff responsible for reviewing related transactions to ensure that these transactions comply with the SAAM and Department policies and procedures (see Sunset Factor 2, pages 15 through 27, for more information).
15. Continue finalizing the MVD field office location analysis report and develop and implement a plan for addressing the report's findings and proposals (see Sunset Factor 3, pages 27 through 29, for more information).
16. Implement its conflict-of-interest policy to help ensure compliance with State conflict-of-interest requirements and recommended practices by:
  - a. Requiring employees/public officers to annually complete a disclosure form, including attesting that no conflicts exist, if applicable.
  - b. Storing all substantial interest disclosures in a special file available for public inspection.
  - c. Providing periodic training on its conflict-of-interest policy to all employees and public officers (see Sunset Factor 3, pages 27 through 29, for more information).
17. Comply with open meeting law requirements, including:
  - a. Ensuring Board and Committee meeting notices are posted at least 24 hours in advance in all locations identified in their disclosure statements.
  - b. Ensuring minutes or recordings are available upon request within 3 working days of Board and Committee meetings (see Sunset Factor 5, pages 30 through 31, for more information).

18. Develop and implement open meeting law policies and procedures to help ensure its compliance with open meeting law requirements (see Sunset Factor 5, pages 30 through 31, for more information).
19. Implement its MVD procedures for tracking customer complaints against third parties, including complaint resolutions (see Sunset Factor 6, pages 31 through 32, for more information).



## Summary of 77 legislative appropriations for specific transportation purposes made in the 2019, 2021, and 2022 legislative sessions

In the 2019, 2021, and 2022 legislative sessions, the Legislature enacted legislation that included 77 appropriations to the Department for specific transportation purposes (see Table 5, pages a-2 through a-10, for summary information for the 77 appropriations).<sup>87,88</sup> For example, the Legislature appropriated monies to the Department for transportation purposes that the Department is expected to complete, such as studies to determine the viability and feasibility of transportation projects, State-wide pavement preservation, and transportation projects to expand highways and construct bridges. Additionally, the Legislature has appropriated monies to the Department to transfer to other entities, including counties, for transportation purposes the entities are expected to complete, such as county road repairs and upgrades. This appendix provides Department-reported information for these 77 legislative appropriations, including the related transportation project's stage (see textbox for more information about key transportation project stages). Specifically, to develop Table 5, we primarily relied on a March 2023 Department-provided legislative appropriation tracking document.<sup>89</sup> However, for some of the appropriations in Table 5, we requested additional clarification or information from the Department between April and August 2023 to supplement the information on its tracker.

### Key transportation project stages

**Study**—A process of evaluating the viability and feasibility of transportation projects and can include obtaining stakeholder input. The Department classifies studies as either Tier 1 or Tier 2. Tier 1 studies are broad analyses of the environmental consequences of potential transportation projects in the study location and identify projects for further review by Tier 2 studies. Tier 2 studies incorporate more detailed environmental reviews and focus on specific transportation projects identified in Tier 1 studies.

**Scoping**—The initial phase of transportation project development, during which Department staff determine the type of work expected to be conducted including what will be constructed; where it will be constructed; and what materials and roadway features, such as pavement, fencing, or bridges, will be required for the project.

**Design**—The process of determining a transportation project's detailed scope and obtaining approvals related to utilities, right of way, materials, and environmental impact.

**Procurement**—The process of contracting for and obtaining services or goods related to transportation projects.

**Construction**—The process of building a transportation project. Department staff provide construction administrative services, process monthly pay estimates and reimbursements, and conduct independent reviews of contracted work, materials, and documentation.

Source: Auditor General staff review of Department transportation project planning documents.

<sup>87</sup> Laws 2019, Ch. 264; Laws 2021, Ch. 406; Laws 2022, Ch. 309; Laws 2022, Ch. 331.

<sup>88</sup> Laws 2023, Ch. 135, appropriated the Department additional monies for specific transportation purposes.

<sup>89</sup> The appropriations tracking document is an internal Department document. According to the Department, it updates this document quarterly.

**Table 5****Department-reported summary information for 77 legislative transportation-related appropriations passed between the 2019 and 2022 legislative sessions****As of March 2023**

(Unaudited)

<b>Appropriation name</b>	<b>Appropriated amount<sup>1</sup></b>	<b>Expenditures and encumbrances<sup>2</sup></b>	<b>Remaining balance</b>	<b>Completion date or estimated completion date<sup>3</sup></b>	<b>Related transportation project(s) stage<sup>4</sup></b>
<b>Laws 2019, Ch. 264</b>					
Cities and towns street and highway projects	\$18,000,000 <sup>5</sup>	\$18,000,000	\$0	June 2020 <sup>6</sup>	Complete
Interstate (I)-10 widening study	10,000,000 <sup>5</sup>	8,775,066	1,224,934	September 2023	Study
I-17 expansion	40,000,000 <sup>7</sup>	29,979,452	10,020,548	November 2024	
I-17 expansion	45,000,000 <sup>7</sup>	0	45,000,000	November 2024	Construction
I-17 expansion	45,000,000 <sup>7</sup>	15,824,008	29,175,992	November 2024	
State Aviation Fund Transfer	10,000,000 <sup>5</sup>	10,000,000	0	June 2020 <sup>6</sup>	Complete
United States (US) Route 95 expansion	28,000,000 <sup>5</sup>	22,977,625	5,022,375	December 2024	Construction
<b>Laws 2021, Ch. 406</b>					
20th Avenue (Ave) repair and maintenance in Safford	\$1,032,100 <sup>5</sup>	\$1,032,100	\$0	December 2021 <sup>6</sup>	Complete
67th Ave drainage improvement in Peoria	8,500,000 <sup>5</sup>	8,500,000	0	November 2021 <sup>6</sup>	Complete
Butte Ave Bridge replacement in Florence	1,000,000 <sup>5</sup>	1,000,000	0	November 2021 <sup>6</sup>	Complete

**Table 5 continued**

<b>Appropriation name</b>	<b>Appropriated amount<sup>1</sup></b>	<b>Expenditures and encumbrances<sup>2</sup></b>	<b>Remaining balance</b>	<b>Completion date or estimated completion date<sup>3</sup></b>	<b>Related transportation project(s) stage<sup>4</sup></b>
Camelback Road (Rd) between State Route (SR) 303 and Litchfield Rd widening in Goodyear	8,000,000 <sup>5</sup>	8,000,000	0	November 2021 <sup>6</sup>	Complete
Grand Ave and SR 303 ramp expansion options study	150,000 <sup>5</sup>	143,604	6,396	October 2022	Complete
Hill Street Corridor improvement in Globe	1,169,400 <sup>5</sup>	1,169,400	0	August 2021 <sup>6</sup>	Complete
I-10 widening	50,000,000 <sup>5</sup>	0	50,000,000	April 2026	Scoping
Main Street (St) improvement in Jerome	560,000 <sup>5</sup>	560,000	0	June 2022 <sup>6</sup>	Complete
North/South Corridor study in Pinal County	4,000,000 <sup>5</sup>	15,562	3,984,438	June 2025	Study
Ocotillo Rd extension and bridge construction in Gilbert	7,900,000 <sup>5</sup>	7,900,000	0	September 2021 <sup>6</sup>	Complete
Pavement rehabilitation	90,000,000 <sup>5</sup>	68,494,381	21,505,618	Varies <sup>8</sup>	Construction
Riggs Rd and SR 347 overpass construction	25,000,000 <sup>5</sup>	0	25,000,000	September 2025	Scoping
Riggs Rd and SR 347 overpass final design plan, right of way, and easements	7,500,000 <sup>5</sup>	0	7,500,000	June 2024	Scoping
Riggs Rd and SR 347 overpass study	2,500,000 <sup>5</sup>	1,940,546	559,454	Summer 2025	Scoping

**Table 5 continued**

Appropriation name	Appropriated amount <sup>1</sup>	Expenditures and encumbrances <sup>2</sup>	Remaining balance	Completion date or estimated completion date <sup>3</sup>	Related transportation project(s) stage <sup>4</sup>
SR 186 and State Business Route (SR Bus.) 10 repair in Wilcox	3,500,000 <sup>5</sup>	135,228	3,364,772	August 2024	Design
SR 377 shoulder guardrail study from Holbrook to Heber	140,000 <sup>5</sup>	112,632	27,368	December 2022	Complete
SR 69 repave in Prescott Valley	4,700,000 <sup>5</sup>	143,774	4,556,226	January 2024	Construction
SR 77 pavement rehabilitation near Oro Valley	13,600,000 <sup>5</sup>	13,600,000	0	May 2023	Complete
SR 87 improvement local match	750,000 <sup>5</sup>	750,000	0	September 2021 <sup>6</sup>	Complete
SR 88 repair study and design concept report	700,000 <sup>5</sup>	596,892	103,108	Fall 2023	Study
SR 90 improvement near Fort Huachuca	10,600,000 <sup>5</sup>	245,787	10,354,213	September 2024	Design
SR 95 repave in Mohave County	46,700,000 <sup>5</sup>	425,242	46,274,759	March 2024	Construction
Tangerine Rd improvement near I-10 in Marana	5,000,000 <sup>5</sup>	5,000,000	0	September 2021 <sup>6</sup>	Complete
US Route 95 improvement near Yuma Proving Ground	10,000,000 <sup>5</sup>	0	0	Not Applicable	Legislatively Repealed <sup>9</sup>
<b>Laws 2022, Ch. 309</b>					
Distribute to the Northern Arizona Intergovernmental Public Transportation Authority for capital costs of the Flagstaff downtown connection center	\$6,000,000 <sup>7</sup>	\$6,000,000	\$0	December 2022 <sup>6</sup>	Complete
<b>Arizona Auditor General</b>   Arizona Department of Transportation—Sunset Review   September 2023   Report 23-110					

**Table 5 continued**

<b>Appropriation name</b>	<b>Appropriated amount<sup>1</sup></b>	<b>Expenditures and encumbrances<sup>2</sup></b>	<b>Remaining balance</b>	<b>Completion date or estimated completion date<sup>3</sup></b>	<b>Related transportation project(s) stage<sup>4</sup></b>
Former SR 279 construction and improvement	6,142,800 <sup>7</sup>	0	0	Not applicable	Legislatively Repealed <sup>9</sup>
Ganado School Loop Rd	1,000,000 <sup>5</sup>	1,000,000	0	December 2022 <sup>6</sup>	Complete
I-10 between SR 85 and Citrus Rd design and construct additional vehicle lanes separated by a lighted median	64,200,000 <sup>7</sup>	0	64,200,000	October 2024	Procurement
I-11 Tier 2 study in Maricopa County	25,000,000 <sup>7</sup>	342	24,999,658	October 2025	Procurement
I-10 widening	400,000,000 <sup>7</sup>	798,251	399,201,750	April 2027	Scoping
Jackrabbit Trail improvement between Thomas Rd and McDowell Rd	20,080,000 <sup>7</sup>	20,080,000	0	December 2022 <sup>6</sup>	Complete
Loop 101 slip ramp access	25,000,000 <sup>5</sup>	0	0	Not Applicable	Legislatively Repealed <sup>9,10</sup>
Loop 101 between 51st Ave and 59th Ave screen wall design and construction	9,514,000 <sup>7</sup>	0	9,514,000	December 2025	Design
Loop 101 east side near 16th St screen wall design and construction	7,250,000 <sup>7</sup>	11,272	11,338,728 <sup>11</sup>	December 2023	Design
N35 Rd	6,000,000 <sup>5</sup>	6,000,000	0	February 2023 <sup>6</sup>	Complete
N9402 Rd	10,000,000 <sup>5</sup>	10,000,000	0	February 2023 <sup>6</sup>	Complete
North-South Corridor Tier 2 study in Pinal County	15,000,000 <sup>7</sup>	26	14,999,974	April 2025	Procurement



**Table 5 continued**

Appropriation name	Appropriated amount <sup>1</sup>	Expenditures and encumbrances <sup>2</sup>	Remaining balance	Completion date or estimated completion date <sup>3</sup>	Related transportation project(s) stage <sup>4</sup>
Pavement rehabilitation road projects selected pursuant to Laws 2021, Ch. 406, §34 (Inflation)	31,500,000 <sup>7</sup>	0	31,500,000	Varies <sup>8</sup>	Construction
Riggs Rd and SR 347 overpass construction (Inflation)	8,750,000 <sup>7</sup>	0	8,750,000	June 2025	Scoping
Riggs Rd and SR 347 overpass final design plan, right of way and easements (Inflation)	2,625,000 <sup>7</sup>	0	0	Not applicable	Legislatively Repealed <sup>9</sup>
Ruby Rd Bridge	3,000,000 <sup>5</sup>	3,000,000	0	February 2023	Complete
Sentinel exit lighting installation in Gila Bend	568,000 <sup>7</sup>	71,202	496,798	September 2023	Design
Sonoran Corridor Tier 2 study in Pima County	14,000,000 <sup>7</sup>	3,308	13,996,692	April 2025	Procurement
SR 186 and SR Bus. 10 repair in Willcox (Inflation)	1,464,100 <sup>7</sup>	0	1,464,100	September 2024	Design
SR 238 between SR 347 and Green Rd improvement design	800,000 <sup>7</sup>	800,000	0	September 2022 <sup>6</sup>	Complete
SR 24 expansion right of way acquisition	15,000,000 <sup>7</sup>	15,000,000	0	December 2022 <sup>6</sup>	Complete
SR 303 and I-17 interchange design	19,000,000 <sup>7</sup>	10,333	18,989,667	October 2023	Scoping

**Table 5 continued**

Appropriation name	Appropriated amount <sup>1</sup>	Expenditures and encumbrances <sup>2</sup>	Remaining balance	Completion date or estimated completion date <sup>3</sup>	Related transportation project(s) stage <sup>4</sup>
SR 303 from I-17 to Lake Pleasant Parkway improvement design	4,000,000 <sup>7</sup>	2,570	3,997,430	October 2023	Scoping
SR 347 between I-10 and the City of Maricopa design to widen lanes	19,000,000 <sup>7</sup>	100	18,999,900	October 2023	Scoping
SR 389 at Arizona Ave intersection assessment	100,000 <sup>7</sup>	80,000	20,000	August 2023	Scoping
SR 69 and SR 169 intersection roundabout construction	1,500,000 <sup>7</sup>	0	1,500,000	June 2024	Design
SR 69 repave in Prescott Valley (Inflation)	1,645,000 <sup>7</sup>	0	1,645,000	January 2024	Construction
SR 74 at Lake Pleasant Parkway traffic interchange study and design	5,000,000 <sup>7</sup>	0	5,000,000	April 2024	Scoping
SR 79 and Hunt Highway intersection assessment	100,000 <sup>7</sup>	90,000	10,000	August 2023	Scoping
SR 87 and Skousen Rd intersection assessment	100,000 <sup>7</sup>	0	100,000	October 2023	Design
SR 89 at SR 89A traffic interchange design	3,000,000 <sup>7</sup>	0	3,000,000	December 2024	Procurement
SR 90 improvement from Moson Rd to Campus Drive (Dr) improvement (Inflation)	3,710,000 <sup>7</sup>	0	3,710,000	September 2024	Design

**Table 5 continued**

Appropriation name	Appropriated amount <sup>1</sup>	Expenditures and encumbrances <sup>2</sup>	Remaining balance	Completion date or estimated completion date <sup>3</sup>	Related transportation project(s) stage <sup>4</sup>
SR 90 pavement rehabilitation between Campus Dr and the US Border Patrol Station in Huachuca City	39,200,000 <sup>7</sup>	1,641	39,198,359	September 2024	Design
SR 95 repave in Mohave County (Inflation)	19,534,600 <sup>7</sup>	0	19,534,600	March 2024	Design
SR 97 improvements	10,000,000 <sup>5</sup>	0	0	Not yet applicable <sup>12</sup>	Study
State Aviation Fund: airports	20,000,000 <sup>13</sup>	0	20,000,000	Varies <sup>14</sup>	Scoping
State Aviation Fund: Prescott Airport	600,000 <sup>13</sup>	600,000	0	June 2023 <sup>15</sup>	Complete
State Match Advantage for Rural Transportation Fund	50,000,000 <sup>7</sup>	50,000,000	0	October 2022	Complete
Study the construction of an emergency evacuation bridge in Lake Havasu City	200,000 <sup>7</sup>	200,000	0	January 2023 <sup>6</sup>	Complete
US Route 191 pavement rehabilitation between Armory Rd and East Safford	16,330,000 <sup>7</sup>	910	16,329,090	March 2024	Design
US Route 191 pavement rehabilitation between Mile Post (MP) 163 and MP 173	22,152,000 <sup>7</sup>	52	22,151,948	March 2024	Construction

**Table 5 continued**

Appropriation name	Appropriated amount <sup>1</sup>	Expenditures and encumbrances <sup>2</sup>	Remaining balance	Completion date or estimated completion date <sup>3</sup>	Related transportation project(s) stage <sup>4</sup>
US Route 60 pavement rehabilitation between Loop 101 and Loop 202 <sup>11</sup>	38,482,000 <sup>7</sup>	32,356,395	2,025,606	November 2023	Construction
US Route 89	5,000,000 <sup>5</sup>	22,618	4,977,382	September 2025	Scoping
US Route 95 improvement near Yuma Proving Ground (Inflation)	3,500,000 <sup>7</sup>	0	0	Not applicable	Legislatively Repealed <sup>9</sup>

**Laws 2022, Ch. 331**

Cesar Chavez Boulevard	\$33,000,000 <sup>5</sup>	\$0	\$33,000,000	December 2025	Procurement
------------------------	---------------------------	-----	--------------	---------------	-------------

<sup>1</sup> According to the Department, all appropriations are nonlapsing.

<sup>2</sup> All appropriations with total expenditures and/or encumbrances that equal the total appropriated amount relate to grants and/or transfers to other funds or entities, such as cities, with the exception of 1 appropriation. According to the Department, it expended all monies appropriated for the SR 77 pavement rehabilitation near Oro Valley, and the Legislature appropriated additional monies for the transportation project in Laws 2023, Ch. 135. Additionally, the Department reported that when there are remaining appropriated monies after it completes a transportation project, it takes various actions depending on the appropriation's requirements. For example, the Department reported that some appropriations state that remaining monies revert to the original fund upon transportation project completion.

<sup>3</sup> According to the Department, project managers assigned to the transportation project track the estimated completion dates in the Department's transportation project management software as the project progresses through the different phases. Additionally, the Department reported the completion date is updated quarterly or as needed when impacts to the transportation project's schedule are identified.

<sup>4</sup> In some instances, the Department uses an appropriation to support multiple projects related to the appropriation. For example, Laws 2021, Ch. 406, included a \$90 million appropriation for pavement preservation that supports 16 projects, and a \$46.7 million appropriation for SR 95 repave in Mohave County that supports 2 projects.

<sup>5</sup> Monies appropriated from the State General Fund.

<sup>6</sup> For these appropriations, the Department reported that the completion date indicates that the Department transferred the monies to another fund or entity, such as a city, and not that the transportation purpose and/or projects associated with the appropriations are complete.

<sup>7</sup> Monies appropriated from the State Highway Fund.

<sup>8</sup> This appropriation supports 16 projects. As such, according to the Department, the completion date for these 16 projects varies.

<sup>9</sup> These appropriations were repealed by the Legislature in Laws 2023, Ch. 135.

<sup>10</sup> Although the Legislature later repealed this appropriation in the 2023 legislative session, the Department conducted a review of a potential slip ramp connecting Loop 101 and 91st Ave as a part of its Interstate 10/Loop 101 System Interchange transportation study. According to the Department, the transportation study was completed in July 2023, and as of August 2023, the Department was in the process of finalizing the study documentation.

<sup>11</sup> According to Laws 2022, Ch. 309, §8, before transferring monies between applicable projects, the Department shall submit a report for review by the Joint Committee on Capital Review (JCCR). The Department reported that in December 2022, the Department submitted a report to JCCR notifying JCCR of a \$4.1 million shortfall on the Loop 101 east side near 16th St screen wall design and construction transportation project due the cost of concrete and an unexpected relocation of a facility. Additionally, the Department reported to JCCR that it would cover the shortfall through a transfer from the appropriation for US Route 60 pavement rehabilitation between Loop 101 and Loop 202. Table 2 reflects the expenditures and encumbrances and remaining balances for these projects based on the Department transfers.

<sup>12</sup> The Department reported in August 2023 that it intends to use this appropriation as matching monies for a federal grant that it was applying for, and construction and completion of the associated transportation project is dependent on the Department receiving the grant.

## Table 5 continued

<sup>13</sup> Monies appropriated from the State Aviation Fund.

<sup>14</sup> This appropriation supports 28 grants for airports. As such, according to the Department, the completion date for these 28 grants varies.

<sup>15</sup> This appropriation supports a Department grant for the Prescott regional airport awarded in June 2023. According to the Department, the airport has 4 years to complete the project associated with this grant.

Source: Auditor General staff analysis of the Department's legislative appropriations tracking document; Laws 2019, Ch. 264; Laws 2021, Ch. 406; Laws 2022, Ch. 309; Laws 2022, Ch. 331; Laws 2023, Ch. 135; and Department-reported information related to specific appropriations.



## Status of 8 sampled legislative appropriations and applicable Department transportation projects

As discussed in Appendix A (see pages a-1 through a-10), in the 2019, 2021, and 2022 legislative sessions, the Legislature passed bills that included 77 appropriations to the Department for Legislature-specified transportation purposes. This appendix presents information on a sample of 8 of these 77 legislative appropriations, including the status of the applicable Department transportation projects.<sup>90,91,92</sup>

**I-17 Expansion**—Laws 2019, Ch. 264, §18, appropriated the Department \$130 million across fiscal years 2020 through 2022 to expand I-17 between Anthem and Black Canyon City. The Department reported that it used this appropriation to support a transportation project that was in progress prior to the appropriation. According to the fiscal year 2024 Construction Program, the total estimated cost for the transportation project was approximately \$502.7 million. Specifically, the Department reported this appropriation was supplemental to federal, grant, and Regional Area Road Fund monies to expand I-17 between Anthem and Sunset Point, which includes Anthem to Black Canyon City. According to the Department, the transportation project included the construction of additional northbound and southbound lanes from Anthem Way to Black Canyon City, and the construction of 2 additional lanes on I-17 from Black Canyon City to Sunset Point that are flex lanes, which can be used as northbound or southbound lanes to alleviate traffic congestion.<sup>93</sup> The Department reported that the project includes 15 miles of widening, approximately 8 miles of flex lanes, 10 bridge widenings, and 2 bridge replacements.

The Department completed a design concept report for the project in May 2019, which included scoping information such as drainage channels that may be affected, traffic and crash data analysis, and potential design alternatives to address various development challenges (see Figure 4, page b-2, for a timeline of the transportation project’s key phases and milestones). The Department then began the procurement process, and on October 28, 2021, the Department entered a contract that included finalizing design and construction of the transportation project. According to the Department, in calendar year 2022 and during the final design process, it became aware that the project would require additional monies, due to unforeseen engineering challenges and a federal rule change that required an additional environmental analysis. Specifically, an August 2021 change to federal regulation required the Department to analyze additional streams and waterways impacted by this transportation project. As of July 2022, the Department reported that it estimated a total budget shortfall on the transportation project of approximately \$76.2 million. According to the Department, \$45 million of the \$76.2 million budget shortfall was related to the change in federal requirements. The Department reported that construction began in calendar year 2022 but was delayed while the Department worked to address the \$76.2 million budget shortfall. During the 2023 legislative session, the Legislature appropriated an

<sup>90</sup> Laws 2019, Ch. 264; Laws 2021, Ch. 406; Laws 2022, Ch. 309; Laws 2022, Ch. 331.

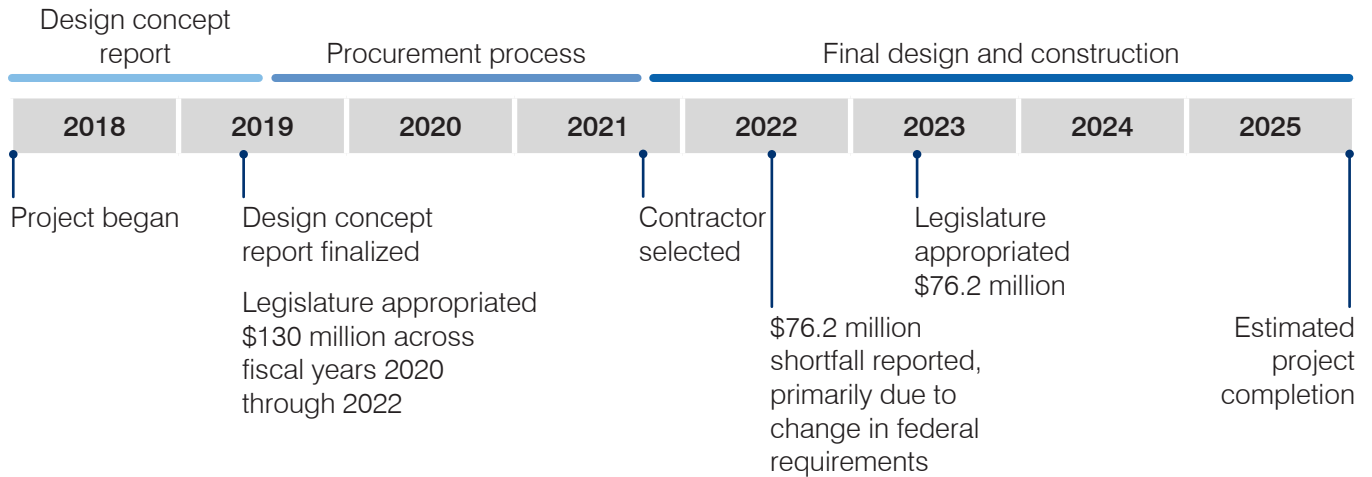
<sup>91</sup> Between the 2019 and 2022 legislative sessions, the Legislature passed bills that included 77 appropriations to the Department for specific transportation purposes. We selected a judgmental sample of 8 of these 77 appropriations based on the appropriation-purpose type, such as expansion of an existing interstate, acquisition of right of way, and transportation project design.

<sup>92</sup> Three of 8 appropriations were for local governments’ transportation projects. The Department entered into Intergovernmental Agreements (IGAs) with these local governments and acted as the pass-through entity, meaning it received and transferred the appropriated monies to these local governments for various transportation purposes, such as construction, repairs, and upgrades of County Road C-420/Ganado School Loop Road by Apache County. The local governments are responsible for these projects.

<sup>93</sup> As of August 2023, the Department maintained a website with information about the status of this project at <https://www.improvingi17.com/>.

additional \$76.2 million to the Department for construction-related activities to expand I-17 between Anthem and Black Canyon City.<sup>94</sup> As of August 2023, the Department reported that this transportation project will be completed by the end of calendar year 2025.

**Figure 4**  
**Department’s I-17 transportation project, expected to be completed in 2025, has gone through several key phases and milestones, including a \$76.2 million budget shortfall**



Source: Auditor General staff review of Laws 2019, Ch. 264; Laws 2023, Ch. 135; Department’s I-17 transportation project documentation; and Department-reported information.

**Repave SR 95 In Mohave County**—Laws 2021, Ch. 406, §33, appropriated the Department \$46.7 million to repave SR 95 in Mohave County. The Department reported that it used this appropriation to support 2 transportation projects on SR 95 near Lake Havasu City’s SARA Park and Bullhead City.<sup>95</sup> According to the Department, based on the scope of the transportation projects supported by this appropriation, the Department determined that additional monies would be needed, and Laws 2022, Ch. 309, §12, appropriated an additional approximately \$19.5 million to the Department for its work to repave SR 95. The Board awarded construction contracts related to these projects in April 2023. As of August 2023, the Department reported that construction was ongoing for both transportation projects. According to the contracts, the required completion date for the Lake Havasu City SARA Park transportation project is March 2024 and for the Bullhead City transportation project is April 2024.<sup>96</sup>

**Acquire right-of-way to extend SR 24**—Laws 2022, Ch. 309, §8, appropriated the Department \$15 million to acquire right-of-way property to extend SR 24. The Department and Pinal County entered into an IGA in December 2022 for the Department to transfer the \$15 million to Pinal County, and the Department transferred these monies to Pinal County in January 2023. The IGA indicates that Pinal County is required to complete the right-of-way acquisition and submit written certification to the Department upon completion. As of August 2023, Pinal County reported that this transportation project was ongoing and the estimated completion date is February 2025.

<sup>94</sup> Laws 2023, Ch. 135.

<sup>95</sup> As discussed in Sunset Factor 2, pages 15 through 16, the Department reported that after working with legislators and officials in Mohave County to obtain more details about the scope of this project, it identified that the intended scope included additional upgrades to SR 95 not referenced in the appropriation, such as new lighting and sidewalks in Bullhead City and Lake Havasu City’s SARA Park.

<sup>96</sup> The awarded contract for the Lake Havasu City SARA Park transportation project was for \$18.5 million, and the Bullhead City transportation project was for approximately \$26.1 million.

**Conduct a Tier 2 study for the Sonoran Corridor in Pima County**—Laws 2022, Ch. 309, §8, appropriated the Department \$14 million to conduct a Tier 2 study for the Sonoran Corridor in Pima County. As discussed in Appendix A, Tier 2 studies build on the findings of Tier 1 studies to incorporate more detailed environmental reviews on the specific transportation projects identified in the Tier 1 studies (see Appendix A, page a-1, for additional information). In November 2021, the Department completed a Tier 1 study on the proposed Sonoran Corridor, a roadway that would travel between I-19 and I-10 south of the Tucson International Airport in Pima County. The Tier 1 study identified an approximately 20-mile corridor for review during the Tier 2 study. The Department selected a consultant for the Tier 2 study in January 2023. According to the Department, the Tier 2 study will include identifying the need for and determining the location of interchanges, bridges, and other design features along the proposed corridor. As of August 2023, the Department reported that it was in the process of a second round of scope and fee negotiations with the selected consultant, and it had expended \$5,071 of the \$14 million appropriation on staff procurement activities. The Department expects to complete the study in April 2025.

**Design and construct additional vehicle lanes, separated by a lighted median, on I-10 between SR 85 and Citrus Road**—Laws 2022, Ch. 309, §8, appropriated the Department \$64.2 million to design and construct additional vehicle lanes, separated by a lighted median, on I-10 between SR 85 and Citrus Road. According to the appropriation, additional monies for the transportation project include a contribution from the City of Buckeye of \$3 million and from the Maricopa Association of Governments (MAG) of at least \$10 million. In December 2022, the Department and the City of Buckeye entered into an IGA, requiring the City of Buckeye to transfer the monies to the Department. In May 2023, the City of Buckeye transferred \$3 million to the Department. Additionally, the Department drafted an IGA and reported that it provided the draft IGA to MAG in November 2022, and according to the Department, the Department and MAG entered into an IGA in May 2023. As of August 2023, the Department reported that scoping for the transportation project was complete, and it would begin the process to procure a consultant for the transportation project design in September 2023.<sup>97</sup>

**Design to improve SR 238 between SR 347 and Green Road**—Laws 2022, Ch 309, §8, appropriated the Department \$800,000 for the design to improve SR 238 between SR 347 and Green Road. The Department and the City of Maricopa entered into an IGA in September 2022, transferring responsibility for this section of the SR 238 from the Department to the City of Maricopa, including the ownership, jurisdiction, and maintenance of this section of SR 238.<sup>98</sup> In October 2022, the Department transferred \$800,000 to the City of Maricopa for this project. The City of Maricopa entered into an agreement with a consultant for the transportation project design in July 2023. The City of Maricopa reported that its estimated completion date for the design work is June 2024.

**Design to widen lanes along SR 347 between I-10 and City of Maricopa**—Laws 2022, Ch. 309, §8, appropriated the Department \$19 million for the design to widen lanes along SR 347 between I-10 and the City of Maricopa. According to the Department, it is using the \$19 million to design a transportation project that spans approximately 15 miles along SR 347 in Pinal County. The Department selected the transportation project design consultant in January 2023 and reported it finalized the contract with that consultant in June 2023. The Department's estimated completion date for the design work is summer 2025.

**Improve Ganado School Loop Road**—Laws 2022, Ch. 309, §9, appropriated the Department \$1 million for distribution to Apache County for construction, repairs, and upgrades of County Road C-420/Ganado School Loop Road, in Apache County. The Department and Apache County entered into an IGA in December 2022 related to the Department's transfer of \$1 million to Apache County for the Ganado School Loop Road

---

<sup>97</sup> A project's scope includes information about the expected work to be conducted, including what is being constructed and what features are involved, such as pavement, fencing, bridges, and cattle guards; materials needed for the project, such as asphalt, signage, and guardrails; where the expected transportation project will take place, including route number and starting and ending mile post; and a preliminary cost estimate for completing the transportation project.

<sup>98</sup> According to the IGA, a 1-mile segment within the Ak-Chin Indian Community is excluded from the transfer to the City of Maricopa and will remain under the jurisdiction of the State while the City of Maricopa and the Department coordinate efforts for the future transfer of this 1-mile segment.



construction, repairs, and upgrades. The IGA required Apache County to complete the improvements and submit written certification to the Department upon completion. The Department transferred these monies to Apache County in February 2023. According to Apache County, it postponed this transportation project in July 2023 after it identified a \$1.9 million budget shortfall through the construction contract bid process due to inflationary costs. As of August 2023, Apache County reported it was in the process of identifying how to address the budget shortfall and did not have an estimated completion date for the transportation project.



## State Highway Fund revenues, expenditures, and changes in fund balances

Table 1 in the Introduction presents the Department's revenues, expenditures, and changes in fund balance for its governmental funds, including the State Highway Fund (see Introduction, pages 4 through 7). This appendix provides summary financial information limited to the State Highway Fund for fiscal years 2020 through 2022. The State Highway Fund is established by A.R.S. §28-6991 et seq to pay for, among other costs, Departmental operational costs and costs associated with engineering, construction, and improvement of State highways and roadways, as authorized by A.R.S. §28-6993. As shown in Table 6 (see pages c-2 and c-3), the State Highway Fund had revenues of approximately \$1.3 billion to \$1.5 billion in fiscal years 2020 through 2022. These revenues were primarily from taxes and fees and federal monies. In fiscal years 2020 through 2022, the Department expended approximately \$1.3 billion to \$1.4 billion from the State Highway Fund, primarily on capital outlay for real property and infrastructure, such as bridges and roads, and noncapital for preservation and maintenance of the State's transportation system.

**Table 6****Schedule of State Highway Fund revenues, expenditures, and changes in fund balances  
Fiscal years 2020 through 2022**

(In millions)

(Unaudited)

	2020 (Actual)	2021 (Actual)	2022 (Actual)
<b>Revenues</b>			
Taxes and fees			
Vehicle registration, title, license, and related taxes and fees	\$448.0	\$499.5	\$506.5
Fuel and motor carrier taxes and fees	388.9	448.2	429.3
Other taxes and fees <sup>1</sup>	-	-	17.1
Federal aid <sup>2</sup>	396.5	468.1	423.9
Reimbursement from Arizona counties and cities <sup>3</sup>	0.2	-	4.5
Distributions from other State agencies <sup>4</sup>	42.2	22.7	93.9
Other <sup>5</sup>	44.5	37.5	39.1
<b>Total revenues<sup>6</sup></b>	<b>1,320.3</b>	<b>1,476.0</b>	<b>1,514.3</b>
<b>Expenditures</b>			
Administration <sup>7</sup>	127.8	124.7	129.7
Highway and highway maintenance <sup>8</sup>	218.4	218.7	250.3
Motor vehicle <sup>9</sup>	138.3	184.1	149.0
Distributions to counties, cities, towns, and other State agencies <sup>10</sup>	143.0	160.9	126.8
Noncapital <sup>11</sup>	243.8	377.6	400.3
Capital outlay <sup>12</sup>	391.1	94.9	96.0
Debt service payments	141.2	139.9	139.3
<b>Total expenditures</b>	<b>1,403.6</b>	<b>1,300.8</b>	<b>1,291.4</b>
Net change in fund balances	(83.3)	175.2	222.9
Fund balances, beginning of year	828.5	745.2	920.4
<b>Fund balances, end of year</b>	<b>745.2</b>	<b>920.4</b>	<b>1,143.3</b>
Restricted <sup>13</sup>	301.0	345.7	410.2
Unrestricted <sup>14</sup>	\$444.2	\$574.7	\$733.1

## Table 6 continued

- <sup>1</sup> Other taxes and fees include monies received pursuant to Proposition 207, which was passed into law in November 2020. It imposed an excise tax and fees related to the adult use of nonmedical marijuana. These taxes and fees are distributed in accordance with A.R.S. §36-2856. The Department-administered HURF receives an annual share of 25.4 percent of the monies remaining after administrative and enforcement costs are paid. The Department is responsible for distributing HURF revenues to counties, cities, towns, and the State Highway Fund.
- <sup>2</sup> Federal aid monies include reimbursements from the federal government for construction projects and other federal grants and reimbursements. For example, the Department receives monies from the U.S. Department of Transportation to administer the Highway Planning and Construction Cluster program to assist with the planning and development of the National Highway System.
- <sup>3</sup> Reimbursements from Arizona counties and cities are for the construction costs related to Department-administered transportation construction projects that have county and city participation.
- <sup>4</sup> According to the Department, distributions from other State agencies increased in fiscal year 2022 primarily because the Governor's Office transferred approximately \$38.1 million of American Rescue Plan Act monies to the Department for a broadband infrastructure project to provide broadband connectivity to rural areas within Arizona.
- <sup>5</sup> According to the Department, other revenues include monies collected from land sales of right of ways.
- <sup>6</sup> Total revenues include State General Fund appropriations. For example, Laws 2019, Ch. 264, and Laws 2021, Ch. 406, appropriated the Department monies from the State General Fund for specific transportation purposes. See Appendix A, pages a-1 through a-10, for more information about appropriations for specific transportation purposes, including State General Fund appropriations and related expenditures.
- <sup>7</sup> According to the Department, these expenditures are the administration costs of the Department's Administrative Services Division, Financial Management Services Division, and the business and finance units within the Department.
- <sup>8</sup> According to the Department, highway and highway maintenance costs include all expenditures associated with the maintenance of highways that are not included in the Department's Construction Program, such as landscaping and guard rail repairs.
- <sup>9</sup> According to the Department, motor vehicle costs consist of all expenses associated with the Department's MVD field offices and programs.
- <sup>10</sup> Distributions to counties, cities, towns, and other State agencies are shared tax revenues that are distributed based on statutory requirements and are primarily from the vehicle license tax collections and HURF collections.
- <sup>11</sup> According to the Department, noncapital expenditures are related to the preservation and maintenance of the transportation system, such as fixing potholes.
- <sup>12</sup> Capital outlay includes expenditures for real property or infrastructure, such as bridges and roads.
- <sup>13</sup> The Department's fund balance was restricted primarily for transportation construction projects.
- <sup>14</sup> The Department's unrestricted fund balance primarily consisted of committed monies. \$443.7, \$574.4, and \$732.6 million was committed primarily for transportation construction and maintenance projects for fiscal years 2020, 2021 and 2022, respectively. A.R.S. §28-6993 restricts the use of monies within the State Highway Fund to the purposes enumerated therein, such as to pay for costs associated with engineering, construction, and improvement of State highways and roadways.

Source: Auditor General staff analysis of the Department's Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds within its *Annual Comprehensive Financial Report* for fiscal years 2020 through 2022.



## Scope and methodology

The Arizona Auditor General has conducted this performance audit and sunset review of the Department pursuant to a December 17, 2020, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit's objectives. These methods included reviewing applicable State statutes and federal regulations; the Department's website, policies, procedures, guidance, and various reports; and interviewing Department staff. In addition, we used the following specific methods to meet the audit objectives:

- To assess whether the Department addressed fraud and security incident risks related to its MVD system, we reviewed the SAAM and U.S. Government Accountability Office recommended practices.<sup>99</sup> Further, we reviewed Department documentation related to 177 MVD customer accounts and related fraudulent transactions that it reported to appropriate authorities in August 2022, including Office of Inspector General investigative reports. Additionally, we reviewed MVD financial reports from September 2017 through April 2023. Specifically, we reviewed 83 MVD customer accounts that included potentially fraudulent transactions of \$1,000 or more and that were not reported to appropriate authorities in August 2022. Finally, we reviewed Department communications about an incident where identity thieves used MVD's online system to obtain fraudulent duplicate driver licenses.
- To assess the Department's State fleet fees, we reviewed government fleet fee-setting recommended practices from the American Public Works Association and Department State fleet documentation related to fee types and its review of State fleet fees.<sup>100</sup>
- To assess the Department's Construction Program development and approval process, we reviewed Department P2P guidelines and process documents, draft Construction Programs, Federal Highway Administration information, Board and Committee meetings and meeting documents, and the Department's fiscal year 2023 draft Construction Program public comment log.
- To assess the accuracy of initial transportation project cost estimates for transportation projects that the Department included on the Construction Program, we reviewed the 18 construction contract bid awards for individual transportation projects included on the Construction Program that were approved during Board meetings between November 2022 and March 2023, and the initial Construction Program construction cost estimates for the 18 transportation projects. We also reviewed Department continuous improvement documents related to improving initial transportation project cost estimates.
- To assess the Department's Construction Program transportation project expenditures, we reviewed Construction Program transportation project transaction documentation, including transportation project contracts and consultant invoices, for a random sample of 6 of 349 transportation projects included in the Construction Program with expenditures in AFIS exceeding \$50,000 between fiscal years 2021 and 2022. Within these 6 projects, we reviewed a judgmental sample of 6 of 34 construction-related and 8 of 288

<sup>99</sup> U.S. Government Accountability Office. (2015). *A framework for managing fraud risks in federal programs*. Washington, D.C. Retrieved 8/10/23 from <https://www.gao.gov/assets/gao-15-593sp.pdf>.

<sup>100</sup> McCorkhill Jr., J. & Stinson, M. & Hunt, J. (2020). *The concise manual for calculating public fleet rates* (2nd ed.). Kansas City, MO: American Public Works Association.

consultant-related transportation project expenditure transactions in 2021 and 2022. We selected these transactions based on their dollar amount.

- To assess the Department's internal controls related to purchasing card, employee travel card, and central travel account transactions, we reviewed a judgmental sample of 85 of 48,353 transactions from fiscal year 2022. We selected the 85 transactions based on risk of noncompliance with State and Department requirements, fraud, waste, and abuse. Specifically, these transactions had high-risk characteristics, such as transactions occurring on weekends and the vendor type. Additionally, we reviewed the SAAM and Department purchasing card, employee travel card, and central travel account policy requirements, and transaction documentation including Department monthly purchase logs, travel receipts, and Department-required travel authorization forms for these sampled transactions.
- To assess the Department's provision of State-wide services related to maintaining a State-wide transportation system and providing vehicle and driver services through MVD, we reviewed Department maintenance logs, MVD road test administration trial program documentation, and MVD road test administration policies and procedures. We also reviewed the MVD field office location analysis report.
- To assess the Department's compliance with State conflict-of-interest requirements and alignment with recommended practices, we reviewed statute and State requirements, recommended practices, the Department's conflict-of-interest policy, and the Department's conflict-of-interest disclosure form.<sup>101,102</sup> We also reviewed a random sample of 30 of 657 conflict-of-interest disclosure forms completed by Department employees hired in fiscal year 2022.
- To assess the Department's compliance with the State's open meeting law requirements, we observed 8 public meetings held between September 2022 and April 2023, 5 Board and 3 Committee meetings, and reviewed these meetings' notices, agendas, and minutes.
- To assess the Department's processes for handling complaints and/or inquiries, we reviewed the Department's OIG report for cases opened in calendar year 2022. Additionally, we reviewed MVD chat reports for November 2022 through April 2023 and MVD policies and procedures.
- To obtain additional information for the Sunset Factors, we judgmentally selected 4 states—California, Wyoming, Idaho, and Oregon—and contacted and/or reviewed information from their transportation and motor vehicle agencies.<sup>103</sup> Additionally, we reviewed a Department-provided list of 43 statutes that the Department determined required rules and the Department's corresponding rules to identify those statutes requiring the Department to develop rules. We selected and reviewed a random sample of 22 of the 43 statutes in the Department's list and judgmentally selected 2 additional statutes. We selected these 2 additional statutes because the Department-provided list of statutes and corresponding rules did not include the corresponding rules for these 2 statutes. Further, we reviewed Department rulemakings completed between November 2021 and July 2022.

---

<sup>101</sup> Recommended practices we reviewed included Organization for Economic Cooperation and Development (OECD). (2022). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 8/9/2023 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 8/9/2023 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 8/9/2023 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>.

<sup>102</sup> In response to conflict-of-interest noncompliance and violations investigated in the course of our work, we have recommended several practices and actions to various school districts, State agencies, and other public entities. Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements. See, for example, Arizona Auditor General reports 21-402 Higley Unified School District—Criminal Indictment—Conspiracy, Procurement Fraud, Fraudulent Schemes, Misuse of Public Monies, False Return, and Conflict of Interest, 19-105 Arizona School Facilities Board—Building Renewal Grant Fund, and 17-405 Pine-Strawberry Water Improvement District—Theft and misuse of public monies.

<sup>103</sup> We judgmentally selected these states because they are western states.

- To obtain information for Appendix A and Appendix B, we reviewed Department-provided tracking information related to the status of 77 legislative appropriations for transportation purposes made in the 2019 through 2022 legislative sessions.<sup>104</sup> Additionally, we judgmentally sampled 8 of 77 legislative appropriations for review, based on the appropriation-purpose type, such as expansion of an existing interstate, acquisition of right of way, and transportation project design. For both appendices, we reviewed session laws from the 2019 through 2023 legislative sessions, transportation project contracts, IGAs, AFIS financial transaction information, and Department-reported and website information.
- To obtain information for Appendix C, we compiled information from the Department’s Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds within its *Annual Comprehensive Financial Report* for fiscal years 2020 through 2022.
- To obtain information for the Introduction, we reviewed Department-prepared information regarding Department staffing and vacancies. In addition, we compiled information from the Department’s Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds within its *Annual Comprehensive Financial Report* for fiscal years 2021 and 2022 and Department-prepared estimates for fiscal year 2023.
- Our work on internal controls included reviewing the Department’s policies and procedures, and, where applicable, testing Department compliance with these policies and procedures; and assessing compliance with State statutes and State and federal regulations. We reported our conclusions on applicable internal controls in Finding 1 and Sunset Factors 2, 3, 5, and 6.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit and sunset review of the Department 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.

We express our appreciation to the Department Director and staff for their cooperation and assistance throughout the audit.

---

<sup>104</sup> Laws 2019, Ch. 264; Laws 2021, Ch. 406; Laws 2022, Ch. 309; Laws 2022, Ch. 331.

# DEPARTMENT RESPONSE



September 21, 2023

Lindsey Perry, CPA, CFE  
Auditor General  
2910 N 44th Street, Suite 410  
Phoenix, Arizona 85018-7571

Subject: ADOT Sunset Review Report

Dear Ms. Perry:

Attached is the Arizona Department of Transportation's response to the ADOT Sunset Review Report. We appreciate working in a comprehensive fashion with the Auditor General and your staff, and having the opportunity to respond to recommendations in the report. We are confident the steps outlined in department responses below will help our operations. ADOT embraces a culture of continuous improvement and will explore opportunities to review and improve processes on an ongoing basis.

If you have any additional questions, please do not hesitate to contact my office.

Sincerely,



Jennifer Toth  
Director

Attachment

**Finding 1:** Department failed to fully address fraud and security incidents, which resulted in it potentially not notifying affected customers, not recovering \$198,358 of public monies, and possibly hampering authorities' response

**Recommendation 1:** The Department should follow its policies and procedures to comply with State laws related to security incidents, including investigating security incidents and timely notifying all affected customers if it determines that a security breach occurred.

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

Response explanation: The Department will follow its policy for investigating and reporting security incidents by developing procedures that clearly designate the steps required to comply with timely assessment and notification requirements. In addition, we will train staff regarding incident response and reporting requirements. We plan to complete procedure development and training implementation by October 31, 2023.

**Recommendation 2:** The Department should conduct a risk-based review of MVD system customer account data from 2019 through 2022 to determine whether any other customer accounts exhibit similar potentially fraudulent patterns and conduct all related investigations and required followup.

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

Response explanation: The Department regularly checks for patterns of fraud. The Department will review customer accounts during the 2019-2022 time period for patterns of activity that could indicate fraud and complete any required followup based on the results of those reviews.

**Recommendation 3:** The Department should at a minimum, comprehensively review and investigate the identified 260 customer accounts to determine if potential security incidents occurred. If it identifies security incidents after reviewing and investigating the 260 customer accounts, the Department should report to and work with the Arizona Department of Homeland Security to address these incidents.

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

Response explanation: The Department has completed a review of all 260 accounts and referred any accounts requiring further investigation to the Department's Chief Information Security Officer. If security incidents are identified, they will be reported to the Arizona Department of Homeland Security.

**Recommendation 4:** The Department should develop and implement policies and procedures for timely and effective reporting of fraud to appropriate authorities, as required by the SAAM.

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

Response explanation: The Department is developing its policies and procedures regarding timely reporting of fraud. The Department's Audit & Analysis team will immediately begin acting as the central reporting unit for fraud, to ensure the proper reporting and follow-up required under SAAM 0530 - Fraud, Theft, Waste and Abuse.

**Recommendation 5:** The Department should continue its efforts to recover all monies it had not recovered.

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

Response explanation: The Department will continue to follow its collections process to recover these funds.

**Recommendation 6:** The Department should establish a documented, comprehensive process to effectively manage MVD fraud risk, including conducting regular fraud risk assessments, identifying risk responses and anti-fraud strategies, designing and implementing specific control activities to prevent and detect fraud, and monitoring and evaluating its fraud risk management process.

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

Response explanation: The Department is reviewing the American Association of Motor Vehicle Administrators' (AAMVA) best practices related to fraud and fraud risk. The Department will then implement a comprehensive process to effectively manage fraud risk, including regular fraud risk assessments, identifying risk responses and anti-fraud strategies, designing and implementing specific control activities to prevent and detect fraud, and monitoring and evaluating its fraud risk management process.

The Department meets on a monthly basis to review fraud trends and risk and regularly participates in recurring national fraud discussions organized by AAMVA. The Department is continually evaluating additional resources and technologies to enhance fraud detection and remediation.

**Recommendation 7:** The Department should establish a documented and comprehensive IT risk assessment process that involves members of the Department's administration and Information Technology Group for its MVD system and that includes:

**Recommendation 7a:** Determining the IT risks that MVD faces as it seeks to achieve its objectives.

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

Response explanation: MVD and the Information Technology Group (ITG) are collaborating to improve MVD's IT risk management process by working with

independent experts to ensure risk is appropriately identified, assessed, and monitored. As part of this process, the Department will conduct ongoing risk impact analysis for the MVD system.

**Recommendation 7b:** Providing the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which MVD might be subjected.

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

Response explanation: MVD and ITG are collaborating to improve MVD's IT risk management process by working with independent experts to ensure risk is appropriately identified, assessed, and monitored. As part of this process, the Department will conduct ongoing risk impact analysis for the MVD system.

**Recommendation 7c:** Analyzing identified risks and developing a plan to respond within the context of the MVD's defined objectives and risk tolerances, including the risk of unauthorized access and use, modification, or loss of sensitive information.

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

Response explanation: MVD and ITG are collaborating to improve its IT risk management process by working with independent experts to ensure risk is appropriately identified, assessed, and monitored. As part of this process, the Department will conduct ongoing risk impact analysis for the MVD system.

**Sunset Factor 2:** The extent to which the Department has met its statutory objective and purpose and the efficiency with which it has operated.

**Recommendation 8:** The Department should comply with statutory requirements related to the Board's public hearing for the Construction Program and the Construction Program's structure. If the Department believes that changes to these statutory requirements are needed, it should work with the Legislature to modify statute.

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

Response explanation: The Department may evaluate a legislative change to the statute and in the meantime will comply.

**Recommendation 9:** The Department should continue to develop and implement a cost-estimation tool to standardize transportation project cost estimates, including accounting for inflation in the cost estimates. Once implemented, the Department should conduct an analysis to determine whether its cost estimates are more accurate and make any necessary changes to its cost-estimation tool, as appropriate.

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

Response explanation: A cost estimation tool that includes inflation factors is being developed with implementation anticipated in quarter 1 of calendar year 2024. All costs developed with the tool will be further analyzed for accuracy.

**Recommendation 10:** The Department should develop and implement a documented stakeholder education process for obtaining and providing information related to transportation projects the Legislature directs it to conduct to enhance transparency and communication related to these projects, including:

**Recommendation 10a:** Providing stakeholder education about the type of information it considers necessary to scope a transportation project and the type of information it can provide to stakeholders, including information related to project costs.

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

Response explanation: The Department will work with local public agencies to provide a workshop in 2024 on topics including project scoping and cost estimating for projects on the ADOT system. In addition, the Department will continue working with local public agencies on the Planning 2 Programming process and include announcing project nominations to the Legislature.

If the Department is provided information on Legislative appropriations for ADOT transportation projects, the Department will also reach out to legislative members to discuss the intended scope and budget of the projects.

**Recommendation 10b:** Expanding its reporting to the Legislature to periodically provide the Legislature with information about all legislative appropriations for specific transportation purposes, including appropriations without a legally mandated reporting requirement. Information that the Department could provide includes information on appropriations and associated transportation projects such as legislative and updated scopes and budgets, statuses, monies spent, and estimated completion dates.

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

Response explanation: While the Department is unable to report on the status of projects that it doesn't administer (local projects off the ADOT system), the Department will expand its reporting to include the status of all project appropriations.

**Recommendation 11:** The Department should develop and implement a process to seek legislative input on potential transportation projects, such as through its P2P process initial request for project proposals and stakeholder meetings.

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

Response explanation: The Department will include announcing project nominations for the Planning 2 Programming process to the Legislature. In addition, the public,

stakeholders and the Legislature are provided an opportunity to be heard through the public comment process provided in the development of the five-year program.

**Recommendation 12:** The Department should develop and implement an IT contingency plan that contains all required elements to ensure compliance with State IT requirements, including procedures for recovering and restoring its MVD MAX system.

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

Response explanation: MVD IT Systems are hosted in Microsoft Azure and utilize Azure disaster recovery solutions with automatic failover service center locations in other regions. The Microsoft Azure Government Cloud environment is independently certified to be National Institute of Standards and Technology (NIST) and FedRamp compliant. The Department will develop a plan by the end of 2023 to map its implementation to State Department of Homeland Security requirements, determine what may still need to be done to be fully compliant, make necessary enhancements, and ensure that all procedures are documented.

**Recommendation 13:** The Department should develop and implement documented processes to address identified MVD MAX access control gaps, including monitoring users for inactivity and restricting employees from accessing their own MVD records.

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

Response explanation: MVD monitors and logs access and activity and has created reports to flag agents accessing their own account and will implement a regular compliance review process for those reports. MVD will also create and implement a periodic access control review process by October 1, 2023. The review will include a validation of all users current access levels.

**Recommendation 14:** The Department should train staff who use purchasing cards, travel cards, and central travel accounts and supervisory staff responsible for reviewing related transactions to ensure that these transactions comply with the SAAM and Department policies and procedures.

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

Response explanation: The Department updated its FIN 6.12 - Purchasing Card policy (published in May 2023) and FIN 6.11 - Ghost Card policy (published in August 2023) to clarify that card packets must be signed by the employee and their manager/supervisor. Additionally, the Department's Accounts Payable team's standard work was updated to require that the cardholder fix and resubmit a card packet that is lacking signatures.

The Department has updated its FIN 6.11 - Ghost Card policy (published in August 2023) to require that the cardholder "retains the itinerary provided by the airline and documentation support for the pre-approved out-of-state travel request from the Eforms

system. This backup is submitted with the statement.”

Personal Use of Employee Travel Card (ETC) transactions were identified prior to the Sunset Review, and based on ADOT standard work to review employee travel card transactions each month, these issues were resolved including some cards being canceled.

Below are the details of the Department’s proposed training requirements:

- ADOT Purchasing Card policy (FIN 6.12) - Requires that all P-card holders and their managers take an annual Purchasing Card Training course (GEN1215) - implemented in May 2023.
- ADOT Ghost Card policy (FIN 6.11) - Requires that all applicants of a Central Travel Account (AKA ghost card) take the GAO Travel Policy Training course (TRVPOL) before their application will be approved - implemented in August 2023. Further, existing card holders will be required to complete refresher training by the beginning of FY 25.
- ADOT State Employee Travel Card policy (FIN 6.10) - will be updated and implemented by October 1, 2023 to require GAO Travel Policy Training course (TRVPOL) and Travel Reimbursement Training (GEN1218W) for applicants of an ETC, before their application will be approved. Further, existing card holders will be required to complete refresher training by the beginning of FY 25.
- The Department will prepare and conduct a supplementary P-card and Ghost Card training for cardholders by October 1, 2023, that will focus on common errors made.

**Sunset Factor 3:** The extent to which the Department serves the entire State rather than specific interests.

**Recommendation 15:** The Department should continue finalizing the MVD field office location analysis report and develop and implement a plan for addressing the report’s findings and proposals.

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

Response explanation: MVD’s field office location analysis report was originally created in 2017 and has been periodically updated in the years since. In 2022 and 2023, the division undertook a comprehensive revision, and identified areas of the state that are underserved. The Department will continue to keep this living document up to date and work across divisions to develop requests for additional resources and locations to be included in future agency budget requests and capital improvement plans. In addition to expanding its footprint of traditional MVD offices, the division is using TeleMVD to provide services in rural and underserved locations.

**Recommendation 16:** The Department should implement its conflict-of-interest policy to help ensure compliance with State conflict-of-interest requirements and recommended practices by:

**Recommendation 16a:** Requiring employees/public officers to annually complete a disclosure form, including attesting that no conflicts exist, if applicable.

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

Response explanation: The Department is in the process of overhauling its evaluation and documentation of employee conflicts of interest to align with the Department's policy. The Department is currently engaging in process mapping to determine the appropriate steps in the process to ensure the policy is followed. The process mapping will be complete by the end of 2023.

**Recommendation 16b:** Storing all substantial interest disclosures in a special file available for public inspection.

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

Response explanation: The Department currently stores these disclosures, but they are not available in a single location. If a member of the public wished to inspect a substantial interest disclosure, he or she would need to request a specific employee's or public officer's disclosure. The Department will, through its process mapping, determine a single location to store all substantial interest disclosures. This will be complete by the end of 2023.

**Recommendation 16c:** Providing periodic training on its conflict-of-interest policy to all employees and public officers.

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

Response explanation: The Department currently provides training on conflicts of interest to new employees as part of its onboarding process. The Department will develop ongoing training specific to conflicts of interest and require employees and public officers to complete the training every three years.

**Sunset Factor 5:** The extent to which the Department has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

**Recommendation 17:** The Department should comply with open meeting law requirements, including:

**Recommendation 17a:** Ensuring Board and Committee meeting notices are posted at least 24 hours in advance in all locations identified in their disclosure statements.

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

Response explanation: The Department has a process in place and will continue to comply with the requirement.



**Recommendation 17b:** Ensuring minutes or recordings are available upon request within 3 working days of Board and Committee meetings.

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

Response explanation: We will develop a process to post recordings to the internet within 3 working days for easy access.

**Recommendation 18:** The Department should develop and implement open meeting law policies and procedures to help ensure its compliance with open meeting law requirements.

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

Response explanation: We will develop a department wide policy related to open meeting law requirements and ensure it is distributed to all employees.

**Sunset Factor 6:** The extent to which the Department has been able to investigate and resolve complaints that are within its jurisdiction and the ability of the Department to timely investigate and resolve complaints within its jurisdiction.

**Recommendation 19:** The Department should implement its MVD procedures for tracking customer complaints against third parties, including complaint resolutions.

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

Response explanation: MVD has implemented a tracking process for customer complaints against third parties, including confirmation of the date resolved, in order to monitor timely resolution. MVD will formally document the process by October 1, 2023.

