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August 10, 2020

The Honorable Anthony Kern, Chair
Joint Legislative Audit Committee

The Honorable Rick Gray, Vice Chair
Joint Legislative Audit Committee

Dear Representative Kern and Senator Gray:

We have recently completed a 48-month followup of the Pinal County Transportation Excise Tax regarding the implementation status of the 11 audit recommendations presented in the performance audit report released in June 2016 (Auditor General Report 16-106). As the attached grid indicates:

- 4 have been implemented.
- 7 have not been implemented.

We will begin the next performance audit of the Pinal County Transportation Excise Tax later this year. During this audit, we will follow up on those recommendations from the June 2016 audit that have not been implemented.

Sincerely,
Donna Miller, CPA
Director, Financial Audit Division

cc: Senate Government Committee Members
House Ways and Means Committee Members
Representative David Cook
Town of Mammoth Council Members
Don Jones, Interim Town Manager, Town of Mammoth
Town of Superior Council Members
Todd Prior, Town Manager, Town of Superior
John Halikowski, Director, Arizona Department of Transportation
Kristine Ward, Chief Financial Officer, Arizona Department of Transportation

Pinal County Transportation Excise Tax Auditor General Report No. 16-106 48-month Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: Additional procedures and training needed to ensure excise tax monies used appropriately

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

Not implemented

As of June 30, 2016, Superior had inappropriately loaned \$549,054 of excise tax monies. Superior committed to repaying at least 10 percent of the excise tax loan balance, or \$54,905, annually, in accordance with A.R.S. §28-6392(B)(1). In fiscal years 2017 and 2018, Superior repaid a total of \$292,255, reducing its loan balance to \$256,799. However, in fiscal year 2019, Superior did not repay any of the misused excise tax monies. Its inappropriate loan balance remains \$256,799. Based on examination of Superior's financial statements, it did not have unrestricted monies available to meet the repayment requirement.

As a result, A.R.S. §28-6392(B)(2), directs the Department of Transportation to notify the State Treasurer to withhold Superior's excise tax revenues until Superior can demonstrate that it has spent monies for highway and street purposes from another general revenue source equal to the amount of excise tax monies it used inappropriately.

In addition, as of June 30, 2019, Superior had inappropriately loaned \$1,755,679 of Highway User Revenue Funds.

Recommendation

Status/Additional Explanation

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

Not implemented

As of June 30, 2016, Mammoth had inappropriately loaned \$413,690 of excise tax monies. Mammoth committed to repaying at least 10 percent of the excise tax loan balance, or \$41,369, annually, in accordance with A.R.S. §28-6392(B)(1). In fiscal years 2017 and 2018, Mammoth repaid a total of \$197,275, reducing its loan balance to \$216,415. However, in fiscal year 2019, Mammoth did not repay any of the misused excise tax monies. Its inappropriate loan balance remains \$216,415. Based on examination of Mammoth's financial statements, it did not have unrestricted monies available to meet the repayment requirement.

As a result, A.R.S. §28-6392(B)(2), directs the Department of Transportation to notify the State Treasurer to withhold Mammoth's excise tax revenues until the Mammoth can demonstrate that it has spent monies for highway and street purposes from another general revenue source equal to the amount of excise tax monies it used inappropriately.

In addition, as of June 30, 2019, Mammoth had inappropriately loaned \$695,427 of Highway User Revenue Funds.

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

Not implemented (Town of Mammoth)

According to the Town Manager, Mammoth has not completed its examination of expenditures of excise tax revenue during fiscal years 2011 through 2015.

Implemented at 36 months (Town of Superior)

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

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

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

Not implemented (Town of Mammoth)

According to the Town Manager, Mammoth has not developed the appropriate policies and procedures.

Implemented at 6 months (Town of Superior)

Recommendation**Status/Additional Explanation****Finding 2: Most entities can adequately demonstrate impact; two towns need improvement**

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| 2.1 The Town of Mammoth should consider conducting a transportation study to evaluate its road systems and identify the most critical current and future transportation needs to help it prioritize its use of excise tax monies. | Not implemented
According to the Town Manager, Mammoth has not conducted a transportation study or implemented a planning process to identify and prioritize projects. |
| 2.2 The Towns of Mammoth and Superior should develop and implement a planning process to help identify and prioritize projects. | Not implemented (Town of Mammoth)
See explanation for Recommendation 2.1.

Implemented at 6 months (Town of Superior) |
| 2.3 The Towns of Mammoth and Superior should develop and implement policies and procedures detailing appropriate recordkeeping for the use of Road Fund monies. | Not implemented (Town of Mammoth)
See explanation for Recommendation 1.4.

Implemented at 6 months (Town of Superior) |
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