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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

September 29, 2014

The Honorable John Allen, Chair
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair
Joint Legislative Audit Committee

Dear Representative Allen and Senator Burges:

Our Office has recently completed a 36-month followup of the Pinal County Transportation Excise Tax regarding the implementation status of the 12 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in June 2011 (Auditor General Report No. 11-05). As the attached grid indicates:

- 5 have been implemented;
- 1 is in the process of being implemented;
- 1 is not yet applicable; and
- 5 have not been implemented.

Our Office will conduct another followup at Mammoth and Superior in 6 months on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ss
Attachment

cc: Pinal County Board of Supervisors and Manager
Patsy Large, Town Manager, Town of Mammoth
Jayme Valenzuela, Town of Superior Mayor
Town of Superior Council Members
Margaret Gaston, Interim Town Manager, Town of Superior
John Halikowski, Director, Arizona Department of Transportation
Kristine Ward, Assistant Director for Finance and Accounting,
Arizona Department of Transportation

Pinal County Transportation Excise Tax

Auditor General Report No. 11-05

36-Month Follow-Up Report

Recommendation	Status/Additional Explanation
Finding 1: Additional procedures and training needed to ensure tax monies used appropriately	
1.1 The Town of Kearny should ensure that it does not loan any restricted road fund monies, including tax monies, to other funds in the future.	Implemented at 12 months (Town of Kearny)
1.2 The Towns of Mammoth and Superior need to repay the inappropriately borrowed excise tax or other restricted road fund monies and discontinue the practice of loaning excise tax or other restricted road fund monies to other funds. If resources are not currently available to completely repay loans, a repayment schedule should be developed and implemented.	<p>Not implemented (Town of Mammoth)</p> <p>Although the Town of Mammoth (Mammoth) has developed a plan for repaying the inappropriately borrowed excise tax or other restricted road fund monies by making monthly payments of at least \$500, according to the town manager, it does not have monies to specifically dedicate to repayment. According to Mammoth's June 30, 2011, audited financial statements, the balance of inappropriately borrowed monies had grown to \$646,795. However, the current balance of inappropriately borrowed monies was not available because Mammoth's June 30, 2012, 2013, and 2014, financial statements had not been prepared or audited. Although the current balance was not available, auditors performed a limited review of fiscal years 2013 and 2014 (through March 2014) expenditures and determined Mammoth appeared to spend excise and other restricted road fund monies appropriately for the time period reviewed.</p> <p>Not implemented (Town of Superior)</p> <p>The Town of Superior (Superior) has developed a plan for repaying the inappropriately borrowed excise tax or other restricted road fund monies by making monthly payments of at least \$100. However, according to the interim town manager, Superior has had significant financial issues that have not allowed for any repayment since at least September 2013, and it is unclear if Superior made any payments prior to that time. According to Superior's June 30, 2010, audited financial statements, the balance of inappropriately borrowed monies had grown to \$2.6 million. However, the current balance of inappropriately borrowed monies was not available because Superior's June 30, 2011, 2012, 2013, and 2014, financial statements had not been prepared or audited. Additionally, auditors performed a limited review of fiscal years 2013 and 2014 (through March 2014) expenditures and determined that approximately 11 percent of the expenditures reviewed were either inappropriate or did not have appropriate supporting documentation.</p>

Recommendation

Status/Additional Explanation

Because Superior is unable to demonstrate that it has paid back the inappropriately borrowed excise tax monies and continues to inappropriately spend restricted monies, the Auditor General has informed the Arizona Department of Transportation to notify the Arizona State Treasurer to withhold Superior's excise tax monies (see Recommendation 1.3).

1.3 If the Office of the Auditor General determines at its 6-month followup that the Towns of Mammoth and Superior have not repaid their loans or developed and implemented a repayment schedule, in accordance with the provisions of A.R.S. §28-6392(B), the Arizona Department of Transportation should notify the Arizona State Treasurer to withhold excise tax revenues from the Towns of Mammoth and Superior until they can present satisfactory evidence to the Auditor General that they have repaid inappropriately loaned monies.

Implemented at 36 months (Town of Superior)

In September 2014, the Office of the Auditor General informed the Arizona Department of Transportation to notify the Arizona State Treasurer to withhold excise tax revenues from Superior.

Not yet applicable (Town of Mammoth)

Since Mammoth appeared to appropriately spend the excise tax monies it received in fiscal years 2013 and 2014 (through March 2014), the Office of the Auditor General has not yet implemented this recommendation for Mammoth. Auditors will follow up in 6 months to determine what steps Mammoth has taken to repay these monies and the amounts of the outstanding loan balances. After assessing repayments and loan balances, the Office of the Auditor General will then determine whether to inform the Arizona Department of Transportation to notify the Arizona State Treasurer to withhold excise tax revenues from Mammoth.

1.4 The Town of Kearny should provide training on its written procedures regarding the appropriate uses of excise tax monies to the staff who are responsible for approving excise tax expenditures.

Implemented at 24 months (Town of Kearny)

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

Implemented at 12 months (City of Maricopa)

Implemented at 24 months (Town of Superior)

Not implemented (Town of Mammoth)

According to Mammoth's town manager, staff should and will be trained on the appropriate excise tax uses. However, Mammoth has not yet developed written policies and procedures or trained staff.

1.6 The Town of Mammoth should repay its HURF/LTAF Fund for the \$27,332 inappropriately deposited in other funds and perform at least annual revenue reconciliations to prevent this from recurring in the future.

Not implemented (Town of Mammoth)

According to Mammoth's town manager, Mammoth's auditors will make this adjustment when they complete the June 30, 2012, audited financial statements. However, Mammoth did not provide any evidence that it was performing at least an annual reconciliation, and auditors' work identified a similar problem for August 2013. Specifically, Pinal County distributed \$4,909.89 in excise tax revenue to Mammoth, but this amount was not recorded in the fund where Mammoth deposits excise tax revenues.

Finding 2: Most entities can adequately demonstrate excise tax's impact, but some improvements needed

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

Implementation in process (Town of Superior)

Superior has developed and implemented written policies and procedures that include addressing recordkeeping for street, highway, and transportation projects. According to the town manager, Superior has also hired a public works supervisor who submits monthly written reports to the Superior town council relating to accomplishments. In addition, Superior plans to implement a road maintenance and evaluation plan, but does not yet have the monies to hire a position to complete the plan.

2.2 The Town of Mammoth should add steps to its planning process, as it did in October 2006, such as developing a road evaluation system and holding regular, documented transportation planning meetings to identify and prioritize transportation projects.

Not implemented (Town of Mammoth)

According to the town manager, Mammoth holds meetings periodically to discuss and plan for road repairs and upgrades, and the town council is included in road evaluations, street repairs, and prioritizing projects. Although Mammoth provided pictures and auditors observed completed projects, Mammoth did not provide any supporting documentation showing its planning and prioritizing of transportation projects.