



STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

June 30, 2004

The Honorable Ken Bennett, President
Arizona State Senate

The Honorable Jake Flake, Speaker
Arizona House of Representatives

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Gila County Board of Supervisors

The Office of the Auditor General has conducted a performance audit of the Gila County Transportation Excise Tax (excise tax) in accordance with and under the authority vested in the Auditor General by Arizona Revised Statutes (A.R.S.) §41-1279.03. As required by statute, this audit includes an assessment of whether the excise tax revenues are used only for street and highway purposes or transportation projects specified in the County's regional transportation plan, and a review of past and future planned expenditures and projects to determine their impact on solving transportation problems. This audit was conducted in accordance with government auditing standards.

Summary

The Auditor General has developed the following information and, where appropriate, recommendations:

- **Some Gila County Road Fund expenditures are questionable**—This audit questions the appropriateness of some expenditures made from the County's Road Fund, and found that some expenditures also violated the Arizona Constitution. The County combines similarly restricted transportation revenues, including the excise tax, into one fund known as the Road Fund. Auditors reviewed a random sample of 80 Road Fund transactions made during fiscal years 2000 and 2002 and a judgmental sample of 89 Road Fund transactions made between January 1998 and December 2003 and determined from the judgmental sample that the County has used more than \$46,000 of the Road Fund monies to pay for items

that do not meet the definition of street and highway purposes. For example, the County used Road Fund monies to help finance the County's rodeo and to make donations to private charities. The samples auditors reviewed were designed to identify the types and proportion of questionable expenditures, but were not designed to determine the total dollar amount of inappropriate expenditures. Therefore, the County should determine the magnitude of monies spent inappropriately, and needs to essentially reimburse the Road Fund accordingly with revenue from its General Fund or other unrestricted sources. In addition, the County should work with the county attorney to establish in policy the types of expenditures that are appropriate uses of Road Fund monies.

- **Gila County needs to take steps to better demonstrate the impact of the tax—** The excise tax provides nearly 37 percent of the County's road tax revenues; however, the precise impact of the tax is unclear because the County lacks key documents that could help demonstrate impact. The County is taking several steps that will allow it to more clearly demonstrate impact and should continue its efforts. First, the County is drafting a county-wide transportation plan that will identify and prioritize all transportation improvement projects and help to formalize its transportation project planning process. Second, the County is implementing a recordkeeping policy that county officials indicate will help ensure it has comprehensive records for contracted road projects. Finally, the County is upgrading its computerized accounting system, which will enable it to track excise tax expenditures separately from other Road Fund expenditures so that it can document how excise tax revenues are spent.

Introduction and background

Gila County contains the incorporated cities and towns of Miami, Globe, Hayden, Winkelman, and Payson, as well as a number of other unincorporated rural communities. Globe is the county seat and the second largest urban population center (7,486 people) after Payson (13,620 people).¹

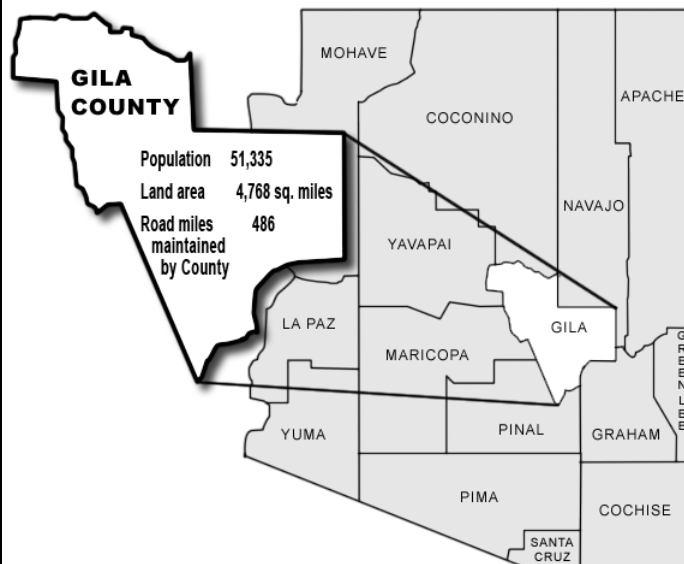
In 1994, Gila County voters passed a half-cent sales tax to pay for street and highway improvements and transportation projects. The County Board of Supervisors determined that the tax was necessary because the condition of many streets and roads in Gila County's unincorporated areas had deteriorated, and some areas in Gila County needed improvements to existing roads or the development of new streets and roads. The County maintains nearly 500 miles of road in the unincorporated areas of Gila County, including 256 miles of Forest Service roads that the U.S. Department of Agriculture has contracted with the County to maintain (see Figure 1). The Gila County excise tax became effective January 1, 1995, and is to remain in effect for 20 years. The excise tax generates about \$2.5 million annually, and is not

¹ Profile of General Demographic Characteristics, United States Census Bureau, 2000, and the 2003 Gila County Comprehensive Plan.

shared by any of the County's municipalities.¹ Between January 1995 and January 2004, the tax generated \$22 million in revenue. In addition, Gila County relies on two other sources of tax revenue to fund its transportation projects: Highway User Revenue Fund (HURF) monies and Vehicle License Tax (VLT) monies. HURF and VLT monies are generated by transportation licenses, taxes, and fees. In fiscal year 2003, Gila County received over \$3.2 million in HURF revenues and more than \$915,000 in VLT revenues (see Table 1). The County also receives other revenue that it deposits in the Road Fund that is not generated by taxes, including revenue received from the U.S. Department of Agriculture to reimburse the County for maintenance work performed on Forest Service Roads and timber sales, revenue from the sale of grading and other permits, and interest earned. Some of this additional revenue is restricted, such as the revenue the County receives as payment for maintaining Forest Service roads, and some of the revenue is unrestricted, such as the monies from the sale of road grading permits. The total estimated amount of revenue generated by sources other than taxes in fiscal year 2003 was \$410,115.²

Since 1995, when the excise tax was established, the County has combined all of the various revenues for road and transportation projects into one fund, known as the Road Fund, because the tax revenues have similar statutory restrictions. Specifically, according to statutes, the excise tax, HURF, and VLT revenues can be expended only for highway and street purposes or transportation projects included in a county's regional transportation plan. The Arizona Constitution defines these restrictions, and indicates that highway and street purposes include such things as construction, reconstruction, and maintenance and repair of roads, streets, and bridges.³

Figure 1: Gila County Population, Land Area, and Road Miles Maintained by the County



Source: Auditor General staff analysis of 2000 United States Census Bureau data and 2003 Gila County Public Works Division data.

Table 1: Road Fund Tax Revenues¹
Years Ended June 30, 2001 through 2003
(Unaudited)

Tax Revenues	2001	2002	2003
Excise Tax	\$2,612,288	\$2,719,051	\$2,806,712
Highway User Revenue Fund	3,248,136	3,177,016	3,202,979
Vehicle License Tax	862,480	871,821	915,152
Total tax revenues	\$6,722,904	\$6,766,888	\$6,724,843

¹ The County also receives other Road Fund revenue that is not generated by taxes, such as revenue from issuing grading and other permits, reimbursement from the U.S. Department of Agriculture for maintenance work performed on Forest Service roads, and interest earned. The total estimated amount of revenue generated by sources other than taxes in fiscal year 2003 was \$410,115. This amount does not include loans or grants.

Source: Auditor General staff analysis of the Gila County Treasurer's revenue transmittal and receipt records from July 1, 2000 through June 30, 2003.

¹ Incorporated cities and towns within the County receive revenues from the Highway User Revenue Fund for street and highway purposes and transportation projects and Vehicle License Tax revenues.

² This amount does not include loans or grants that the County may receive, such as Highway Expansion and Extension Loan Program (H.E.L.P.) monies.

³ Arizona Constitution, Article IX, §14.

Item 1: FTE Funded with Road Fund Monies

- Administration 4
- Engineering 15
- Roads Maintenance 87^a

^a Includes 24 FTE positions that maintain vehicles and other road equipment.

Source: Auditor General staff analysis of Gila County Public Works Division salary schedule for fiscal year 2004.

In 2001, 6 years after the excise tax was established, the County changed the way it administered the Road Fund monies. From January 1, 1995 until June 30, 2001, the Road Fund monies were divided equally among the County's three districts, and each district used those monies for road projects within the district.¹ In July 2001, the County established the Public Works Division in order to centralize the road building and maintenance functions. The Road Fund is now administered by this division and used for road projects throughout the County. The Division consists of five departments. Three of these departments are funded by the Road Fund: the Engineering Department and Roads Maintenance Department, which are primarily responsible for the planning, improvement, and maintenance of county roads; and the Administration Department, which provides administrative support for the Public Works Division. See Item 1 for the authorized full-time equivalent positions for these three departments.

Two other departments within the Division, the Solid Waste and Facilities and Land Management Departments, do not participate in any road-related projects, and those departments' 41 FTEs and operational expenses are funded by the County General Fund and an enterprise fund.²

Some expenditures are questionable

Some expenditures from the Gila County Road Fund are questionable. Auditors questioned the appropriateness of some expenditures from the Road Fund because they violated both Arizona's statutes and Constitution. Although auditors reviewed samples of expenditures to determine if the County was complying with statutory requirements, the samples were designed to identify the types and proportion of questionable expenditures, but were not designed to determine the total dollar amount of inappropriate expenditures. Therefore, the County should determine the magnitude of monies spent inappropriately, and needs to essentially reimburse the Road Fund accordingly with revenue from its General Fund or other unrestricted sources. In addition, the County should work with the county attorney to establish in policy the types of expenditures that are appropriate uses of Road Fund monies.

Some Road Fund expenditures are questionable—As required by statute, auditors assessed whether excise tax revenues were used only for street and highway purposes or transportation projects, and determined that the appropriateness of some expenditures is questionable. As mentioned in the Introduction and Background section, the County combines both restricted and unrestricted revenue into its Road Fund. Nearly all of the revenue in the Road Fund is restricted to street

¹ Gila County is divided into three geographical districts. District One constitutes the northern area of the County and contains the town of Payson. District Two is located along the western edge of the County and contains the community of Roosevelt. District Three is the largest district and contains Globe, which is the county seat. Each district is represented by a member of the Gila County Board of Supervisors.

² The 41 FTE positions include two facilities management positions that are funded half with Road Fund monies and half with General Fund monies because, according to a county official, the facilities management workers provide significant services to the Administration and Engineering Departments.

and highway purposes, and the County does not separately budget for or track expenditures for each revenue source. Therefore, any expenditures that did not meet the definition of street and highway purposes were considered questionable. Auditors reviewed 80 transactions from a random sample of nonpayroll expenditures from fiscal years 2000 and 2002. This sample was designed to determine the proportion of questionable expenditures in the total population of expenditures and not the dollar amount associated with the expenditures. The random sample identified one inappropriate expenditure in fiscal year 2002 in the amount of \$5,974.¹ Based on this result, auditors estimate that up to 11 percent of the expenditures made from the Road Fund may be questionable. Auditors then reviewed 89 transactions from a judgmental sample of nonpayroll expenditures taken from 7 fiscal years (1998 through the first half of fiscal year 2004).² The judgmental sample was used for illustrative purposes only and cannot be relied upon to determine the magnitude of questionable expenditures in the population. This sample identified 17 inappropriate expenditures totaling more than \$46,000.³ For example, the County spent \$10,000 of Road Fund monies to pay a fine resulting from a violation of federal environmental laws, and another \$10,000 to finance the county rodeo. In addition, in the judgmental sample, the expenditures of some Road Fund monies earmarked as matching funds for the Highway Expansion and Extension Loan Program (H.E.L.P), a program that provides money to counties for specific transportation construction projects, were also questionable. For example, the County spent over \$8,600 of H.E.L.P. matching funds from the Road Fund to pay for banquet expenses at an Arizona Department of Transportation conference held in November 2000, and over \$4,900 to purchase materials for a baseball field (see Item 2, page 6, for the list of questionable Road Fund expenditures).

Almost half of the questionable expenditures auditors identified from the judgmental sample were made during fiscal year 2002. One of the reasons that questionable expenditures may have been made with Road Fund monies during this time is because the County was not following appropriate accounting procedures for recovering indirect costs. Typically, when services such as accounting or data processing are provided by departments funded by the General Fund to departments funded by other sources, these departments would normally reimburse the General Fund for their share of the cost of these services, thereby reducing expenditures from the General Fund. However, according to a county official, the County did not transfer monies for the payment of these indirect services from the Road Fund to the General Fund, but instead allocated the monies to specific accounts within the Road Fund known as constituent services accounts. During fiscal year 2002, a total of \$300,000 of Road Fund monies, \$100,000 for each of the three districts, was allocated to the constituent services accounts. Although auditors identified several questionable expenditures during fiscal year 2002 from the constituent services accounts for things such as the county rodeo and donations to charities (see item 2), the judg-

1 The expenditure was for a fence for the Pinal Mountain Little League.

2 Expenditure records were not available for fiscal year 1995 through November 1997.

3 The annual average amount of expenditures from the Road Fund, including payroll expenditures, for fiscal years 1998 through 2002 was \$5,815,672.

mental sample used by auditors was designed to identify the types of expenditures and not the magnitude of questionable expenditures. However, according to a county official, the accounts were established to fund nonroad fund projects, so it is likely that there were additional inappropriate expenditures from these accounts.¹

Item 2: Some Questionable Road Fund Expenditures

Fiscal year 1998

- \$10,000 for a fine resulting from a violation of federal environmental laws
- \$50 for membership dues for a nonprofit, civic organization
- \$40 for first aid and CPR courses

Fiscal year 2000

- \$48 for flowers

Fiscal year 2001

- \$8,688 for banquet expenses at a transportation conference
- \$4,966 for baseball infield materials
- \$2,700 to Cal Ripken Baseball for concession stand plumbing
- \$165 for a fine resulting from a mine safety violation
- \$12 for a parade entry fee

Fiscal year 2002

- \$10,000 to finance the county rodeo
- \$6,560 to move two University of Arizona cooperative extension offices
- \$500 to a local community Christmas dinner
- \$490 for a bronze plaque
- \$400 to a private charity for a voter education program
- \$300 to The Susan B. Komen Foundation for a golf tournament
- \$150 to a local feed store for dog/cat food for evacuees from the Show Low wildfires

Fiscal year 2004

- \$1,400 for leadership training for the Director of Facilities Management

Source: Auditor General staff analysis of 17 questionable expenditures identified from a review of a judgmental sample of 89 expenditures of Road Fund monies occurring between January 1998 and December 2003.

Several expenditures violated constitutional requirements—Several of the questionable Road Fund expenditures identified during the auditors' review are an inappropriate use of any public monies. For example, the donations to private

¹ Auditors reviewed \$24,375 of the total \$258,000 in expenditures from the constituent services accounts for fiscal year 2002.

charities and the purchase of a fence for the Pinal Mountain Little League violate a constitutional provision that prohibits gifts of public money.¹ The provision asserts that the State, or any state subdivision, including counties, shall not make any donation or grant to any individual, association, or corporation. Therefore, information regarding these expenditures is being referred to the County's independent financial statement auditors for further analysis and recommendations.

County needs to ensure monies are spent appropriately—The County has taken some steps to ensure that Road Fund monies are spent appropriately, but needs to do more. For example, auditors verified that in July 2002, the County stopped allocating Road Fund monies to the constituent services accounts for indirect services, and now reimburses the General Fund. However, the County needs to do more. Specifically, according to A.R.S. §28-6392(B), the County is essentially required to reimburse the Road Fund for the amount of monies spent inappropriately. Although auditors reviewed both random and judgmental samples of expenditures, the samples were designed to identify the types and proportion of questionable expenditures, but were not designed to determine the total dollar amount of inappropriate expenditures. As a result, the County needs to determine the magnitude of the monies spent inappropriately, and then reimburse the Road Fund accordingly with revenue from its General Fund or other unrestricted sources. In addition, the County needs to further ensure excise tax monies are spent according to statutory and constitutional requirements by working with the county attorney to establish in policy the appropriate uses of Road Fund monies. The County should provide this policy to the Public Works Division officials who are responsible for approving Road Fund expenditures.

County should take steps to demonstrate impact

The County needs to take steps to ensure it can demonstrate the impact the excise tax has on solving its road problems. Although the excise tax represents nearly 37 percent of its road project revenues, the impact of the tax is unclear because the County lacks key documents, such as comprehensive project records, that could help demonstrate impact. To address these concerns, the County is taking actions, such as implementing a project recordkeeping policy that will help establish impact, and it should continue these efforts.

Impact of excise tax is unclear—The excise tax has likely had an impact in Gila County, but the extent of its impact is unclear. The excise tax is a significant source of funding for road maintenance and projects. According to state and county records, the excise tax represented about 37 percent of all revenues deposited in the Road Fund during fiscal year 2003.² Also, according to county officials, the excise tax has had an impact on solving the County's transportation problems. For exam-

¹ Arizona Constitution, Article IX, §7.

² This amount does not include loans or grants that the County may receive, such as H.E.L.P monies.

The excise tax was about 37 percent of all Road Fund revenues in 2003.

ple, the County has recently completed major reconstruction to Fossil Creek Road using excise tax and other revenues, as well as H.E.L.P. loan monies. This project involved key preservation work on a road that serves several housing developments. In addition, Gila County uses its Road Fund monies for general maintenance, such as road resurfacing.

However, the precise impact the excise tax has had on improving roads in Gila County is unclear for several reasons. Specifically,

- The County has an informal planning process, and therefore lacks key documents that could be used to determine which projects were planned for and whether the excise tax revenues were used for any of them.
- The County does not have a list of road projects completed since the establishment of the excise tax and lacks comprehensive records for general road maintenance work and major projects. Therefore, it lacks key information that could be used to determine the type and extent of the work that had been completed with excise tax monies.
- The County combines the excise tax revenues with other revenues in the Road Fund and does not separately track expenditures by revenue source. Therefore, it lacks key records that could be used to identify the specific items that were purchased or projects that were completed using excise tax monies.

Further, although the County has a list of future projects to be funded by Road Fund monies, it cannot show how the projects were prioritized, and what impact the projects may have in addressing the County's future needs.

The County is taking steps that will help demonstrate impact—The County is implementing several processes that will assist it in determining the impact the excise tax has on solving Gila County transportation problems, and should continue its efforts. First, the County is drafting a plan, known as the Capital Improvement Plan, that will identify and prioritize all transportation improvement projects for county roads and help to formalize its transportation project planning process. Gila County should also consider the steps taken by Pinal County to demonstrate the impact of its excise tax. Specifically, Pinal County has developed timeliness and formal processes for identifying and planning transportation projects. For example, Pinal County has formed transportation committees for each of its three regional districts, and holds a series of public meetings yearly to identify transportation issues and problems. A county-wide transportation plan is then developed from the public input, as well as from revenue projections and cost estimates. Further, general, ongoing maintenance roadwork in Pinal County is identified and approved by a management team within its Public Works Department.

Second, the Public Works Division is currently in the process of developing a record-keeping policy that will help ensure it has comprehensive records for all road projects

Gila County is developing a plan to identify and prioritize transportation projects.

that are contracted out. The policy will require that specific items be retained in a project file, such as the project description and budget and expenditure information. However, the County should develop a policy for maintaining project records for non-contracted work that the County performs, such as general road maintenance. Implementing a process for maintaining records for both contracted and noncontracted work will help the County demonstrate the impact of the excise tax. For example, the Highway Department in Graham County uses a computer program to track and record all aspects of contracted and noncontracted road projects, including daily activities and tasks, employee labor time, materials used and their costs, work completed to date, contractors' costs, and equipment costs. Graham County also maintains the hard copies of the information in a centralized file.

Third, the County is in the process of upgrading its computerized accounting system, which county officials indicate will enable it to separately track excise tax expenditures from expenditures of other Road Fund monies. Separately tracking the expenditure of excise tax monies will enable the County to more clearly demonstrate the impact of the tax. For example, Pinal County, which also has a transportation excise tax, maintains separate funds for each source of transportation funding, tracks expenditures from each fund separately, and determines specific uses for each revenue source.¹ According to a Pinal County official, the excise tax revenue is used strictly for new construction and dust abatement, whereas HURF revenues are used only for road maintenance. By tracking these expenditures separately, Pinal County is able to demonstrate the impact of its excise tax revenue.

Gila County should track excise tax expenditures separately.

Recommendations

1. To ensure that excise tax monies are used only for street and highway purposes and transportation projects, Gila County should:
 - a. Work with the county attorney to develop a policy regarding the types of expenditures that are appropriate uses of Road Fund monies.
 - b. Provide the policy to the Public Works Division officials who are responsible for approving Road Fund expenditures.
2. Using the policy regarding appropriate uses of Road Fund monies, Gila County should determine the magnitude of the monies spent inappropriately and then reimburse the Road Fund accordingly with revenue from its General Fund or other unrestricted revenue sources.

¹ Pinal County maintains three funds specifically for excise tax revenue for each of its three districts. The funds contain excise tax revenues and a small amount of miscellaneous revenues, such as interest received from the County Treasurer.

3. In order to demonstrate the impact that the transportation excise tax is having on solving transportation problems, Gila County should:
 - a. Formalize its project planning processes and continue its efforts to develop a regional transportation plan.
 - b. Continue its efforts to develop a policy and implement a process for maintaining comprehensive project records for contracted road projects.
 - c. Develop and implement a policy for maintaining records for noncontracted work, such as general road maintenance.
 - d. Track excise tax expenditures separately from other revenue sources' expenditures.

We have discussed the results of this review with Gila County officials, and their response is enclosed. My staff and I will be pleased to discuss or clarify items in this letter.

Sincerely,

Debbie Davenport
Auditor General

cc: Mr. Victor Mendez, Director
Arizona Department of Transportation

Mr. John Nelson,
Gila County Manager

AGENCY RESPONSE

June 30, 2004

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

Dear Ms. Davenport:

Re: Auditor General's Recommendations to the Performance Audit of Gila County's
Transportation Excise Tax.

**RESPONSE TO THE OFFICE OF THE AUDITOR GENERAL'S FIRST
RECOMMENDATION**

Gila County will ensure that excise tax monies are used only for street and highway purposes and transportation projects.

With the assistance of the Gila County Attorney's office we will create a policy identifying the statutes and explanations of the expenditures that are appropriate uses of Road Fund monies. This will be approved by the Gila County Board of Supervisors and provided to the Public Works Division officials who are responsible for approving Road Fund expenditures. We anticipate this policy to be written and approved by September 30, 2004.

**RESPONSE TO THE OFFICE OF THE AUDITOR GENERAL'S SECOND
RECOMMENDATION**

The Auditor General's second recommendation is stated as follows:

2. Using the policy regarding appropriate uses of Road Fund monies, Gila County should determine the magnitude of the monies spent inappropriately and then reimburse the Road Fund accordingly with revenue from its General Fund or other unrestricted revenue sources.

Gila County's response addresses the Auditor General's second recommendation as two separate issues.

First issue: determine the magnitude of the monies spent inappropriately; and,

Second issue: reimburse the Road Fund accordingly with revenue from its General Fund or other unrestricted revenue sources.

MAGNITUDE OF MONIES SPENT INAPPROPRIATELY

Gila County agrees with the Auditor General's finding of some questionable expenditures in the amount of \$46,469 that do not meet the definition of street and highway purposes.

The results from the non-statistical sampling supports the Auditor General's assertion that Gila County's internal controls were weak prior to fiscal year 2003. Gila County became aware of this internal control weakness and took appropriate action to resolve this situation.

REIMBURSE ROAD FUND ACCORDINGLY WITH REVENUE FROM ITS GENERAL FUND OR OTHER UNRESTRICTED REVENUE SOURCES

As previously presented regarding the negligible expenditures inappropriately charged to the Road Fund (a.k.a. Public Works) for fiscal years 1998 through 2004, Gila County has over the same time period subsidized the Road Fund for \$1,761,889 which is significantly greater than the \$46,469 questioned by the Auditor General.

This subsidy was in the form of indirect costs associated with the Road Fund. The Federal Government has provided a procedure whereby indirect costs can be identified and allocated to direct costs that benefit from those indirect efforts. This procedure is provided by the Office of Management and Budget as the preferred method to determine indirect costs allowable under Federal Government Grants. This method is titled OMB Circular A-87. Over the past ten years, Gila County has contracted with an outside agency from the state of Washington to prepare an A-87 Cost Allocation Plan in accordance with the OMB Circular.

The indirect cost associated with the Road Fund as determined by the A-87 Cost Allocation method is presented in the following schedule for the fiscal years under review.

Fiscal Year	Indirect Costs		
	Not Allocated	Allocated	Subsidized
1998	\$ 351,860	\$ -	\$ 351,860
1999	416,393	-	416,393
2000	349,237	-	349,237
2001	437,760	-	437,760
2002	325,988	122,615	203,373
2003	418,222	415,000	3,222
2004	365,044	365,000	44
Totals	<u>\$ 2,664,504</u>	<u>\$ 902,615</u>	<u>\$ 1,761,889</u>

Gila County has not allocated the indirect costs attributable to the Road Fund for the years prior to 2002 and only a portion of the attributed indirect costs for the year 2002. Beginning with fiscal year 2003, Gila County began allocating all indirect costs attributed to the Road Fund.

The reason behind the decision to begin allocating those indirect costs attributed to the Road Fund in fiscal year 2002 was due to County Management identifying expenditures being made to provide services to constituents within Gila County's three Districts that were outside the definition of street and highway purposes. Gila County recognized during fiscal year 2001 that expenditures were being charged to the Road Fund that would be considered inappropriate.

At this time County Management decided to consolidate three Road Fund departments into one and create three new departments separate from road efforts. The following three departments were consolidated into 510 Consolidated Roads. These three departments were 511 Road Department – District One, 512 Road Department – District Two, and 513 Road Department – District Three.

The three new departments are 541 Constituent Services 1, 542 Constituent Services 2, and 543 Constituent Services 3. These three departments were created to accumulate expenditures that would not be considered allowable under the Road Fund. However, these three newly created departments remained under the Road Fund during fiscal year 2002 and were funded through partial identification of indirect costs attributed to the Road Fund as identified under the OMB A-87 Cost Allocation Plan. Based on the type of expenditures being made by the County Supervisors on behalf of their constituents, County Management decided to move those departments out of the Road Fund to the General Fund in fiscal year 2003 and to charge the Road Fund for its total indirect costs identified in the OMB A-87 Cost Allocation Plan.

RESPONSE TO THE OFFICE OF THE AUDITOR GENERAL'S THIRD RECOMMENDATION

Gila County is implementing steps to demonstrate the impact that the Transportation Excise Tax is having on helping solve transportation problems.

Gila County is working with the Arizona Department of Transportation on an update of the County-wide transportation plan. The study is expected to begin in the fall of 2004. We will provide a schedule once it has been finalized.

Gila County needs to take steps to ensure it can demonstrate the impact of the excise tax through proper recordkeeping. The revenues are identified individually at this time but until now the expenses were not identified separately. We will begin identifying projects in the Capital Improvement Program to be identified out of the Excise Tax. Gila County is implementing a new financial accounting software program that will enable more efficient project tracking that will track labor, material, equipment and other associated costs. This will enable us to track expenses such as contracted and non-contracted road projects and general road maintenance.

A portion of the Excise Tax will be used to repay the state funded H.E.L.P. loan for the Fossil Creek project completed in June, 2004. There are other state funded H.E.L.P. projects planned that will use Excise Tax Revenue in the future. Major construction and paving maintenance projects will be identified in the budget planning process each fiscal year out of the Excise Tax revenue. The Public Works Division is creating new policies and procedures to track expenditures identified to the various road projects in Gila County to show the impact of the Excise Tax and other Road Fund monies.

CONCLUSION

Gila County agrees to further establish more questionable expenditures on our own. We will create an internal audit procedure and present it to Dot Reinhardt at the Attorney General's Office when our plan is ready. This will occur by mid December 2004.

Gila County has two proposals to deal with the Auditor General's findings regarding expenditures that did not meet the definition of street and highway purposes. We will also use one of these methods once we perform an internal audit and determine the extent of our findings.

1. Gila County will charge the Road Fund for indirect costs in the amount of \$1,761,889 and reimburse the Road Fund for the inappropriately spent monies.
- Or
2. Gila County was deemed to have acted in good faith through subsidizing the Road Fund in the amount of \$1,761,889 by not charging indirect costs attributed to the Road Fund for the years 1998 through 2002. With the understanding that the deferred indirect costs would have more than offset any incidental expenditures deemed not to meet the definition of street and highway purposes.

This good faith is also evidenced by Gila County becoming aware of the inappropriate use of Road Fund monies during fiscal year 2001 and the correction of this problem through the consolidation of three road departments into one and the creation of three new departments under the General Fund to accumulate those expenditures deemed inappropriate road expenditures.

Sincerely,

John F. Nelson
Gila County Manager

By: _____
Jacque Griffin
Assistant County Manager

JG:sc

CC: José M. Sanchez, Chairman of the Board of Supervisors