



A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Performance Audit

Pinal County Transportation Excise Tax

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Debra K. Davenport
Auditor General

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Melanie Chesney, Director

Dale Chapman, Manager and Contact Person

Anne Hunter, Team Leader

Bruce Coleman

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

June 8, 2006

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Pinal County Transportation Excise Tax. This report is in response to and was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1279.03. I am also transmitting with this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in their responses, the incorporated cities and towns within Pinal County agree with the findings and plan to implement the recommendations specific to them.

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

This report will be released to the public on June 9, 2006.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Pinal County Transportation Excise Tax (excise tax) in accordance with and under the authority vested in the Auditor General by Arizona Revised Statutes (A.R.S.) §41-1279.03. A.R.S. §41-1279.03 requires the Auditor General to conduct a performance audit in the tenth year that a county transportation excise tax has been in effect and then every fifth year thereafter. This is the third performance audit of the tax since its establishment in 1987.

In 1986, the residents of Pinal County voted to pass a half-cent sales tax to “provide additional funding for the construction, reconstruction, maintenance, repair and roadside development of County, city and town roads, streets and bridges.” The excise tax became effective January 1, 1987, and is to remain in effect for a period of 20 years. In a November 2005 special election, the voters in Pinal County reauthorized the excise tax for an additional 20 years, beginning in January 2007 and continuing through 2026. In the first 19 years of its existence, the excise tax has generated \$107.7 million in revenues for streets and roads in Pinal County. This revenue is shared between ten incorporated cities and towns and the County according to a population-based formula. In the 19 years the tax has been in effect, approximately 43 percent of excise tax revenue has been distributed to the County, while the incorporated cities and towns have received the remaining 57 percent of excise tax revenues.

County and cities and towns can demonstrate tax impact (see pages 9 through 13)

The excise tax has allowed Pinal County and the cities and towns within the County that receive excise tax monies to address a variety of transportation needs. These include constructing new roads, repaving or reconstructing deteriorating roads, and performing needed street and road maintenance. Specifically:

- **Pinal County**—The County has used the excise tax for new construction and major reconstruction projects, which officials report have had a significant

impact on solving transportation problems such as unpaved and deteriorating roads. For example, major work included the construction or replacement of roads to address safety, drainage, and air pollution concerns. To help identify transportation areas with the most need, the County created three Transportation Advisory Committees, one for each of the County's three districts, to identify, plan, and prioritize road projects using these monies.

- **Incorporated cities and towns**—The incorporated cities and towns within the County that receive excise tax monies have used them for several purposes. For example, according to officials in Apache Junction, from 1995 to 2005, the tax has allowed the City to reduce the number of dirt roads by half, thereby improving road safety. Coolidge officials report that the tax has allowed the City to complete street and road maintenance that otherwise would not be done. Other incorporated cities and towns have used the excise tax to purchase equipment or pay for street bonds. The incorporated cities and towns employ a variety of ways to help identify transportation and road needs. Two cities use a computerized pavement management system to evaluate pavement quality and prioritize street maintenance needs. Additionally, six of the ten cities and towns have completed small area transportation studies or have drafted capital improvement plans that assist in identifying and prioritizing transportation projects that can be addressed using excise tax revenues.

However, two cities can improve their planning efforts to ensure that excise tax monies address the most important transportation and road needs. The City of Coolidge should apply the results of two recent planning and study efforts to help prioritize its transportation needs and identify projects that will be funded with excise tax monies. The Town of Mammoth should take steps to formalize its planning process and should improve its tracking of projects funded with excise tax monies.

Improved policies and procedures needed to ensure excise tax used appropriately (see pages 15 through 22)

The incorporated cities and towns that receive transportation excise tax revenues need to implement policies and procedures to help ensure that they comply with the excise tax's statutory requirements and appropriately spend the revenues. As prescribed by statute, transportation excise tax monies are restricted for specific purposes, including the construction, reconstruction, maintenance, repair, and roadside development of county, city, and town roads, streets, and bridges. Auditors' review of a sample of Pinal County's transportation excise tax expenditures determined that these expenditures complied with the tax's statutory restrictions. However, as in audits conducted in 1998 and 2001, auditors determined that some cities and towns are still experiencing some difficulties in this regard. Reviews of a

sample of expenditures in three cities and towns showed that while many of these expenditures were for authorized purposes, there were exceptions in all three locations. Specifically:

- **City of Apache Junction**—Two small, inappropriate expenditures were made. One paid for a gift to a public works employee and the other paid for various items to recognize public works employees. The gift is prohibited by the State's Constitution, while the expenditure for items to recognize employees is not an appropriate expenditure of excise tax monies. In addition, the City did not correctly allocate the cost of an inspection fee to its Highway User Revenue Fund, which contains Highway User Revenue Fund (HURF) and transportation excise tax monies.
- **Town of Mammoth**—Monies from the Town's Highway Users' Fund, which includes HURF and excise tax monies, were used to help provide small Christmas bonuses to 28 town employees and to provide a breakfast to several town employees. The State's Constitution prohibits these types of expenditures. Several other expenditures lacked supporting documentation for determining whether they were appropriate, and the Town does not employ an appropriate mechanism or basis for allocating personnel costs and other shared costs, such as gasoline and utility costs, against its Highway Users' Fund. Finally, Mammoth mistakenly charged its Highway Users' Fund for wastewater services, which should have been charged to another fund.
- **Town of Superior**—The Town charged its Special Revenue Fund, which contains excise tax monies, for food at a utilities committee meeting. Additionally, it mistakenly charged this fund for insecticide.

Apache Junction, Mammoth, and Superior need to take action on these matters. Additionally, all ten incorporated cities and towns that receive excise tax monies should establish written policies and procedures that specifically address the appropriate uses of these monies. All of the cities and towns report that they rely on a variety of mechanisms, such as general policies and procedures regarding expenditures, separate accounts for restricted funds, information from the League of Arizona Cities and Towns' *Municipal Budget and Finance Manual*, and statute regarding the use of restricted funds, and/or training to help ensure the appropriate expenditure of transportation excise tax monies. However, the cities and towns have not established specific, written policies and procedures, and this may have contributed to the inappropriate, unsupported, and incorrectly recorded expenditures auditors identified. Establishing excise tax policies and procedures could be completed using minimal resources, and would help ensure that the excise tax is used appropriately during the next 20 years.

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concluded ♦

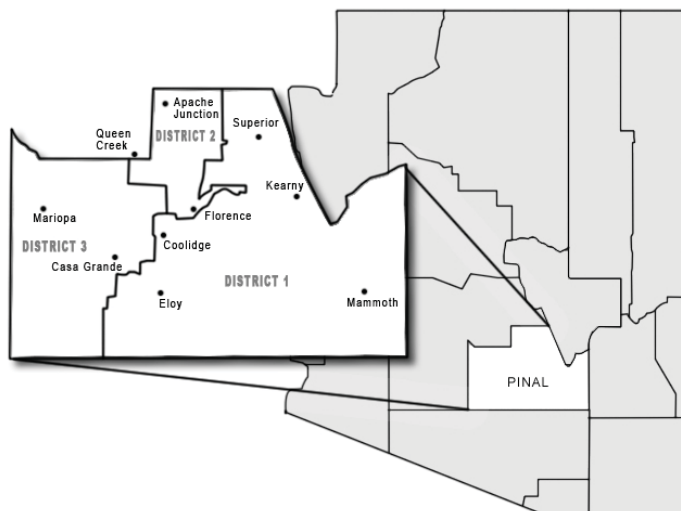
INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Pinal County Transportation Excise Tax (excise tax) in accordance with and under the authority vested in the Auditor General by Arizona Revised Statutes (A.R.S.) §41-1279.03. A.R.S. §41-1279.03 requires the Auditor General to conduct a performance audit in the tenth year that a county transportation excise tax has been in effect and then every fifth year thereafter. This is the third performance audit of the tax since its establishment in 1987.

Excise tax history and distribution

In 1986, the residents of Pinal County voted to pass a half-cent sales tax to provide additional funding for the “construction, reconstruction, maintenance, repair and roadside development of County, city and town roads, streets and bridges.” The excise tax became effective January 1, 1987. As determined by the County Board of Supervisors prior to the 1986 election and as described in the election’s publicity pamphlet, the Pinal County Treasurer distributes excise tax revenue to the County and the incorporated cities and towns within the County according to a population-based formula. Figure 1 illustrates the location of Pinal County, the three districts it is divided into, and the locations of the incorporated cities and towns within the County that receive these tax revenues. The formula is adjusted when cities or towns in the County become incorporated and thus become eligible to receive tax revenues. For example, the City of Maricopa was incorporated in 2003 and became eligible to receive excise tax revenues in fiscal year 2005. In addition, although the Town of Queen Creek is located primarily in Maricopa County, it became eligible to receive excise tax revenue after it annexed land in Pinal County in 1998 and again in 2002.

Figure 1: Pinal County
Districts and Incorporated Cities and Towns

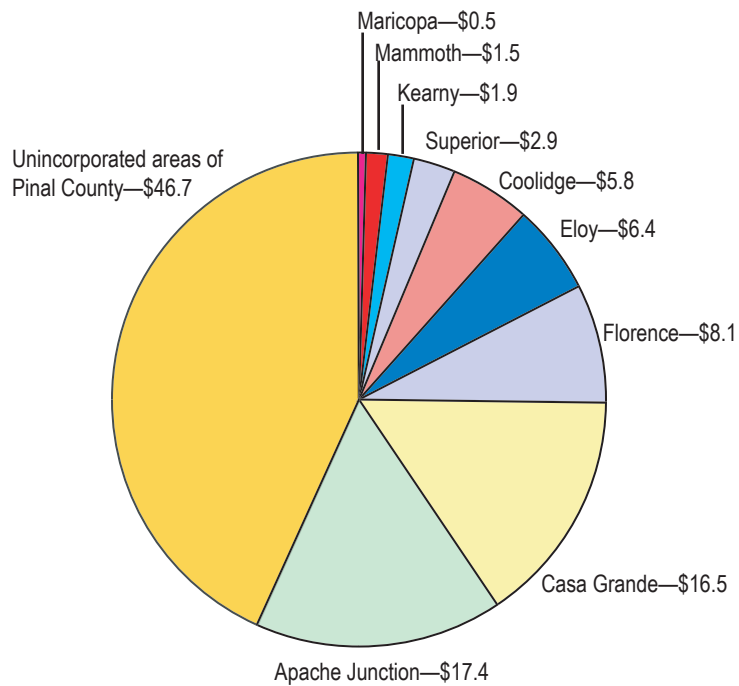


Source: Pinal County Public Works Department.

At the time the excise tax was established, it was projected to generate between \$125 and \$200 million in revenue over its 20-year life. As of December 31, 2005, with 1 year of the 20-year life of the tax remaining, the County Treasurer reports that the tax had generated a total of \$107.7 million in revenue. Figure 2 shows the distribution of these revenues to Pinal County and the ten incorporated cities and towns within the County that share the tax. In the 19 years the tax has been in effect, approximately 43 percent of excise tax revenue has been distributed to the County, while the incorporated cities and towns in the County have received the remaining 57 percent of tax revenues.

A.R.S. §28-6392 restricts the use of excise tax revenues to street and highway purposes or transportation projects specified in the County's regional transportation plan. Additionally, the 1986 publicity pamphlet specified that the funding was to be

Figure 2: Transportation Excise Tax Distributions of \$107.7 Million ¹ Calendar Years 1987 through 2005 (in Millions) (Unaudited)



¹ The Town of Queen Creek also received \$30,128 in excise tax distributions between calendar years 2001 and 2005. The Town is located primarily in Maricopa County; however, it annexed land in Pinal County in 1998 and 2002, and was therefore eligible to receive excise tax monies for the portion of the Town's population residing in Pinal County.

Source: Auditor General staff analysis of excise tax data from the Pinal County Treasurer's Office.

used solely for highway and street purposes, including costs for rights-of-way acquisitions and related expenses, construction, reconstruction, maintenance, repair, and roadside development of county, city, and town roads, streets, and bridges, and payment of principal and interest on highway and street bonds.

Road funding in Pinal County

The excise tax is one of several sources of funding for county road projects. In addition to excise tax revenues, Pinal County and the ten incorporated cities and towns within the County consistently receive Highway User Revenue Funds (HURF), while the incorporated cities and towns also receive Local Transportation Assistance Funds (LTAF). These funding sources, including the excise tax, are intended to help address local transportation needs, such as paving dirt roads and repairing local streets. These funds are not intended to support or assist with larger state highways, such as major transportation corridors between Pinal and Maricopa Counties. These types of transportation projects are typically funded through a combination of state and federal monies. Some of the incorporated cities and towns combine HURF, LTAF, and excise tax revenues into one road fund because the revenues have similar statutory restrictions. However, the County, as well as some of the incorporated cities and towns, records and tracks the excise tax revenues and expenditures in a separate fund.

Table 1 (see page 4) illustrates the fiscal year 2005 excise tax distributions and total road funding, as well as the 2000 population figures and road miles maintained for the County and the ten incorporated cities and towns.

Excise tax renewed by voters

In a November 2005 special election, Pinal County voters reauthorized the excise tax for an additional 20 years, beginning in January 2007 and continuing through 2026. According to this election's publicity pamphlet, the tax is estimated to generate \$951.8 million in revenue during its 20-year life. This estimate is significantly higher than the estimate for the excise tax's initial 20-year period, partly because Pinal County has experienced and expects to continue experiencing tremendous population growth. As a result, the excise tax should play an important role in addressing current and future transportation issues. For example, the City of Maricopa, which is currently experiencing rapid population growth, plans to use

Definitions:

Highway User Revenue Fund (HURF)—Consists of revenue from a state-wide gasoline tax, licenses, penalties, interest, and fees. These monies are distributed by the State Treasurer, and the amount distributed is based, in part, on population.

Local Transportation Assistance Fund (LTAF)—Most of the revenue deposited in this fund is generated from state lottery revenue and distributed by the State Treasurer. The amount distributed is based on population.

Source: Auditor General staff summary of A.R.S. §§28-6501, 6532, 6533, 6534, 6537, 6538, 6540, 8101(C), and 8102(A)(B).

Table 1: Pinal County Transportation Excise Tax Recipients
Year Ended June 30, 2005
(Unaudited)

Excise Tax Recipient	2000 Population	Road Miles Maintained	Excise Tax Distribution	Total Road Revenues ¹
Pinal County	179,727	2,230	\$5,002,856	\$20,585,151
Apache Junction ²	31,541	170	2,077,756	5,189,936
Casa Grande	25,224	270	1,661,622	4,146,255
Florence	17,054	76	1,085,213	2,696,836
Eloy	10,375	140	683,445	1,697,865
Coolidge	7,786	66	512,898	1,274,850
Superior	3,254	26	214,365	531,802
Kearny	2,249	17	148,159	367,021
Mammoth	1,762	15	116,074	288,311
Maricopa	1,040	67	329,244	818,662
Queen Creek ²	119	8	7,838	356,572

¹ Total road revenues consist of excise tax, HURF, and LTAf monies for the cities and towns, or excise tax, vehicle license tax, and HURF monies for the County.

² The city or town occupies both Maricopa County and Pinal County. Numbers in this table represent the population and road miles maintained in Pinal County only.

Source: Auditor General staff summary of 2000 U.S. Census Bureau population data; road miles provided by each city or town and Pinal County as of June 30, 2005; fiscal year 2005 excise tax distribution data from the Pinal County Treasurer; and fiscal year 2005 HURF, LTAf, and vehicle license tax revenue distributions lists from the Office of the Arizona State Treasurer.

Table 2: Examples of Planned Road Projects To Be Funded with Excise Tax
(Unaudited)

City or Town Receiving Monies	Planned Project	Estimated Cost
Pinal County—District 3	Construction of turn lanes on McCartney Road at Cox Road	\$ 150,000
Town of Florence	Construction of roundabout intersection at SH 79B and SH 287	2,000,000
Town of Casa Grande	Reconstruction of Main Street/Sacaton Street	2,300,000
Town of Superior	Reconstruction of Main Street	350,000

Source: Auditor General staff summary of information received from the Pinal County Public Works Department and each city or town regarding projects they plan to undertake in 2006 or 2007.

excise tax revenues for a technical study and to complete a major arterial connection between the two highways that pass through the city limits. This connection will help alleviate congestion in Maricopa's downtown area. The Town of Mammoth plans to use excise tax monies to install additional sidewalks to improve its appearance and provide greater security for pedestrians. Table 2 illustrates several projects that Pinal County and its incorporated cities and towns plan to help complete with the excise tax monies.

Scope and methodology

Consistent with the requirements of A.R.S. §41-1279.03, this audit focused on the impact of the excise tax in solving transportation problems within the County and for the incorporated cities and towns within the County that receive excise tax revenues, and whether excise tax revenues are used only for street and highway purposes or transportation projects. This report presents findings and recommendations in the following areas:

- The impact of the excise tax on the County's and incorporated cities' and towns' transportation problems and the need for two cities to improve their transportation planning processes; and
- The need for improved policies and procedures to help ensure that the incorporated cities and towns that receive excise tax revenues comply with the tax's statutory restrictions.

A.R.S. §41-1279.03 also requires a review of the distribution of highway user revenues to ensure compliance with A.R.S. Title 28, chapter 18, article 2 (A.R.S. §28-6531 et seq.). Because the auditors reviewed this information in the 2005 Maricopa County Regional Freeway System performance audit report (Auditor General Report No. 05-CR1), it was not addressed in this audit.

Auditors used a number of methods to obtain information about the Pinal County Transportation Excise Tax and to answer the questions specified in statute. General methods included reviewing statutes and United States Census Bureau population reports; interviewing the County's and incorporated cities' and towns' management and staff; and reviewing policies and procedures pertaining to expenditures and transportation projects. Auditors also used the following methods to address specific areas of focus:

- To evaluate the impact that the tax has had on solving transportation problems within the County and its incorporated cities and towns, auditors reviewed information regarding completed transportation projects for six of the ten incorporated cities and towns, including invoices, purchase orders, and copies of checks for some of the projects reviewed; the County's 2001 Comprehensive Plan, 5-year transportation plans from fiscal years 1998 through 2010, the Public Works expenditure report for fiscal years 1998 through 2005, the November 2004 Transportation Excise Tax Report, 2005 meeting minutes for all three County Transportation Advisory Committees, and the 1986 transportation excise tax publicity brochure; the City of Maricopa's 2003 Small Area Transportation Study; the Town of Mammoth's General Plan and council meeting minutes for November and December 2004 and July through December 2005; the capital improvement plans for the Towns of Florence and Queen Creek, intergovernmental agreements between the City of Eloy and Pinal County and

between the City of Coolidge and the Arizona Department of Transportation; the City of Coolidge's contracts with two separate companies for the development of a capital improvement plan and small area transportation study; and research on asset management software for government entities. Auditors also interviewed members of the County's three Transportation Advisory Committees, Town of Mammoth council members, the manager of a company that provides asset management software to government entities, and a senior transportation planner at the Arizona Department of Transportation.

- To determine whether Pinal County and the incorporated cities and towns within the County appropriately spent transportation excise tax monies, auditors conducted a risk analysis of each entity receiving excise tax monies. This risk analysis considered a variety of factors including entities' purchasing policies and procedures, internal controls, whether the entities have had previous audit findings related to their use of transportation excise tax monies, and any concerns that arose during preliminary interviews with city, town, or county management. Based on these results, auditors selected the Towns of Mammoth and Superior for analysis of their excise tax expenditures. Pinal County and the City of Apache Junction were also selected for an expenditure analysis because they receive the largest shares of the excise tax revenues. For these entities, auditors performed:
 - **Pinal County**—An exploratory analysis of all 1,501 of Pinal County's transportation excise tax expenditures and adjusting entries for fiscal years 2004 and 2005, and selected 13 of these expenditures and adjusting entries for further review based on an assessment of the reasonableness of the vendor and type of expenditure.¹ Auditors also analyzed a random sample of 30 fiscal year 2004 and 2005 excise tax expenditures.
 - **City of Apache Junction**—An exploratory analysis of all 2,227 City of Apache Junction Highway User Revenue Fund expenditures and adjusting entries for fiscal year 2004 and selected 22 of these expenditures or adjusting entries for further review based on an assessment of the reasonableness of the vendor and type of expenditure.^{2,3} Auditors also analyzed a random sample of 30 fiscal year 2004 Highway User Revenue Fund expenditures and adjusting entries.

¹ Auditors limited their review to Pinal County's transportation excise tax expenditures and adjusting entries since the County separately records and tracks excise tax revenues and expenditures. This audit did not include a review of the County's use of Highway User Revenue Fund (HURF) and vehicle license tax monies.

² Auditors reviewed expenditures from the City of Apache Junction's Highway User Revenue Fund, which includes HURF and transportation excise tax monies.

³ Adjusting entries reflect allocations of expenditures to the City's Highway User Revenue Fund or the allocation of expenditures from the Highway User Revenue Fund to other city funds.

- o **Town of Mammoth**—An exploratory analysis of all 216 Town of Mammoth Highway Users' Fund expenditures for fiscal year 2005 and selected 31 of these expenditures for further review based on an assessment of the reasonableness of the vendor and type of expenditure.¹
- o **Town of Superior**—An exploratory analysis of all 272 Town of Superior excise tax expenditures for fiscal year 2005 and selected 29 of these expenditures for further review based on an assessment of the reasonableness of the vendor and type of expenditure.

In addition, auditors reviewed independent financial audits for the City of Apache Junction for fiscal year 2004 and the Towns of Superior and Mammoth for fiscal year 2005; payroll expenditures and records for the County for fiscal year 2005, the Town of Mammoth for fiscal year 2005, and the City of Apache Junction for fiscal year 2004; and the City of Apache Junction's basis for using excise tax monies to repay a portion of the City's Series 1998 Municipal Facilities Revenue Bonds.

To gather information for the Introduction and Background, auditors reviewed Pinal County Treasurer account inquiry reports for excise tax and other revenues for fiscal years 2001 through 2005; Arizona State Treasurer revenue distribution lists for fiscal year 2005; the publicity pamphlet for the 2005 Pinal County special election; and Arizona Department of Commerce community profiles.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Pinal County manager and staff, and the managers and staff of each of the incorporated cities and towns, for their cooperation and assistance throughout the audit.

¹ Auditors reviewed expenditures from the Town of Mammoth's Highway Users' Fund, which includes HURF and excise tax monies.

FINDING 1

County and cities and towns can demonstrate tax impact

The excise tax has allowed Pinal County and the cities and towns within the County that receive excise tax monies to address a variety of transportation needs. These include constructing new roads, repaving or reconstructing deteriorating roads, and performing needed street and road maintenance. The County, as well as most of the incorporated cities and towns, has established processes to help identify transportation areas of most need. However, to more clearly demonstrate impact, the City of Coolidge should continue to improve its planning processes, and the Town of Mammoth should improve its transportation planning processes and recordkeeping procedures.

Impact of excise tax

Pinal County and the incorporated cities and towns that receive excise tax revenue have used the tax to help resolve transportation problems. Specifically, the County has used excise tax monies primarily for new construction and major reconstruction of roads in order to improve safety and reduce the dust from dirt roads. The incorporated cities and towns have used excise tax monies in a variety of ways, including paying for street and road maintenance and paving dirt roads.

County has benefited from tax—The excise tax has benefited the County by allowing it to address transportation needs and problems. The County has primarily used excise tax monies for new road construction and major road reconstruction projects and, according to county officials, the tax has had a significant impact on solving transportation problems such as unpaved and deteriorating roads. For example, as indicated in Table 3 (see page 10), between fiscal years 2002 and 2005, the County completed major transportation projects, including constructing 2 miles of new roadway on Warren Road in district 3, and replacing 1 mile of Gary Road in district 2. These types of projects have been a

The excise tax has benefited the County by improving safety and reducing air pollution.

Table 3: Examples of Pinal County Road Projects Funded with Excise Tax Monies Years Ended June 30, 2002 through 2005 (Unaudited)

Location	Length in Miles	Problem Addressed	Project Cost
San Manuel Airport Access Road	0.8	Access road needed to San Manuel Airport	\$ 98,356
Gary Road	1.0	Deteriorating roadway and safety and drainage concerns	434,956
Warren Road	2.0	Drainage concerns	613,835

Source: Auditor General staff summary of information provided by the Pinal County Public Works Department.

particular focus of the County because unpaved roads present safety problems for drivers as well as contributing to air pollution in the County.

Through the use of Transportation Advisory Committees (known as TACs), the County has established a process to help identify transportation areas of most need. Specifically, according to the County, in 1987 the County created three TACs, one for each of its three districts, to identify, plan, and prioritize transportation or road projects funded with excise tax monies. According to Pinal County's November 2004 Transportation Excise Tax Report, its 5-year transportation plan, 2005 meeting minutes for all three TACs, county officials, and TAC members, the TACs follow a prescribed process. First, each TAC conducts a field review within the district to observe county roads. The TACs then hold a series of meetings

in each district to obtain citizen input and concerns and also obtain input from the County's Public Works Department, including feasibility analyses, cost estimates, and recommendations. The TACs then review the citizen and public works staff input in the framework of the County's budget and draft recommendations, compile them into a 5-year transportation plan, and present the plan to the County Board of Supervisors for approval. These plans then serve as the basis for selecting and completing transportation or road projects using excise tax monies.

Transportation Advisory Committee Facts

- Each TAC consists of seven members, including citizens of the respective county district and individuals from county and city and town management.
- The TACs meet several times each year. Five of the meetings are public meetings designed to obtain county citizens' input and concerns.
- The transportation projects identified by the TACs must be approved by the County Board of Supervisors, and are funded primarily with excise tax revenue.

Source: Auditor General staff summary of information provided by Pinal County.

Cities and towns have also benefited from the tax—The incorporated cities and towns that receive excise tax revenues have also realized several benefits. For example, the City of Apache Junction has used the tax to pay a street bond and to pave dirt roads. According to Apache Junction officials, from 1995 to 2005, the City was able to reduce the number of dirt roads by half, thereby impacting road safety. Additionally, the City of Coolidge has used the tax to perform street and road maintenance, which, according to city officials, would not have otherwise been done. Table 4 (see page 11) provides additional examples of how the cities and towns in the County have used the excise tax, including purchasing equipment and making payments on a street bond.

The incorporated cities and towns in Pinal County have various processes in place to plan, monitor, and account for road projects, service, and maintenance.

The incorporated cities and towns in the County use a variety of techniques to help identify transportation and road needs. For example, the Towns of Eloy and Florence, which use excise tax monies for street and road maintenance and improvements, use a computerized pavement management system to evaluate pavement quality and prioritize street maintenance needs. The program prioritizes maintenance needs

Table 4: Selected Projects Funded with Excise Tax and Other Road Monies Between August 2000 and September 2005 (Unaudited)

City or Town	Selected Projects
Apache Junction	Repaving existing roads and paving dirt roads
Casa Grande	Improving and expanding existing roadways
Coolidge	Repairing and constructing streets, and purchasing equipment
Eloy	Improving existing roadways
Florence	Repairing streets and roads, maintaining streets, constructing sidewalks, and storm drainage projects
Kearny	Resurfacing and repairing streets, and installing new street lighting
Mammoth	Installing sidewalks, railing, and curbing, and patching roads
Maricopa	As a newly incorporated city (October 2003), Maricopa has not yet expended any of the excise tax revenues received in fiscal year 2005
Queen Creek	Paving dirt roads, and paying for equipment
Superior	Making payments on street bonds

Source: Auditor General staff summary of information received from each of the cities or towns between August 31, 2005 and September 16, 2005, regarding selected projects funded with excise tax monies in the previous 5 years.

by tracking the remaining life of roads or streets based on existing conditions, and assists in planning by preparing estimated construction and maintenance costs. The program also records actual costs, as well as the dates work was performed and the types of work the roadways received, providing the cities with useful planning data. Similarly, the Town of Kearny, which uses the tax for such things as repairing roads and installing new street lighting, has developed a maintenance evaluation system that assists in planning and prioritizing transportation projects. Using the system, public works staff can rate the conditions of the pavement on existing roads and determine necessary repairs. Finally, since 1995, six of the ten incorporated cities and towns have completed small area transportation studies or have drafted capital improvement plans that include a section on transportation needs. These types of studies and plans help the cities and towns by identifying and prioritizing problems that can be addressed using excise tax revenues.

Two cities can more effectively demonstrate impact

Two of the incorporated cities and towns within Pinal County can take steps to better ensure that excise tax expenditures are focused on key transportation needs. The City of Coolidge and the Town of Mammoth do not have formal procedures to identify and prioritize projects that excise tax revenue should fund. In addition, Mammoth does not keep records of its completed transportation or road maintenance projects. Specifically:

- **Coolidge should continue to improve its planning process**—Coolidge has recently begun two efforts that will help to formalize its planning process. These efforts will help the City identify and prioritize transportation needs and ensure limited excise tax revenues are used for the most critical projects. According to city officials, the Coolidge City Council has historically relied on the City's public works director to identify and propose transportation projects for the council to approve. However, in February 2006, the City contracted with a transportation planning firm to complete a small area transportation study with the Town of Florence, which is scheduled for completion in March 2007. The study's objective is to develop a comprehensive transportation plan that will guide transportation planning and programming over a 20-year period. Additionally, by completing the study together, Coolidge and Florence expect to realize some cost savings, as well as to identify and examine some regional transportation issues.

In addition, Coolidge contracted with a transportation consulting firm in November 2005 to complete a capital improvement plan, which is scheduled for completion in June 2006. This plan is a long-term financial plan that will assist the Public Works Department in budgeting for large purchases and projects, such as road-building equipment or major road construction projects. According to the City, a committee consisting of city staff will review and adjust the plan annually.

Once it has finalized its small area transportation study and completed its capital improvement plan, Coolidge should use the study and the plan to help prioritize its transportation needs and identify projects that excise tax monies will fund.

- **Mammoth should improve its planning process and recordkeeping**—Although the Town of Mammoth reported that the excise tax has provided additional monies for street and sidewalk improvements, it could more clearly demonstrate the tax's impact by improving its planning processes and recordkeeping procedures. Mammoth received \$116,000 in excise tax revenues in fiscal year 2005. According to town officials, the town council relies on its public works director to plan projects funded with these monies, but also provides opportunity for public input regarding transportation needs. While the town

council must also approve some expenditures from the road fund, and therefore participates to a certain extent in the planning process, Mammoth could improve its planning process by implementing additional steps. For example, the Town of Kearny, which received \$148,000 in excise tax revenues in fiscal year 2005, has a process for inspecting and rating the condition of town roads, and then categorizing or prioritizing roads based on the observed conditions. This allows Kearny to effectively prioritize street and road projects and ensure that limited excise tax revenues are used for the most important projects. The Town of Mammoth should formalize its transportation planning process by identifying and implementing steps such as developing a road evaluation system and holding regular, documented transportation planning meetings to identify and prioritize transportation projects. The meetings could include public works employees who are familiar with local transportation needs, members of the public, and town council members.

In addition, the Town of Mammoth should keep a record of any routine maintenance and its completed transportation projects that are funded with excise tax monies. Mammoth does not keep records of projects completed or routine maintenance performed, making it difficult to demonstrate the tax's impact. Other towns, such as Kearny and Coolidge, report tracking completed projects by maintaining paper records organized by project or type of maintenance performed.

Recommendations:

1. Once they are finalized, the City of Coolidge should use its small area transportation study and its capital improvement plan to identify and prioritize transportation projects that excise tax monies will fund.
2. The Town of Mammoth should formalize its transportation planning process by identifying and implementing steps such as developing a road evaluation system and holding regular, documented transportation planning meetings to identify and prioritize transportation projects. If Mammoth decides to hold meetings, these meetings should include public works employees who are familiar with local transportation needs, members of the public, and town council members.
3. The Town of Mammoth should keep a record of routine maintenance and any completed transportation projects that are funded with excise tax monies.

FINDING 2

Improved policies and procedures needed to ensure excise tax used appropriately

The incorporated cities and towns that receive transportation excise tax revenues need to implement improved policies and procedures to help ensure that they comply with the tax's statutory requirements and appropriately spend the revenues. As prescribed by statute, transportation excise tax monies are restricted for specific purposes. A review of excise tax expenditures made by the County did not reveal any inappropriate uses of excise tax monies. However, similar to previous audits that have identified some inappropriate expenditures, auditors' review of excise tax expenditures identified either inappropriate expenditures or improperly recorded expenditures in some of the cities and towns. Therefore, these cities and towns should reimburse their road funds for these inappropriate expenditures, and all of the incorporated cities and towns that receive transportation excise tax monies should establish policies and procedures to help ensure that these monies are used appropriately.

Excise tax monies restricted to specific purposes

A.R.S. §28-6392 states that transportation excise tax revenues may be used only for street and highway purposes or for transportation projects included in the County's regional transportation plan. Highway and street purposes include costs of rights-of-way acquisitions as well as the construction, reconstruction, maintenance, repair, and roadside development of county, city, and town roads, streets, and bridges. Excise tax revenues may also be used to pay principal and interest on highway and street bonds and personnel costs, including salaries and benefits, for employees working directly or indirectly on transportation projects.

Restrictions placed on the use of transportation excise tax monies are similar to those placed on the HURF, which receives its revenues from a state-wide gasoline tax and the vehicle license tax. Article IX, Section 14, of the Arizona Constitution states that

Transportation excise tax revenues are statutorily restricted and can be used only for street and highway purposes or for transportation projects.

HURF monies are distributed to counties and incorporated cities and towns to be used “solely for highways and street purposes including costs of rights of way acquisitions and expenses related thereto, construction, reconstruction, maintenance, repair, roadside development, of county, city and town roads, streets, and bridges and payment of principal and interest on highway and street bonds.”

County excise tax expenditures appropriate

Auditors analyzed a sample of transportation excise tax expenditures and adjusting entries made by the County and did not identify any inappropriate uses of the excise tax monies.¹ Specifically, auditors conducted an exploratory analysis of all 1,501 of Pinal County’s transportation excise tax expenditures and adjusting entries for fiscal years 2004 and 2005, and selected 13 of these expenditures and adjusting entries for further review based on an assessment of the reasonableness of the vendor and type of expenditure. Auditors also analyzed a random sample of 30 fiscal year 2004 and 2005 excise tax expenditures. Based on this analysis, auditors determined that these expenditures complied with the tax’s statutory restrictions.

Some small, inappropriate expenditures continue

Some of the incorporated cities and towns in Pinal County continue to inappropriately spend excise tax monies. Performance audits in 1998 and 2001 found that some of the cities and towns had inappropriately used some of their road fund monies, and auditors found this to be a continuing problem. Specifically, auditors analyzed excise tax expenditures from the City of Apache Junction and the Towns of Mammoth and Superior and determined that some expenditures were either inappropriate or incorrectly recorded. While these cities and towns should take actions to address these matters, all of the incorporated cities and towns that receive transportation excise tax monies should establish policies and procedures to help ensure the appropriate use of the excise tax monies.

Previous audits identified inappropriate expenditures—The Auditor General’s 1998 and 2001 performance audits of the Pinal County Transportation Excise Tax found that some of the incorporated cities and towns had inappropriately used excise tax monies.² Specifically:

- **1998 performance audit**—The audit found that three municipalities inappropriately loaned road fund monies, which included excise tax monies, to other funds. Specifically, the City of Eloy had loaned road monies primarily to

Performance audits in 1998 and 2001 identified inappropriate expenditures of excise tax monies.

¹ Pinal County was selected for review because it receives the largest share of the excise tax revenues, totaling approximately 41 percent.

² The 2001 performance audit was conducted by KPMG LLP under contract with the Arizona Office of the Auditor General.

its utility services and golf course enterprise funds, which at the time of the audit both lacked the resources to repay the loans. The audit also found that the Town of Mammoth had loaned road monies to its general fund, resulting in an outstanding balance of \$24,429 owed to the road fund in June 1997 that had yet to be repaid. Finally, the audit found that the Town of Florence inappropriately loaned road monies to other funds, but had repaid the loans by 1995. Follow-up work conducted by the Auditor General found that Eloy and Mammoth had repaid the road monies as recommended in the audit report.

- **2001 performance audit**—The audit found that two municipalities inappropriately used road fund monies. Specifically, the City of Apache Junction allocated an excessive portion of its debt service payments to its road fund, and mistakenly charged the road fund \$2,000 for postage. The audit also found that the Town of Kearny potentially allocated too much of its road fund to pay for public works overhead costs and employees' salaries and benefits, and inappropriately used road fund monies to purchase a street plaque. In response to the audit's recommendations, Apache Junction recalculated the amount of monies that should have been charged to its road fund for debt service payments and repaid these monies, as well as the \$2,000 for postage, to its road fund. The Town of Kearny also implemented the audit's recommendations to develop and apply methodology to appropriately allocate costs and repay inappropriately used road fund monies.

Some municipalities used excise tax monies inappropriately—Auditors analyzed a sample of excise tax expenditures and adjusting entries made by the City of Apache Junction and the Towns of Mammoth and Superior and found some small, inappropriate expenditures, or expenditures that were incorrectly recorded.¹ Specifically:

- **City of Apache Junction**—Most of the Apache Junction fiscal year 2004 Highway User Revenue Fund expenditures that auditors analyzed were appropriate.² Specifically, auditors analyzed a random sample of 30 of Apache Junction's 2,227 fiscal year 2004 Highway User Revenue Fund expenditures and adjusting entries, which include excise tax and HURF monies, and an additional 22 expenditures and adjusting entries selected through an exploratory review of the 2,227 expenditures and adjusting entries. Auditors also reviewed the City's basis for using Highway User Revenue Fund monies to repay a portion of its Series 1998 Municipal Facilities Revenue Bonds and its method for using these monies to pay personnel costs. Based on this review, auditors identified two inappropriate expenditures. The first involved a \$23.23 expenditure for various items to recognize employees within the City's public works department. Although the City can spend General Fund monies to recognize its employees,

Auditors identified two inappropriate expenditures in Apache Junction.

¹ Based on auditors' risk analysis, the City of Apache Junction was selected for review because it receives the second largest share of excise tax revenues, totaling approximately 17 percent. The Towns of Mammoth and Superior were selected largely because of the increased risks associated with their staffing shortages and recent turnovers in town management.

² The City of Apache Junction's Highway User Revenue Fund includes HURF and excise tax monies.

these are not appropriate expenditures of HURF or excise tax monies. Additionally, Apache Junction purchased a plant from a flower shop at a cost of \$33.05 for a public works employee. This purchase represents both an inappropriate use of road fund monies and a gift of public monies, which is prohibited by the State's Constitution. Therefore, Apache Junction should repay its Highway User Revenue Fund for the amount of these expenditures. Additionally, Apache Junction should seek direction from its legal counsel regarding such expenditures and how it should repay these monies.

Auditors also found that Apache Junction may have incorrectly charged a \$200 underground storage tank inspection fee to its Highway User Revenue Fund. While other city departments obtain fuel from this storage tank and should have been charged a portion of this cost, Apache Junction allocated the entire inspection fee to its Highway User Revenue Fund. Therefore, Apache Junction should ensure that it appropriately allocates these types of shared costs to its Highway User Revenue Fund.

- **Town of Mammoth**—Auditors found several instances in which the Town either inappropriately used restricted monies from its Highway Users' Fund (Fund) or lacked the documentation to show that the expenditure was appropriate. Auditors analyzed 31 expenditures selected through an exploratory review of the 216 fiscal year 2005 HURF and excise tax expenditures from the Highway Users' Fund and the Town's basis for using the Fund's monies to pay for personnel costs, and identified several instances of inappropriate or unsupported expenditures. Specifically, with the town council's approval, Mammoth used public monies to provide Christmas bonuses to 28 town employees, \$33.36 of which was taken from the Highway Users' Fund. However, because these bonuses were not part of the employees' pay packages, they represent a gift of public monies and are prohibited by the State's Constitution. Additionally, Mammoth provided breakfast at a total cost of \$50.61 to several of its employees who had worked overtime to repair a damaged water line. This also represents a gift of public monies. Therefore, Mammoth should repay its Highway Users' Fund for any monies used for employees' Christmas bonuses and the breakfast. Auditors identified bonuses that were paid in fiscal years 2005 and 2006, and Mammoth should review previous fiscal years' expenditures and reimburse the fund for any additional year(s) in which Christmas bonuses were paid. Additionally, Mammoth should seek further direction from its legal counsel regarding the breakfast and bonuses that have been given to employees and how it should repay these monies.

Auditors also identified seven credit card expenditures charged to the Highway Users' Fund totaling \$459 in fiscal year 2005 that lacked any supporting documentation. Thus, the appropriateness of these expenditures could not be determined. As a result, Mammoth should research these expenditures and determine their appropriateness. If it cannot determine that they were

Some expenditures in Mammoth were inappropriate and others do not have supporting documentation.

appropriate, Mammoth should repay these monies to the Fund. Mammoth should also ensure that it retains adequate documentation to support charging these types of expenditures to the Fund.

Additionally, auditors found that Mammoth may have inaccurately charged personnel costs to the Highway Users' Fund. Mammoth uses an informal system to allocate public works employee payroll expenditures and benefits costs to the Highway Users' Fund and other public works funds. According to town management, the portion of these employees' personnel costs charged to the Highway Users' Fund is estimated at the beginning of each year based on available funds, and adjusted according to any changes in staffing levels throughout the year. The Fund is then charged based on these estimates. For example, nearly \$80,000 in personnel costs was charged to the Fund in fiscal year 2005. However, Mammoth does not track the actual number of hours that employees spend on various jobs or projects, including road-related projects. Additionally, none of the public works employees are solely dedicated to road-related projects. Since employee time is not tracked on a project or time code basis, Mammoth cannot confirm the accuracy of its estimates and basis for charging personnel costs to the Fund.

Therefore, Mammoth should implement a mechanism, such as a time accounting system, that would more accurately capture the time that staff spend on street-related activities. Such a mechanism would enable public works employees to report the time they spend on each activity or project and allow the Town to more accurately allocate salaries and related expenditures to the Highway Users' Fund. The Town of Superior uses an automated system to record staff time, which then assists in accurately charging personnel costs to its Special Revenue Fund. Prior to implementing the automated system, the Public Works Department in Superior recorded employees' time manually. Similarly, Mammoth might consider developing a manual log or spreadsheet where its public works employees can document how they spent their time on various projects each day, and then use this record of employee time to accurately charge personnel costs to the Fund.

Implementing such a mechanism could also assist Mammoth in appropriately allocating other shared costs to its Highway Users' Fund. Auditors identified 16 additional expenditures, including gasoline and utility, insurance, office supplies, and cell phone costs, which Mammoth allocated to the Fund. While other town departments shared in these costs and Mammoth distributed the total expenditure for these costs across different funds, the allocations of these costs were not based on actual use and thus may be inaccurate. For example:

- o The Town spent \$1,456.87 on gasoline in April 2005 and allocated \$769.68 of this amount to its police department. It allocated the remainder evenly to four different funds, including the Highway Users' Fund. However, the total

allocation of \$687.19 to the four different funds was not based on the gasoline actually used by the associated departments.

- The Town allocated \$70,702 in fiscal year 2005 insurance premium costs to eight different funds, including \$8,000 to the Highway Users' Fund. However, the Town was unable to provide a basis for this allocation. Additionally, absent a basis for these costs' allocations, auditors could not determine if the cost of any of the liability insurance coverage, which represented approximately 80 percent of the fiscal year 2005 insurance premium costs, was included in the expenditures allocated to the Fund. According to an Arizona Attorney General opinion (No. 105-003), HURF monies, and thus, similarly restricted monies, such as transportation excise tax monies, cannot be used to pay for liability insurance premiums.

Mammoth should develop and implement a mechanism or basis, such as the mechanism it develops to track its employees' time, to appropriately allocate its shared costs to its Highway Users' Fund. For example, if 75 percent of public works employees' time is spent working on street-related activities, then 75 percent can be used as a basis for allocating other shared costs to the Highway Users' Fund. Additionally, it should ensure that its basis for allocating insurance costs to the Fund does not include the costs for liability insurance coverage.

Finally, Mammoth mistakenly charged \$350 to the Highway Users' Fund for wastewater services. Auditors' review of documentation for this charge showed that it was associated with an unrelated department and should have been charged to another fund, but Mammoth incorrectly entered it into its accounting system as a charge against the Fund. Mammoth should make appropriate adjustments to its accounting system to correct the charge that was mistakenly charged to the Fund.

- **Town of Superior**—Auditors' review of transportation excise tax expenditures from the Special Revenue Fund (Fund) determined that Superior inappropriately used the Fund's monies to pay for food and mistakenly charged the Fund for insecticide supplies. Specifically, auditors analyzed 29 expenditures selected through an exploratory review of the 272 fiscal year 2005 excise tax expenditures. Based on this analysis, auditors determined that 27 of the expenditures were appropriate. However, the Town provided food costing \$29.15 for a utilities committee meeting, which was charged to its Special Revenue Fund. Similar to the breakfast provided by Mammoth, this represents a gift of public monies, and Superior should reimburse the Fund for the cost of the food. Superior should seek direction from its legal counsel regarding this expenditure and how it should repay these monies. Additionally, the Town mistakenly charged the Fund \$322 for insecticide that was used by another department and should have been charged to another fund. As a result,

Superior should correct the charge for insecticide that was mistakenly made to the Fund.

Cities and towns should establish written policies and procedures—

The lack of policies and procedures that specifically address the expenditure of statutorily restricted road monies, including excise tax monies, may have contributed to the inappropriate, unsupported, and incorrectly recorded expenditures auditors identified. All the cities and towns report that they rely on a variety of mechanisms, such as general policies and procedures regarding expenditures, separate accounts for restricted funds, information from the League of Arizona Cities and Towns' *Municipal Budget and Finance Manual*, statute regarding the use of restricted funds, and/or training to help ensure the appropriate expenditure of restricted road monies, including excise tax monies. However, the cities and towns have not established specific, written policies and procedures regarding the expenditure of these monies. Additionally, Pinal County voters have reauthorized the excise tax for an additional 20 years, beginning in January 2007, representing an opportunity to establish policies and procedures regarding the appropriate expenditures of these monies. The cities and towns should therefore develop and implement written policies and procedures that specifically address restricted road monies, including the excise tax.

Although creating policies and procedures may require some time and resources, it does not represent an extensive task, and a variety of resources exist to assist the incorporated cities and towns in drafting appropriate policies and procedures. These include A.R.S. §28-6392, which provides information on the excise tax's specific restrictions, and the 1986 and 2005 voter publicity pamphlets, which also discuss the statutory restrictions on the tax, as well as its overall purpose. In addition, the League of Arizona Cities and Towns' *Municipal Budget and Finance Manual*, which provides information on restricted monies, such as HURF, and Arizona Attorney General opinion no. I05-003, which provides guidance on appropriate HURF expenditures, might be useful in drafting policies and procedures for other restricted road funds.

Upon drafting and formally adopting policies and procedures regarding the excise tax, the cities and towns should provide them to public works officials and others who are responsible for approving expenditures of restricted road monies.

Recommendations:

1. The City of Apache Junction should:
 - a. Repay its Highway User Revenue Fund for the amounts of the two inappropriate expenditures, and not make such expenditures in the future. Additionally, Apache Junction should seek direction from its legal counsel regarding such expenditures and how it should repay these monies; and

- b. Ensure that it appropriately allocates costs that are shared with other city departments to its Highway User Revenue Fund.
2. The Town of Mammoth should:
- a. Repay its Highway Users' Fund (Fund) for the cost of the breakfast that it provided to employees and for any monies used for employees' Christmas bonuses in fiscal years 2005 and 2006, review previous fiscal years' expenditures, and reimburse the Fund for any additional year(s) in which Christmas bonuses were paid. Mammoth should also cease to make such gifts of public monies and seek further direction from its legal counsel regarding bonuses that have been given to employees and how the Fund should be repaid;
 - b. Research the credit card expenditures charged to the Fund for fiscal year 2005 and determine if these expenditures were appropriate. If it cannot determine that these expenditures were appropriate, Mammoth should repay these monies to the Fund. Mammoth should also ensure that it retains adequate documentation to support charging these types of expenditures to the Fund;
 - c. Implement a mechanism, such as a time accounting system, to more accurately capture the time that staff spend on street-related activities and to more accurately allocate salaries and related expenditures to the Fund;
 - d. Implement a mechanism or basis, such as the mechanism it develops and implements to track employee time, to appropriately allocate shared costs to the Fund;
 - e. Ensure that its basis for allocating insurance costs to the Fund does not include the costs for liability insurance coverage; and
 - f. Make appropriate adjustments to its accounting system to correct the charge for wastewater services that was mistakenly charged to the Fund.
3. The Town of Superior should:
- a. Repay its Special Revenue Fund (Fund) for the cost of the food that it provided at a utilities committee meeting and cease to make such expenditures in the future. Additionally, Superior should seek direction from its legal counsel regarding such expenditures and how it should repay the monies; and
 - b. Correct the charge for insecticide that was mistakenly made to the Fund.

4. To help ensure that excise tax monies are used only for street and highway purposes and transportation projects, the ten incorporated cities and towns within Pinal County should:
 - a. Develop and implement written policies and procedures that specifically address restricted road monies, including the excise tax; and
 - b. Provide the policy to the cities' and towns' public works department officials and all others who are responsible for approving expenditures of restricted road monies.

AGENCY RESPONSE



City of Apache Junction

Home of the Superstition Mountains

June 1, 2006

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

Dear Ms. Davenport:

We are in receipt of your May 25, 2006 letter and revised preliminary report draft of the performance audit of the Pinal County Transportation Excise Tax. As outlined in the letter, we are to include a written explanation of the status of all recommendations. This is our response.

We concur with the findings of the Auditor General and all audit recommendations will be implemented. Specifically repayment of two inappropriate expenditures (\$23.23 to recognize employees and \$33.05 plant for PW employee) upon advisement of legal counsel will be completed as soon as possible. One incorrectly charged (\$200) underground storage tank inspection fee will have costs allocated appropriately.

We will establish written policies and procedures that specifically address restricted road monies, including the excise tax and provide the policy to our Public Works departmental officials.

If you have any questions, please contact Bryant Powell, Assistant City Manager, at (480) 474-5092.

Sincerely,

George Hoffman
City Manager

C: Bryant Powell, Assistant City Manager
Keith Lewis, Finance Director
Doug Dobson, Public Works Director
Dale Chapman, Performance Audit Manager



City of Casa Grande

June 2, 2005

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

Dear Ms. Davenport:

Please accept this letter in response to the correspondence sent to City Manager Jim Thompson regarding the performance audit of the Pinal County Transportation Excise Tax.

The recommendations and response from the City of Casa Grande are as follows:

4. To help ensure that excise tax monies are used only for street and highway purposes and transportation project, the ten incorporated cities and towns within Pinal County should:

- a. Develop and implement written policies and procedures that specifically address restricted road monies, including the excise tax.

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

- b. Provide the policy to the cities' and towns' public works department officials and all others who are responsible for approving expenditures of restricted road monies.

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

The City of Casa Grande has commenced with research and development of these policies and procedures. Additionally, the topic has been discussed with other municipalities to ensure that consistent policies and procedures are development regionally.

Should you have any questions regarding this topic, please contact me at your convenience.

Respectfully,

Larry D. Rains
Finance Director



City of Coolidge

130 W. Central Avenue
Coolidge, Arizona 85228
(520) 723-5361

TDD: (520) 723-4653 / Fax: (520) 723-7910

May 31, 2006

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

RE: Pinal County Transportation Excise Tax Audit

Dear Ms. Davenport:

This letter is in response to your letter dated May 25, 2006 requesting that the City of Coolidge review the revised preliminary report draft of the performance audit of the Pinal County Transportation Excise Tax and provide comments for each recommendation addressed to the City of Coolidge.

Finding #1: Coolidge should continue to improve its planning process.

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

The City of Coolidge contracted with a consulting firm in November, 2005 to generate a Capital Improvement Plan that is scheduled for completion in June 2006, as well as joining with the Town of Florence in hiring a consulting firm to generate a Small Area Transportation Study scheduled for completion in March 2007. Once the studies are finalized, the City of Coolidge will use them to identify and prioritize transportation projects that excise tax monies will fund.

Finding #2: Improved policies and procedures needed to ensure excise tax used appropriately.

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

The City of Coolidge has always utilized the Pinal County Transportation Excise Tax Resolution as the document governing allowable expenses for that tax, realizing that any policy that the City might have would not override the Resolution. We will, however, develop written policies and procedures by October 1, 2006 that specifically address restricted road monies, including the excise tax and it will be provided to all officials who are responsible for approving expenditures of those monies.

We look forward to receiving a copy of the full report. If you have questions, please feel free to contact me at (520)723-5361.

Sincerely,

Robert F. Flatley, City Manager
cc: Lisa Pannella, Finance Director

Police Dept./City Court 110 W. Central Ave. (520) 723-3091	Library 160 W. Central Av (520) 723-6030	Public Works 411 W. S. 1 st . St. (520) 723-4882	Parks & Recreation 670 W. Pima Ave. (520) 723-4551	Growth Management 141 W. Main St. (520) 723-6075	Fire Department 103 W. Pinkley (520) 723-5361
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CITY OF ELOY

FINANCE DEPARTMENT

May 31, 2006

Office of the Auditor General
Attn.: Debra Davenport
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

As per your letter dated May 8th, the City of Eloy acknowledges the findings that have been presented in Pinal County Transportation Excise Tax audit and will implement the necessary recommendations made in the audit. The City will develop and implement a written policy and procedures that addresses restricted road monies along with providing that policy to other officials that are responsible for approving expenditures of restricted road monies. This will be done in a timely manner and forward to the Auditor Generals Office upon completion of the policy and procedure.

Should you have any further questions regarding this letter please contact me at (520) 464-3425.

Sincerely

Brian M. Wright
Finance Director

Town of Florence

775 North Main Street
PO Box 2670
Florence, Arizona 85232

Phone (520) 868-7500
Fax (520) 868-7501
TDD (520) 868-7502
www.town.florence.az.us

TOWN SERVICES

Building Inspection
868-7556

Finance
868-7624

Fire
868-7609

Grants
868-7554

Library
868-9471

Municipal Court
868-7514

Personnel
868-7553

Parks & Recreation
868-4835

Planning and Zoning
868-7540

Police
868-7681

Public Works
868-7620

Senior Center
868-7622

Town Hall
868-7500

Town Manager's Office
868-7558

Utility Building
868-7680

May 31, 2006

Debra Davenport
Auditor General
State of Arizona
2910 North 44th Street
Suite 410
Phoenix, AZ 85016

Dear Ms. Davenport:

The Town of Florence has reviewed the preliminary report of the performance audit of the Pinal County Transportation Excise Tax and agrees with the findings and will implement the recommendations.

The town will develop and implement written policies and procedures in accordance with A.R.S. §28-6392 that specifically address the use of excise tax funds and will provide these policies to all town officials responsible for approving expenditures with these funds.

Should you have any questions, please feel free to contact me at 520-868-7558.

Sincerely,

Himanshu Patel
Town Manager

cc: Rebecca Guilin, Finance Director
Wayne Costa, Public Works Director



TOWN OF KEARNY

BOX 639, KEARNY, AZ 85237

PHONE (520) 363-5547

FAX (520) 363-7527

May 31, 2006

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

Dear Ms. Davenport,

The Town of Kearny has received and reviewed the revised preliminary report draft of the performance audit of the Pinal County Transportation Excise Tax. According to the recommendations in Finding 2, the Town will:

- A. Develop and implement written policies and procedures that specifically address restricted road monies, including the excise tax; and
- B. Provide the policy to the Town's Public Works Department officials and all others who are responsible for approving expenditures of restricted road monies.

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

Sincerely,

Gary Eide
Town Manager

Town Of Mammoth



June 2, 2006

Anne Hunter
Office of the Auditor General
2910 N 44th Street Suite 410
Phoenix, AZ 85018

RE: Town of Mammoth of Pinal County Transportation Excise Tax & Highway User's Revenue Fund

Dear Mrs. Hunter:

The Town of Mammoth has received the Auditor General's findings regarding the Town of Mammoth's audit of Pinal County Transportation Excise Tax and Highway User's Revenue fund. Below is the Town's response to the Auditor General's findings.

In reference to finding one: Mammoth should improve its planning process and recordkeeping. The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Town of Mammoth will improve the transportation planning process by implementing additional steps such as requiring Public Works to regularly inspect roads and categorize their conditions, this will allow the Town to prioritize the transportation projects. The Town will also hold public hearings with the community to receive the public's input. In addition, Mammoth will also hold transportation planning meetings to identify and prioritize transportation projects, with Public Works, the public and Council members.

In addition to prioritizing projects, the Town will also document what projects are in the process of being or have been completed. Public Works will keep a working log of how many hours and funds have been allocated to street projects.

In reference to finding two: Previous audits identified inappropriate expenditures, the finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Town intends to pay back the funds where the Auditor General did not deem the expenditures appropriate.

As previously mentioned the Town of Mammoth will implement a system that would more accurately capture the time staff spend on road projects. Public Works is in the process of compiling a log that will keep track of hours spent on street improvements.

In sum, the Town is always seeking ways to improve systems. Every department is constantly networking with other agencies to be in compliance with their rules and regulations. The recommendations from the Auditor General's Office have been taken into consideration and are in the process of being implemented.

Sincerely,

Shannon Ortiz
Town Clerk
Town of Mammoth

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

Telephone
(520) 487-2331 V/TDD

Mailing: P.O. Box 130, Mammoth, Arizona 85618
Street: 125 N. Clark Street, Mammoth, Arizona 85618
e-mail townofmammoth@theriver.com

FAX
(520) 487-2152



May 31, 2006

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

Re: Pinal County Transportation Excise Tax Audit

Dear Ms. Davenport:

Below, please find the City of Maricopa's ('City') response to the Auditor General's finding from its audit of the Pinal County Transportation Excise Tax. First though, let me congratulate you on the professionalism exhibited by your staff during the audit. They were always prompt in answering my questions and providing requested information as well as very understanding of the City's situation given its infancy as a municipal corporation.

Finding 1: County and cities and towns can demonstrate tax impact

It is unclear as to whether this finding requires a response; however the City's staff believes that the excise tax will have a significant impact on its transportation CIP over the next twenty years. The City annually adopts/updates its five year CIP and will be relying on the revenues from this tax to fund several eligible projects. In addition to performing a study on the Casa Grande – Maricopa Highway, the City will also be updating its Small Area Transportation Study in the upcoming fiscal year. These studies will provide important data that will help to program the City's CIP, including excise tax funded projects.

Finding 2: Improved policies and procedures needed to ensure excise tax used properly

Auditee Response

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

The City's staff is well aware of the importance of written policies and procedures and will be working towards a written document covering all of its internal control and compliance issues over the next fiscal year.

Should you have any further questions, or need additional information from the City, please do not hesitate to contact me.

Sincerely,

Roger Kolman
Director of Finance



TOWN OF
QUEEN CREEK

June 5, 2006

Ms. Ann Hunter
State of Arizona
Office of the Auditor General
Fax: 602-553-0051
webmaster@azauditor.gov

Dear Ms. Hunter,

Per your letter of May 8, 2006, the findings of the Auditor General are agreed to and the audit recommendations will be implemented.

Please call if you have any questions.

Sincerely,

Yolanda Bracamonte
Finance Director
Town of Queen Creek
480-358-3170



Town of Superior

Town Hall • 734 Main Street • Superior, Arizona 85273
520-689-5752 • Fax: 520-689-5822 • TDD Relay 1-800-367-8938

June 2, 2006

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

RE: Pinal County Transportation Excise Tax Audit

Dear Ms. Davenport:

Thank you for your audit letter dated May 25, 2006 regarding the Town of Superior's use of Pinal County Excise Tax revenues.

During the Regular Town Council Meeting held on Thursday, June 01, 2006, the Mayor and Town Council elected to accept the Superior audit findings and implement the recommendations.

Please be advised that the Town of Superior will reimburse the Excise Tax revenue fund as outlined on page 13 of the audit. General entries in the respective amounts of \$ 322 and \$ 29.15 will made to credit the Excise Tax Fund. Copies of the entries will be forwarded to your office early next week as our finance manager is out until Tuesday, June 6, 2006.

If you have any questions regarding this letter please feel free to call me at 520.689.5752.

Sincerely,

Ralph Velez
Interim Town Manager

Performance Audit Division reports issued within the last 24 months

04-04	Department of Emergency and Military Affairs and State Emergency Council	05-03	Government Information Technology Agency (GITA) & Information Technology Authorization Committee (ITAC)
04-05	Department of Environmental Quality—Water Quality Division	05-04	Department of Economic Security—Information Security
04-06	Department of Environmental Quality—Waste Programs Division	05-05	Department of Economic Security—Service Integration Initiative
04-07	Department of Environmental Quality—Air Quality Division	05-06	Department of Revenue—Audit Division
04-08	Department of Environmental Quality—Sunset Factors	05-07	Department of Economic Security—Division of Developmental Disabilities
04-09	Arizona Department of Transportation, Motor Vehicle Division— State Revenue Collection Functions	05-08	Department of Economic Security—Sunset Factors
04-10	Arizona Department of Transportation, Motor Vehicle Division—Information Security and E-government Services	05-09	Arizona State Retirement System
04-11	Arizona Department of Transportation, Motor Vehicle Division—Sunset Factors	05-10	Foster Care Review Board
04-12	Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers	05-11	Department of Administration— Information Services Division and Telecommunications Program Office
05-L1	Letter Report—Department of Health Services— Ultrasound Reviews	05-12	Department of Administration— Human Resources Division
05-01	Department of Economic Security—Division of Employment and Rehabilitation Services— Unemployment Insurance Program	05-13	Department of Administration— Sunset Factors
05-02	Department of Administration— Financial Services Division	05-14	Department of Revenue— Collections Division
		05-15	Department of Revenue— Business Reengineering/ Integrated Tax System
		05-16	Department of Revenue Sunset Factors
		06-01	Governor's Regulatory Review Council
		06-02	Arizona Health Care Cost Containment System— Healthcare Group Program

Future Performance Audit Division reports
