

ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

June 30, 2025

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Coconino County Board of Supervisors and Manager

Transmitted herewith is the report, *Performance Audit of the Coconino County Transportation Excise Tax*. This audit was conducted by the independent firm Novum Advisory, PLLC under contract with the Arizona Auditor General and was in response to the requirements of Arizona Revised Statutes §41-1279.03. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, Coconino County agrees with the finding and plans to implement all recommendations. My Office has contracted with Novum Advisory, PLLC to follow up with Coconino County in 6 months to assess its progress in implementing the recommendations. I express my appreciation to the County and its staff for its cooperation and assistance to Novum Advisory, PLLC throughout the audit.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General



Coconino County Transportation Excise Tax Performance Audit

June 30, 2025

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REPORT HIGHLIGHTS

Coconino County Transportation Excise Tax

Coconino County appropriately used transportation excise tax revenues and demonstrated measurable project impacts. However, the County lacks a consistent and well-documented methodology for charging personnel expenditures to excise tax-funded activities.

Audit Purpose

The purpose of this performance audit is to determine whether Coconino County expended transportation excise tax revenues collected through the Road Maintenance Sales Tax (RMST) in compliance with Arizona Revised Statutes §28-6392(B), which restricts use of the funds to highway, street, and regional transportation plan projects. The audit will assess whether expenditures from fiscal years 2015 through 2024, as well as planned projects through 2031, contributed to measurable improvements in addressing transportation needs such as congestion relief, roadway safety, and regional mobility. Additionally, the audit will evaluate the County's internal controls, governance practices, and oversight mechanisms to ensure funds are properly managed, prioritized, and aligned with statutory and public expectations.

Key Findings

1. Coconino County used RMST monies we reviewed consistent with statute for various highway and street purposes.
2. Coconino County demonstrated the impact of their use of RMST monies in solving transportation problems within the County.
3. No unallowable salary or wage expenditures were identified during the review. However, Coconino County did not present a documented methodology or calculation to demonstrate that salary and wage transfers were planned, verified, or aligned with statutory requirements. Compliance was ultimately demonstrated through the auditors' independent analysis during the course of the audit.

Key Recommendations

Coconino County should:

1. Implement a process to track and allocate salary and wage expenditures based on actual time spent on eligible road and highway activities.
2. Develop and adopt a formal policy that outlines the methodology to allocate salary and wage costs to transportation related funding.
3. Establish a process for conducting periodic compliance reviews of salary and wage allocations charged to transportation funds.

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Executive Summary

Audit Purpose

This performance audit will evaluate whether Coconino County expended transportation excise tax revenues collected via the Road Maintenance Sales Tax (RMST) in compliance with *Arizona Revised Statutes §28-6392(B)* and whether those expenditures contributed to measurable improvements in addressing the County's transportation needs. The audit will examine both completed projects from fiscal years 2015 through 2024 and planned projects scheduled for fiscal years 2025 through 2031, as required under *A.R.S. §41-1279.03(A)(6)(a) and (b)*. The goal is to determine whether the use of these funds aligns with statutory requirements that limit spending to highway and street purposes or to transportation projects included in the County's regional transportation plan.

The audit will include a detailed review of a sample of past and planned projects to assess whether they have achieved, or are likely to achieve, the intended outcomes communicated to the public. These outcomes include reducing traffic congestion, improving roadway safety, and enhancing environmental quality and regional economic vitality. When available, the audit will consider the County's use of performance measures and other tools to track and evaluate the effectiveness of these investments. In addition to reviewing project outcomes, the audit will assess the County's governance and internal control framework for managing transportation excise tax revenues. This includes an evaluation of how the County identifies and prioritizes transportation needs, allocates funding, and oversees project implementation. The audit will also examine the roles and responsibilities of key County departments such as Public Works, Finance, and Procurement, along with the oversight provided by the Board of Supervisors.

Finally, the audit will review how the County communicates legal and procedural requirements related to excise tax usage, and whether funds are properly accounted for, deposited into dedicated accounts, and used in accordance with statutory restrictions.

Key Findings

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2. Coconino County demonstrated the impact of their use of RMST monies in solving transportation problems within the County.
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1. Implement a process to track and allocate salary and wage expenditures based on actual time spent on eligible road and highway activities.
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Introduction

Novum Advisory has conducted an initial performance audit of the Coconino County Transportation Excise Tax program. This report evaluates whether excise tax revenues collected and expended between July 1, 2014, and June 30, 2024, were used in compliance with applicable Arizona state laws. Additionally, the report presents illustrative examples of how these funds have contributed to addressing transportation challenges within Coconino County, including improvements to roadway infrastructure, traffic safety, and overall system efficiency.

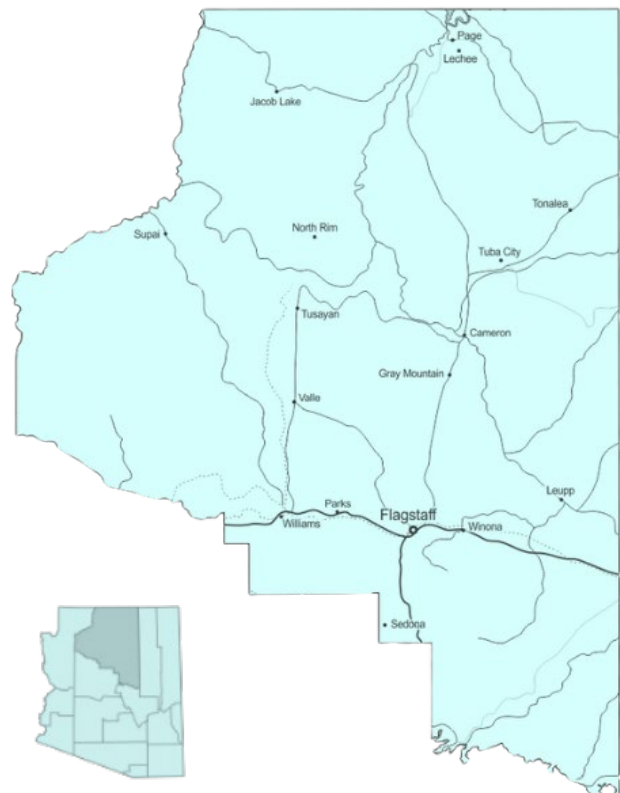
Transportation Excise Tax History

In November 2014, Coconino County voters approved Proposition 403, authorizing a 0.3% county sales tax for 20 years (January 1, 2015–December 31, 2034) to fund the maintenance and preservation of county-maintained roads. At the time, the county managed approximately 930 miles of roads, including 320 miles paved and 610 miles dirt or gravel, across 18,661 square miles. An independent pavement evaluation found that 35% of paved roads were in severe or poor condition, with estimated repair costs of \$70 million—expected to rise to \$109 million within five years without intervention. This tax was established pursuant to Arizona Revised Statutes § 42-6108, which allows counties to levy a transaction privilege (sales) tax for transportation-related purposes, including road maintenance. The funds generated are legally restricted to road-related expenses only, such as snowplowing, chip sealing, dirt road grading, and emergency road repairs.

The Road Maintenance Sales Tax (RMST), authorized by Proposition 403 in 2014, was initially projected to generate between \$6 million and \$7 million annually, with total collections over the 20-year period estimated at approximately \$120 million. Collections from the RMST are held by the Arizona Office of the State Treasurer and distributed monthly to the Coconino County Treasury. Upon receipt, RMST funds are commingled with other County transportation funds and reported as “Cash and Cash Equivalents” in the County’s Annual Comprehensive Financial Report.

As of June 30, 2024, the end of fiscal year 2024, the County had received a cumulative total of \$104,442,321 in RMST revenue, equating to an average of \$10,442,232 per year. This average annual collection exceeds the original estimate by more than \$3 million. During the same period, the County expended \$101,949,225 in RMST funds on eligible activities, including capital improvements for road infrastructure, routine road maintenance, personnel costs for Road Department staff, and general

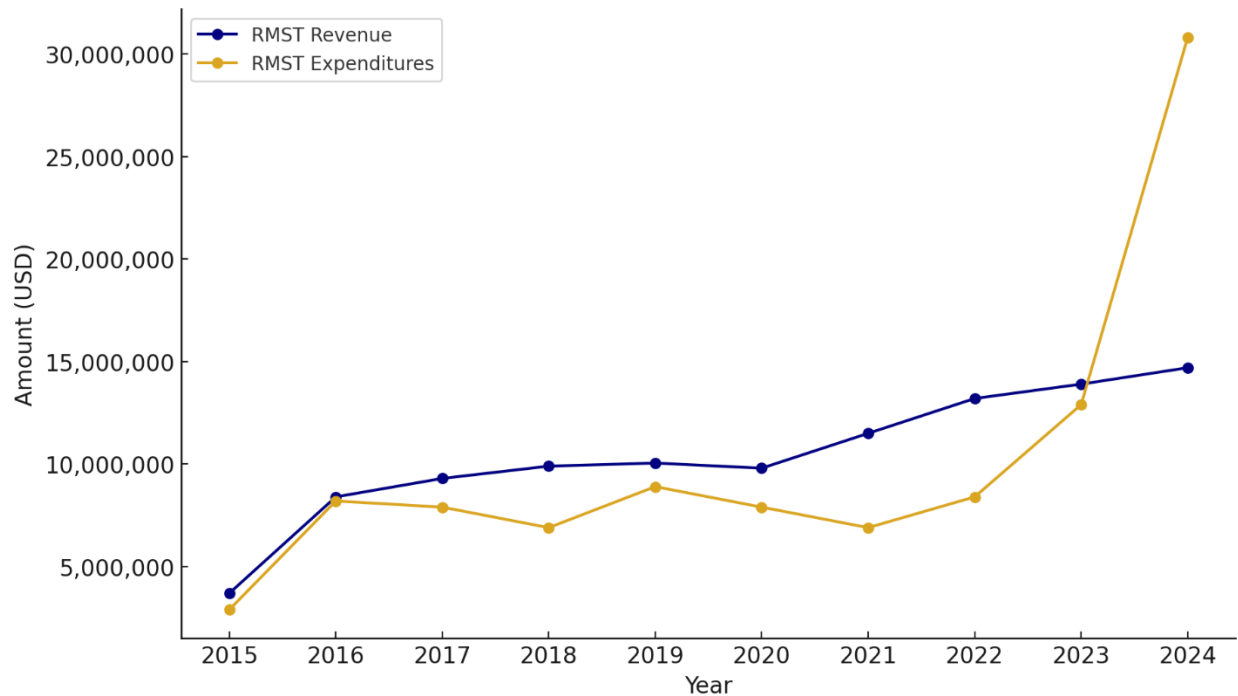
Figure 1: Coconino County Map



Source: Reproduction of maps sourced from <https://d-maps.com>

administrative overhead. Chart 1 (below) illustrates the annual differences between revenue and expenditure amounts. As shown, fiscal year 2024 was the only year in which expenditures surpassed revenues. Over time, the accumulation of excess revenues resulted in an unexpended balance of approximately \$2,493,096 as of the end of fiscal year 2024.

Chart 1: Revenue and Expenditure Totals by Year



Source: Auditor analysis of RMST tax revenue distribution data obtained from the Arizona Treasurer's Office for calendar years 2015-2024; expenditure data provided by Coconino County

Statute outlines allowable excise tax uses

Excise tax revenues collected under *A.R.S. § 28-6392(B)*, such as those generated by county transportation sales taxes, are legally restricted to highway and street purposes. These allowable uses include the construction, reconstruction, maintenance, repair, and roadside development of roads, streets, and bridges under the jurisdiction of counties, cities, and towns. In addition to direct infrastructure expenditures, the statute and interpretive guidance from the Arizona Attorney General allow for the use of these funds for certain administrative and support functions, provided they are clearly and directly related to road purposes.

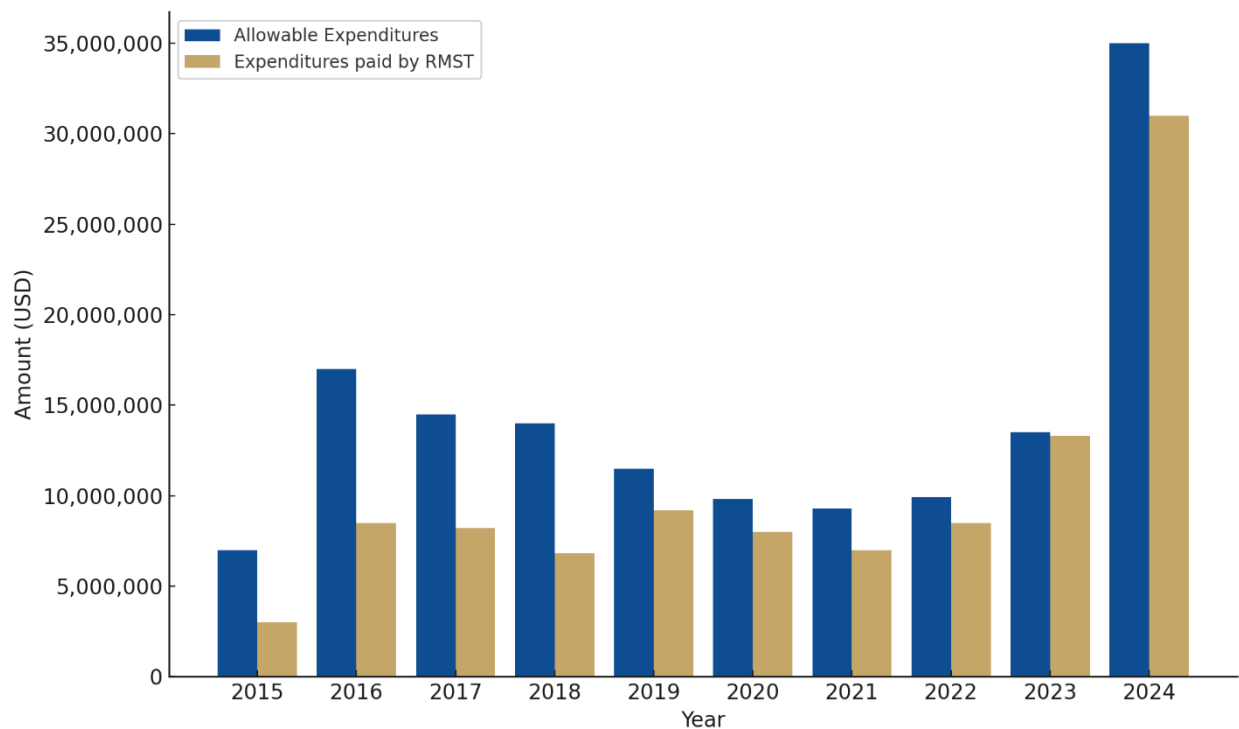
Arizona Revised Statutes (A.R.S.) §28-6392 stipulates that excise tax revenues must be used exclusively for highway and street purposes. These purposes include improvements such as the construction, maintenance, repair, and roadside development of roads, streets, and bridges within counties, cities, and towns. In addition, excise tax funds may be applied to administrative expenses that indirectly support these functions. Such expenses may include transportation department management and payroll, central services like accounting and information technology, and utility costs related to highway and street operations.

All expenditures must be directly related to a highway or street purpose to be legally permissible. The Arizona Attorney General has consistently affirmed that indirect or general government

expenses not tied to specific transportation functions do not qualify under these restrictions and should not be funded from excise tax or Highway User Revenue Fund sources. The burden lies with the county to demonstrate that each expenditure aligns with the constitutional and statutory definition of highway and street purposes, as clarified in *A.R.S. § 28-6392(B)* and the *Attorney General's Opinion 105-003*.¹

As illustrated below in Chart 2, Coconino County's total expenditures that would qualify as allowable uses of RMST revenue under statute consistently exceeded the amount of RMST expenditures claimed each year across all projects and expenditure categories (further detailed below). The remaining eligible costs were funded through alternative sources, primarily allocations from the Highway User Revenue Fund (HURF).

Chart 2: RMST Funded Projects Total Cost vs. Contributed RMST Revenue



Source: Auditor analysis of RMST tax revenue distribution data obtained from the Arizona Treasurer's Office for calendar years 2015-2024; project and cost by category provided by general ledger and transportation expenditures from Coconino County.

Descriptions of Expenditures

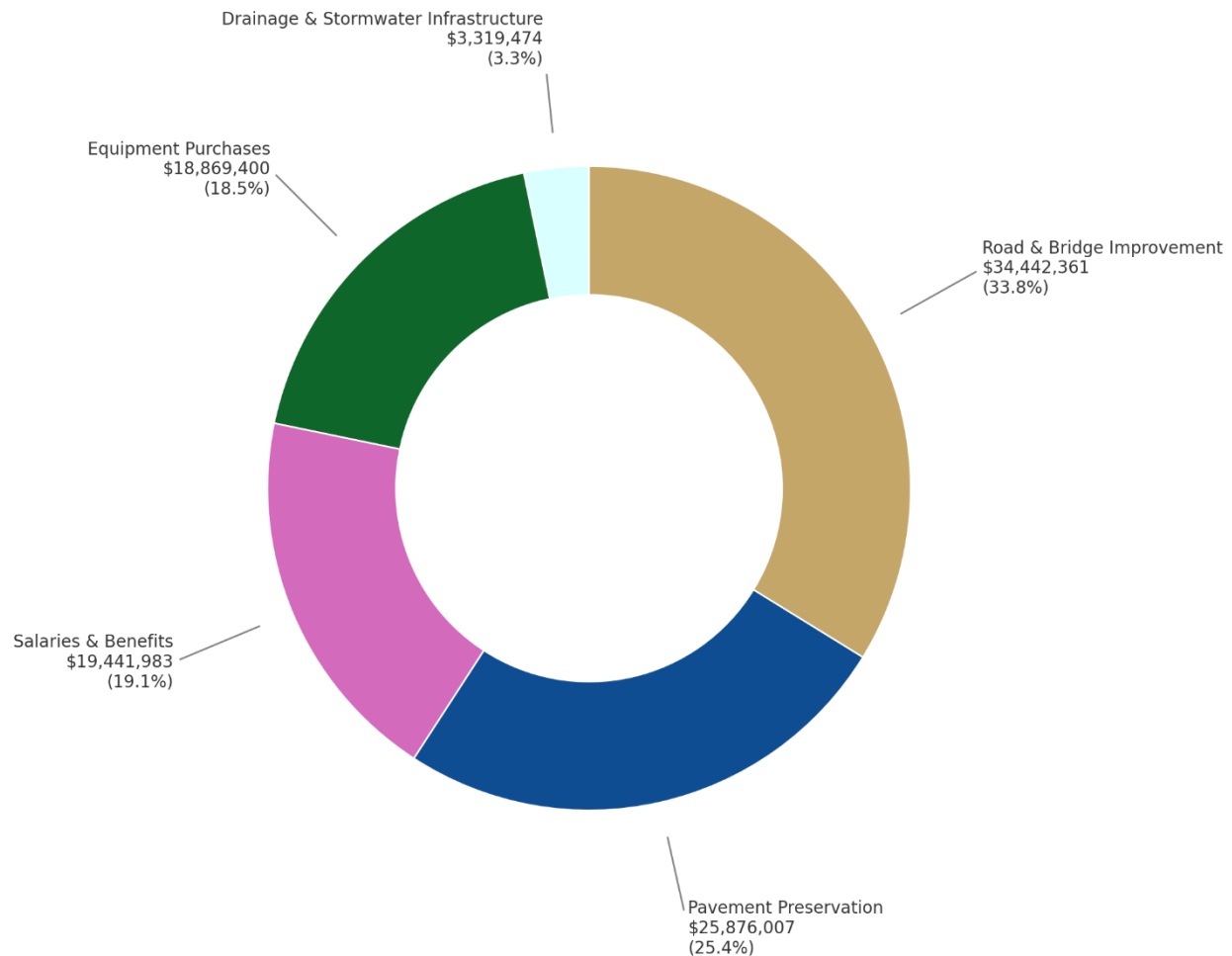
Coconino County utilizes RMST to fund a broad range of capital improvement and transportation infrastructure activities, all within the legal constraints outlined in *A.R.S. § 28-6392(B)* and the local ballot measures that authorized these revenues. The major categories associated with these project types are summarized below.

¹ *A.R.S. § 28-6392(B)*; Arizona Attorney General Opinion 105-003 (May 23, 2005), "County Use of Highway User Revenue Funds."

- Pavement Preservation Projects, such as chip sealing, overlays, and patching. Projects are selected using a combination of five-year pavement condition surveys, Lucity modeling software, and field verification to ensure that limited resources are directed toward segments of roadway with the highest maintenance needs and greatest long-term benefit.
- Road Maintenance Salaries and Wages, including personnel costs for heavy equipment operators and road crew staff responsible for grading, snow removal, emergency response, and other core maintenance activities essential to the safety and functionality of the County's transportation infrastructure.
- Equipment Purchases, such as dump trucks, graders, snowplows, and other specialized vehicles or machinery required for road maintenance and construction support. These capital investments enable County crews to perform ongoing maintenance more effectively and respond to seasonal and emergency conditions.
- Road and Bridge Improvements, which include large-scale infrastructure projects such as road widening, structural rehabilitation, full-depth reconstruction, and geometric enhancements to improve traffic flow, increase capacity, and enhance overall safety. These projects are typically located on key transportation corridors and are designed to address long-term needs identified through condition assessments, crash data analysis, and regional planning priorities. Improvements may also include the addition of shoulders, guardrails, signage upgrades, and realignment of hazardous curves to meet modern design and safety standards.
- Drainage and Stormwater Infrastructure, which refers to the installation, replacement, or enhancement of culverts, storm drains, detention basins, and related systems that manage water runoff along transportation corridors. These projects are often integrated into road and bridge work to prevent flooding, mitigate erosion, and preserve the structural integrity of the roadway. Addressing drainage issues is critical in areas prone to severe weather, wildfires, or topographic vulnerability, and plays a vital role in ensuring public safety and extending the life of road infrastructure. Projects are often initiated in response to engineering studies or community complaints and are prioritized based on potential impacts to access, property, and environmental stability.

The County maintains a 10-Year Capital Improvement Plan (CIP) and a separate pavement preservation program to ensure that RMST revenues are strategically allocated to high-priority needs. Projects are often grouped geographically to reduce contractor mobilization costs and to enhance operational efficiency across large and remote service areas.

Chart 3 below presents a breakdown of RMST funded expenditures by category for each fiscal year from 2015 through 2024. The chart illustrates how RMST funds have been allocated across various eligible uses over time, providing insight into the County's spending patterns and priorities related to road maintenance and capital improvement activities.

Chart 3: Total RMST Expenditures of \$101,949,225 for Fiscal Years 2015-2024, by Major Category

Source: Auditor analysis of RMST project and cost by category provided by general ledger and transportation expenditures from Coconino County.

Annual Road Plan and Communication with Taxpayers and Governance

The project identification and prioritization process used by the Coconino County Public Works Department is structured, data-driven, and aligned with both internal policy and external accreditation standards. This process is applied annually during the county's budget cycle and guides the development of its 10-Year CIP, which includes projects related to roads, bridges, drainage, and modernization (See *Appendix B* for the initial 10-Year CIP). Below is a detailed narrative description of how this process operates, including technical, administrative, and community engagement elements. The process is guided by policies established under the Department's American Public Works Association (APWA) accreditation. These standards require that the County maintain formalized procedures for capital planning, project selection, and design review. The policy specifies that a multidisciplinary group (typically including the County Engineer, Deputy Director, Public Works Director, and Road Maintenance staff) collaboratively reviews needs and identifies priorities.

Each fiscal year, the department updates a centralized project tracking system known as the “Planning to Program” (P2P) spreadsheet. This document is the foundation for identifying new projects and assessing existing ones for advancement. During annual planning meetings, the Public Works team evaluates infrastructure needs and adds new candidate projects to the P2P tool.

Projects are sorted by type, such as drainage, roadway modernization, or bridge work, and each category is evaluated using a tailored scoring methodology. These methodologies consider factors such as:

- Community need and impact
- Public safety concerns
- Maintenance history and operational cost
- Potential for grant or matching funds
- Estimated one-time construction costs and ongoing maintenance burden
- Legal obligations (e.g., environmental mitigation, easements)

Once ranked, projects are slotted into the 10-Year CIP according to available resources, urgency, and design readiness. Importantly, inclusion in the CIP does not imply immediate construction; projects identified in a given year may not be implemented for three to five years, depending on permitting and funding cycles.

Pavement-related projects are selected using a data modeling approach supported by a third-party pavement condition survey conducted every five years. The survey uses laser technology to scan county roads, assessing parameters like cracking, roughness, and surface weathering. These metrics are converted into a Pavement Condition Index (PCI) score for each road segment, using standards established by American Association of State Highway and Transportation Officials (AASHTO) and the Federal Highway Administration. Table 1 shows the ranges for PCI scores for the roads in the County as of October 2024, as surveyed and assessed by Roadway Asset Services, LLC.

Table 1: Coconino County, PCI Ranges by Percent

Pavement Condition Index (PCI) Range	Condition Description	Total Area (Sq. Yd.)	Total Distance (Miles)	Percent of Network
86-100	Good	2,414,216	132.77	40.6%
71-85	Satisfactory	1,868,613	127.49	38.9%
56-70	Fair	821,143	56.86	17.4%
41-55	Poor	117,230	8.58	2.6%
26-40	Very Poor	20,342	1.58	0.5%
11-25	Serious	1,214	0.12	0.0%
0-10	Failed	0	0.00	0.0%
Total of Rated Segments		5,242,758	327.40	100%

Source: 2023 Pavement Evaluation Report for Coconino County – October 2024, prepared by Roadway Asset Services, LLC

The County inputs this data into its Lucy pavement management software, which generates deterioration curves and treatment recommendations. Roads are grouped geographically for efficiency, minimizing contractor mobilization costs. The County aims for a systemwide PCI in the mid-70s; as of 2023, it had achieved an average score of 83, indicating a high level of pavement condition attributable to targeted RMST investment.

Before finalizing projects from the model, the engineering team conducts field verification to validate the recommended treatment type. For example, if a road flagged for overlay only has isolated

potholes, crews may opt for a patch and seal instead. This step ensures that treatment costs are commensurate with field conditions.

Drainage projects are often citizen-driven, originating from resident complaints or damage reports. Projects are logged in a drainage-specific P2P spreadsheet and scored annually based on similar criteria, including:

- Property damage risk
- Access obstruction (e.g., impassable roads)
- Environmental and regulatory concerns
- Engineering and maintenance assessments

High-scoring drainage projects are incorporated into the 10-year CIP and undergo feasibility studies to confirm that interventions are technically and economically viable. Modernization projects, such as guardrail upgrades or multimodal corridor enhancements, are typically derived from planning studies or policy goals and may be ranked for future grant pursuit rather than immediate funding. These projects are classified as road and bridge improvements.

Community engagement is incorporated at key stages. For impactful projects, the County conducts public meetings at the 30% design phase, allowing residents to identify local concerns that may not be visible from technical assessments. Additional engagement occurs during planning studies, such as the Belmont Traffic Interchange and Safety Master Plan projects, where residents are invited to participate in early-stage visioning and comment on preliminary findings.

Although the full 10-Year CIP is not routinely published for public comment, elements of it are shared during the annual budget process and individual project outreach events. The department also receives ongoing input through tools like *SeeClickFix*² and meetings coordinated by the Board of Supervisors.

Project Success and Impact

Coconino County has demonstrated that RMST excise tax revenues have had a measurable impact in addressing highway and street infrastructure needs. Specifically, these funds have supported projects aimed at mitigating roadway deterioration, reconstructing travel lanes and shoulders, widening key corridors to improve traffic flow, and restoring pavement conditions to extend service life and enhance safety. These investments align with the statutory intent of the excise tax and reflect the County's use of revenues to address long-standing transportation challenges across its jurisdiction. Described below are some of the projects included in the Capital Improvement Plan utilizing the RMST.

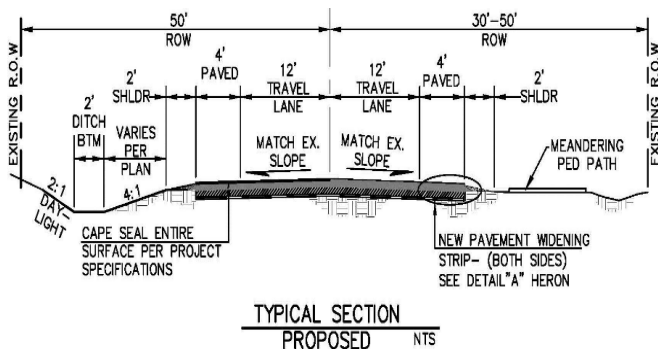
Koch Field Road Pavement Preservation Project

The Koch Field Road Pavement Preservation Project was completed to enhance roadway conditions, improve safety, and support multimodal travel in the Doney Park area. The project involved improvements in pavement along Koch Field Road between Silver Saddle Road and Townsend-Winona

² SeeClickFix is an online and mobile platform that allows residents to report non-emergency infrastructure concerns—such as potholes, drainage issues, or damaged signage—directly to the appropriate county departments. Submissions are routed to Coconino County Public Works staff for review and resolution. The tool supports community engagement and serves as a mechanism for identifying and tracking recurring service issues that may inform future capital planning or maintenance prioritization.

Road. In addition to resurfacing, the project included the widening of shoulders to accommodate non-motorized users and improvements to localized drainage infrastructure to reduce erosion and maintain roadway integrity.

Figure 2: Diagram of planned improvements of Pinewood Blvd Reconstruction, presented to taxpayers on December 15, 2014



Source: Photo courtesy of Coconino County

Construction began in late April 2015 and was completed in October 2015, with approximately \$1.69 million in RMST funded costs. The project was constructed by Kinney Construction Services, Inc. and contributed to the County's broader pavement preservation strategy funded in part by RMST.

Townsend-Winona Pavement Repair Project

The Townsend-Winona Pavement Projects were undertaken to rehabilitate and extend the service life of a deteriorated section of Townsend-Winona Road between Rio Rancho Road and Interstate 40 (I-40). The scope of work included a full mill and overlay of more than six miles of roadway, along with the addition of widened multimodal lanes to accommodate non-vehicular traffic.

The projects also incorporated roadside drainage enhancements, installation of new guardrails, construction of designated school bus pullouts, and the restriping of the roadway to improve safety and functionality. These improvements were essential to restoring critical infrastructure and enhancing overall transportation conditions in the corridor. The project was completed in two projects, one managed by the County (Rio Rancho to Leupp Road) and funded by RMST; the other was managed by the Arizona Department of Transportation (ADOT) (Leupp Road to I-40) and funded by RMST and other federal grants. Construction began in May 2016 and was completed in the summer of the same year. The County managed portion of the project cost approximately \$3.3 million, all of which was funded by RMST.

Photo 1: Townsend-Winona Road, prior to improvements



Source: Photo courtesy of Coconino County

Lake Mary Road Reconstruction Project

The Lake Mary Road Reconstruction Project, beginning in May 2017, was completed to improve roadway conditions and enhance multimodal accessibility along a critical stretch of the Lake Mary Road corridor. The project involved the full reconstruction of five miles of roadway between mileposts 312.5 and 317.5, including the widening of shoulders to support bicycle and pedestrian use. An additional two miles of roadway, between mileposts 310 and 312.5, received a mill and overlay to restore pavement condition. The project also included the replacement of the superstructure and decking of the Willow Valley Creek Bridge located at milepost 297.5.

This infrastructure investment, supported by a combination of RMST funding and a Federal Land Access Program (FLAP) grant, was managed by Central Federal Lands and completed in Fall 2017 at a total cost of \$8.2 million, of which \$524,036 was funded by RMST. The improvements addressed structural deficiencies, enhanced safety, and supported long-term use by both vehicular and non-vehicular traffic in the region.

Mormon Lake Road Reconstruction Project

The Mormon Lake Road Reconstruction Project was completed to improve roadway conditions and enhance safety along the western shore of Mormon Lake. The project involved a full mill and overlay, as well as the widening of the entire 9.8-mile stretch of roadway to accommodate increased traffic demands and improve long-term durability.

The total construction cost for the project was \$9.5 million, funded through a combination of a Federal Land Access Program (FLAP) grant administered by Central Federal Lands and a local match of \$4,017,280 from RMST. Construction began in May 2019 and was completed by October 30, 2019, with engineering oversight provided by Central Federal Lands and construction services performed by InterMountain West Civil Constructors, Inc. These improvements addressed pavement deterioration and enhanced multimodal safety along a critical corridor serving recreational and residential areas in the Mormon Lake region.

Photo 2: Mormon Lake Road, progress picture



Source: Photo courtesy of Coconino County

Photo 3: Mountain Dell Access Road Construction



Source: Photo courtesy of Coconino County

Mountain Dell Access Road Reconstruction Project

The Mountain Dell Access Road Reconstruction Project was completed to restore deteriorated pavement and improve access within the Mountain Dell subdivision. The project involved the full reconstruction of the aging and cracked asphalt along Mountain Dell Access Road, beginning just beyond the transition from Beulah Boulevard and continuing into the residential area. As part of the same effort, the paved sections of Palmer Avenue and Sinclair Street within the subdivision were also resurfaced to improve drivability and extend pavement life.

Construction began in August 2021 and was completed in October 2021, with a total construction cost of \$877,124, of which \$6,900 was funded by RMST. The project was engineered by Coconino County and constructed by Tiffany Construction Co., contributing to the County's ongoing investment in local road infrastructure improvements.

Parks Roads Reconstruction – Phase 2

Phase 2 of the Parks Roads Reconstruction Project was undertaken to improve roadway safety and surface conditions within the Parks community. The project involved the full reconstruction of approximately 1.1 miles of Garland Prairie Road, extending from the ADOT right-of-way to just beyond the intersection with Pine Aire Access. It also included the reconstruction of approximately 700 feet of Pine Aire Access and shoulder patch repairs along Garland Prairie Road from Pine Aire Access to the end of the paved segment.

The project was managed by Coconino County Public Works and constructed by C & E Paving & Grading, with work commencing in August 2023 and completed in November 2023. The total project cost was approximately \$1.95 million, all of which was paid by RMST funds. These improvements were designed to address deteriorated pavement conditions, enhance drainage, and ensure safe, reliable access for residents and emergency services in the Parks area.

Photo 4: Parks Road, progress picture

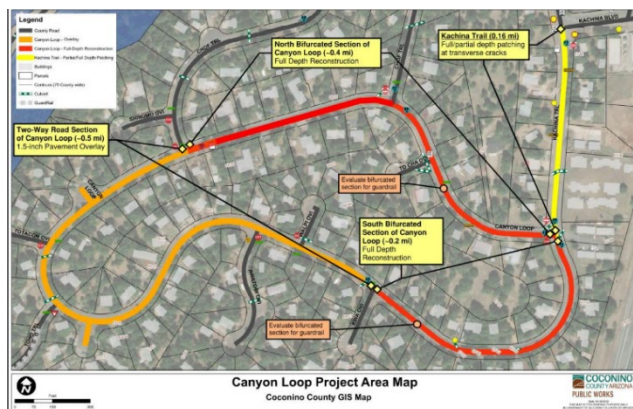


Source: Photo courtesy of Coconino County

Canyon Loop Pavement Reconstruction and Safety Improvement Project

The Canyon Loop Pavement Reconstruction and Safety Improvements Project was initiated to address deteriorating pavement conditions and enhance roadway safety and drainage within the

Figure 3: Canyon Loop Project Overview



Source: Photo courtesy of Coconino County

Kachina Village community. The project included pavement crack repair along Kachina Trail between Kachina Boulevard and Canyon Loop, full pavement reconstruction on approximately 0.6 miles of bifurcated sections of Canyon Loop using a stabilization binder, and a 1.5-inch pavement overlay on an additional 0.5-mile segment. Additional improvements included the installation of new guardrails and drainage infrastructure upgrades to manage runoff during snowmelt and storm events.

A related drainage improvement project was also completed along Canyon Loop, just east of Kwa Ovi, to lower the elevation of an existing drainage catch basin. This adjustment was

necessary to align the catch basin with the roadway elevation established during the previous year's pavement reconstruction, thereby improving stormwater flow and runoff collection during monsoon and snowmelt events. Construction began on May 28, 2024, and was completed on September 13, 2024, at an estimated total cost of \$2,912,854, all of which was paid by RMST funds. The project was engineered by Shephard-Wesnitzer, Inc. and constructed by Combs Construction Company, Inc. as part of the County's ongoing commitment to roadway rehabilitation and public safety.

Finding 1

Lack of Transaction-Level Accountability for Salary and Wage Fund Transfers

Coconino County does not have a consistent, documented methodology for using Road Maintenance Sales Tax (RMST) revenues to support Road Department salaries and wages. The County applies a retrospective analysis on an annual basis to estimate the amount of RMST funding to be transferred in support of personnel expenditures. While no unallowable salary or wage expenditures were identified during the audit, this estimation is not grounded in specific documentation of payroll activities; rather, it is informed by general assessments of departmental costs and available RMST revenue and other transportation revenue, without evidence that the transfers were proactively planned or calculated to comply with *A.R.S. § 28-6392(B)*.

During the audit, we verified that the RMST fund transfers covered only a portion of total payroll costs for road maintenance and operations staff. Although we were able to confirm through independent audit analysis that RMST fund transfers represented only a portion of total payroll expenditures for road maintenance personnel, and therefore fell within allowable parameters, the County was unable to demonstrate that the amounts were intentionally determined to meet statutory limitations. The alignment with legal requirements appeared to be coincidental rather than the result of a deliberate, documented compliance process.

This approach presents concerns related to compliance, transparency, and accountability. Without the ability to trace personnel or overhead expenditures directly to allowable transportation activities, the County cannot ensure or demonstrate that the use of RMST funds aligns with statutory requirements or voter intent. The lack of transactional documentation also limits the auditability of fund usage, making it difficult for internal reviewers, external auditors, or members of the public to assess whether restricted tax revenues are being applied appropriately. In addition, this practice reduces the County's ability to evaluate the true cost of delivering individual transportation projects, track performance over time, or conduct meaningful cost-benefit analyses.

Improving this process by adopting a more structured and documented allocation methodology—such as time tracking systems, project-based cost accounting, and a formal indirect cost allocation plan—would strengthen compliance and enhance the reliability of financial reporting. Such changes would also provide a clearer audit trail, support effective monitoring, and ensure that all RMST revenues are used solely for transportation-related purposes in accordance with applicable legal and financial standards.

Recommendations

To ensure compliance, improve accountability, and strengthen internal controls, the County should:

1. Implement a process to track and allocate personnel expenditures based on actual time spent on eligible road and highway activities. This may include enhancing timekeeping systems, using labor distribution reports, or implementing project coding in payroll entries to align salary and wage costs with specific transportation projects. Doing so would provide clearer support for fund transfers and improve the reliability of financial reporting related to restricted revenue sources.



2. Develop and adopt a formal policy that outlines the methodology used to allocate salary and wage costs to transportation-related funding sources such as RMST and HURF. This policy should include clear criteria for determining fund eligibility, specify allowable percentages or thresholds if applicable, and require documentation to support all fund transfers. Establishing this policy would enhance consistency, promote transparency, and provide a clear audit trail for internal reviewers, auditors, and the public.
3. Establish a process for conducting periodic compliance reviews—at least annually—of salary and wage allocations charged to transportation funds. These reviews should assess whether allocated personnel costs align with statutory requirements, internal policies, and actual duties performed. The reviews should be documented and include corrective action protocols if discrepancies are identified. Instituting a formal review process will reduce the risk of noncompliance and reinforce management accountability for proper fund usage.

View of Governing Officials

As outlined in the County's response on page 21 of this report, Coconino County agrees with the finding and will implement the recommendations.

Appendix A

Independent Auditor's Report on Performance

To the Board of Supervisors
Coconino County, Arizona

We have completed our performance audit of the programs associated with Coconino County's transportation excise tax, as authorized by *A.R.S. § 41-1279.03(A)(6)* and in accordance with the requirements outlined in *A.R.S. § 28-6392(B)*. The period under review includes past transportation excise tax revenues and related projects from fiscal years 2015 through 2024, and planned projects and expenditures from fiscal years 2025 through 2031.

This audit was conducted in accordance with generally accepted government auditing standards issued by the U.S. Government Accountability Office. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Audit Objectives

The objectives of this performance audit were to evaluate the economy, efficiency, and effectiveness of the County's transportation excise tax program; the structure and design of the program; the adequacy and reliability of public reporting; compliance with statutory and policy requirements; and the use of performance measures and monitoring tools. Specific attention was given to:

- Compliance with *A.R.S. § 28-6392(B)*, which limits excise tax expenditures to street and highway purposes or projects in the regional transportation plan
- The County's process for identifying and prioritizing transportation needs and projects
- The documentation and review process for excise tax expenditures
- The anticipated impact of completed and future transportation projects on congestion, safety, environmental quality, and economic vitality

Audit Scope and Methodology

To determine whether Coconino County expended transportation excise tax revenues in compliance with applicable State laws—specifically *A.R.S. § 28-6392(B)*, which limits the use of such revenues to highway and street purposes or projects included in the County's regional transportation plan—we performed the following procedures:

We obtained and analyzed the County's revenue and expenditure data for the period January 1, 2015 through June 30, 2024. As part of this process, we reconciled excise tax disbursements from the Arizona State Treasurer's Office to the County's designated excise tax funds. To assess the completeness and reliability of the revenue and expenditure data, we compared the County's general ledger balances to its audited financial statements for fiscal years 2015 through 2024.

In the County's accounting system, excise tax revenues are recorded in a fund that also includes other restricted transportation revenues, such as those from the Highway User Revenue Fund (HURF). Funds from this combined source are transferred annually to the County's transportation fund and



used to support project-related expenditures, road maintenance, personnel salaries and wages, and equipment purchases.

Where excise tax-funded expenditures could be specifically identified (e.g., equipment purchases), we extracted those transactions into discrete populations. From each segregated population, we judgmentally selected samples of between 8 and 18 items per year for detailed testing determined by the volume of purchases observed in the population.³ For pooled expenditures such as salaries, we performed analytical procedures to evaluate reasonableness, supported by detailed testing to determine whether individual cost components complied with the statutory definition of allowable use. These procedures also confirmed that the portion of Road Maintenance Sales Tax (RMST) revenues transferred to fund salaries represented only a fraction of the total salary costs for the Road Maintenance crew.

We also conducted a full-population nomenclature review of the expenditure records to identify anomalies and potential indicators of noncompliance. This included reviewing the full list of payees and transaction descriptions to identify red flags, such as expenditures for lodging, meals, entertainment, or employee reimbursements, which are generally disallowed under *A.R.S. § 28-6392(B)*. In these cases, we obtained supporting documentation such as invoices, purchase records, or internal approvals to determine compliance.

We also reviewed planned transportation projects scheduled for fiscal years 2025 through 2031 to determine whether they were consistent with statutory requirements and aligned with the County's long-range planning framework. Specifically, we verified that proposed projects were included in the County's 10-Year Capital Improvement Plan and were appropriately documented and prioritized using the Planning to Program (P2P) spreadsheets and other supporting records. This review enabled us to assess whether future project selections were supported by a transparent, data-informed process consistent with the County's internal policies and applicable legal requirements.

In addition, we evaluated the County's internal control system over excise tax funds. This included reviewing the design and implementation of controls and, where applicable, testing compliance for the sample items discussed above. Our work focused on the following components and principles of internal control:

- **Control Activities:** We reviewed the design and operational effectiveness of controls intended to ensure excise tax funds are used solely for eligible street and highway purposes.
- **Control Environment:** We assessed the extent to which County management demonstrates a commitment to compliance with State law through policy enforcement and oversight practices.
- **Information and Communication:** We reviewed relevant policies and procedures that communicate statutory restrictions to staff in departments such as Public Works, Finance, and Procurement.

³ Judgmental samples represented approximately 10 percent of the RMST-funded transaction population per year, with a minimum of eight transactions. Based on this approach, eight transactions were selected for each of the years 2015–2018 (each with fewer than 50 transactions); ten were selected for 2019–2022 and 2024 (each with 50–100 transactions); and 18 were selected for 2023, which had over 100 transactions. The judgmental sampling approach was applied to ensure that the selected transactions included those most relevant to compliance objectives and potential areas of heightened risk. Selection criteria considered factors such as high-dollar transactions, non-routine transactions, procurements near competitive bid thresholds, diversity of purchase types, and transactions with potential indicators of non-compliance. This risk-based approach was designed to focus testing on transactions with the greatest potential compliance implications while ensuring reasonable coverage of the overall transaction population.

- **Monitoring:** We examined recurring mechanisms, such as the annual update of the 10-Year Capital Improvement Plan, to validate the continued relevance and application of project prioritization criteria.
- **Risk Assessment:** We reviewed the County's structured, repeatable use of the Planning to Program (P2P) spreadsheets, which serve as a risk-mitigation tool to reduce the potential for biased or ineffective project selection.

These procedures provided a sufficient and appropriate basis for determining whether excise tax revenues were used in accordance with applicable laws and internal policies during the audit period.

Audit Results

Based on the procedures performed and the results obtained, we conclude that:

- The County has implemented appropriate policies, planning mechanisms, and documentation to manage its transportation excise tax program in accordance with applicable statutes.
- Past expenditures reviewed on a sample basis were consistent with allowable uses as defined by *A.R.S. § 28-6392(B)* and were supported by sufficient documentation and approval processes.
- The County maintains a 10-Year Capital Improvement Plan, updated annually, that is used to guide project identification and ranking based on need, safety, cost, and infrastructure condition assessments.
- The County utilizes a pavement condition survey and modeling system to support pavement preservation planning and geographic scheduling, enhancing resource efficiency.
- Improvements are needed in the methodology used to allocate transfers for salary and wage expenses to enhance transparency and ensure the accuracy of financial reporting. Establishing a clear and supportable basis for these transfers will strengthen accountability over the use of restricted transportation funds and facilitate compliance with statutory requirements. We provide detailed findings, recommendations, and management responses in the body of this report.

Conclusion

With the exception of the finding detailed in the full audit report, Coconino County has appropriate mechanisms in place to ensure that transportation excise tax revenues are managed effectively, used for legally allowable purposes, and aligned with long-term transportation infrastructure goals. We identified areas for improvement and offer recommendations intended to strengthen internal controls, enhance performance measurement, and improve transparency and accountability.

This report is intended for the use of members of the Arizona Legislature, the Governor of Arizona, the Arizona Auditor General, Coconino County Board of Supervisors, and other interested stakeholders. However, it is a matter of public record, and its distribution is not limited.

Respectfully submitted,
Stephanie C. Palmertree, CPA, CFE, CGMA
Managing Partner, Novum Advisory, PLLC
June 30, 2025



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Appendix B

Appendix B was prepared by Coconino County's Public Works Division and made available to the public in advance of the Road Maintenance Sales Tax Initiative (Proposition 403) to illustrate the intended use of funds contingent upon voter approval. This document serves as a historical reference and has not been updated since its original publication. All cost estimates reflect conditions as of November 2014.



Coconino County prepared a 10-year Roads Capital Improvement Plan (CIP) for maintaining and improving the safety of its roads **If the road maintenance sales tax is approved by voters in November.**

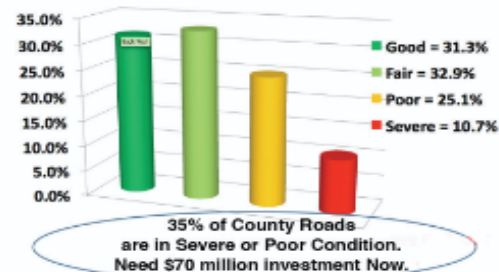
On average, under the plan, approximately \$4 million per year will be dedicated to road projects during the first 10 years, or approximately \$42 million in total. All projects will be constructed by private contractors.

The Roads CIP primarily focuses on County-maintained paved roads with a high level of use, most of which are our major roads like Lake Mary Road, Townsend-Winona Road and Leupp Road. However, funding from the road maintenance sales tax also supports dirt road maintenance, including placing special material on those roads to create a smoother and longer-lasting surface with less dust.

NAU's Rural Policy Institute estimates the economic impact of the County's road maintenance sales tax revenues is \$182 million and creates, on average 133 jobs per year over 20 years.

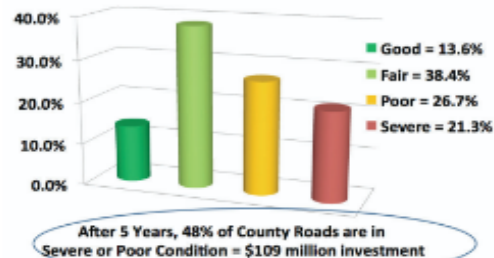
To view the entire Roads CIP and detailed maps, go to www.coconino.az.gov/CountyRoads

Current Pavement Condition



Pay NOW \$70 Million VS Pay More Later \$109 Million

Pavement Condition in Five Years



Coconino County Roads Capital Improvement Plan

Fiscal Years 2015–2019

Koch Field Road

Townsend-Winona Rd to Silver Saddle Rd –
mill/overlay, widen shoulders.
Ownership: Coconino County
Est. Cost: \$1,050,000

Pinewood Boulevard

Munds Wash – bridge repair.
Ownership: Coconino County
Est. Cost: \$750,000

Pinewood Boulevard

I-17 to Munds Bridge – mill/overlay,
reconstruction.
Ownership: Coconino County
Est. Cost: \$2,500,000

Townsend-Winona Road

Leupp Rd to I-40 – mill/overlay, (phase 1)
Ownership: Forest Service
Est. Cost: \$2,146,000

Townsend-Winona Road

Rio Rancho Rd to Leupp Rd – mill/overlay, (phase 2)
Ownership: Forest Service
Est. Cost: \$3,850,000

Cosnino Road

Townsend-Winona Rd to USFS –
reconstruction/widen shoulders, (phase 1)
Ownership: Forest Service
Est. Cost: \$2,400,000

Kachina Trail

Kachina Blvd to Kiwa Ovi – mill/overlay.
Ownership: Coconino County
Est. Cost: \$520,000

Kachina Trail

Kachina Blvd to Ancient Tr – reconstruction.
Ownership: Coconino County
Est. Cost: \$1,575,000

Lake Mary Road

Creek Bridge, MP 32 to Mormon Lake –
reconstruction/Willow Valley Bridge.
Ownership: Forest Service
Est. Cost: \$12,000,000

Bellemont

I-40 at Brannigan Park Rd/Shadow
Mountain Rd – TI modification.
Ownership: Coconino County
Est. Cost: \$3,000,000

Stardust Trail

Yancey Ln to Laramie Rd – mill/overlay,
widen shoulders.
Ownership: Coconino County
Est. Cost: \$2,000,000

Burris Lane

US 89 to Pine Country Ln –
storm drain/sidewalk/widen
shoulders.
Ownership: Coconino County
Est. Cost: \$2,000,000

Skeet Drive

Silver Saddle Rd to Neptune Dr –
mill/overlay, widen shoulders.
Ownership: Coconino County
Est. Cost: \$735,000

Neptune Drive

Skeet Dr to Lunar Dr – mill/overlay,
widen shoulders.
Ownership: Coconino County
Est. Cost: \$475,000

Fiscal Years 2020–2024

Old Route 66

Park Rd to Spitz Spring Rd –
mill/overlay, widen shoulders.
Ownership: Coconino County
Est. Cost: \$2,800,000

Spring Valley Road

Old Route 66 to Lonesome Dove Ln –
mill/overlay, widen shoulders.
Ownership: Forest Service
Est. Cost: \$1,750,000

Ancient Trail

Kachina Tr to Tonalea Tr –
mill/overlay, widen shoulders.
Ownership: Coconino County
Est. Cost: \$400,000

Mormon Lake Road

Lake Mary Rd to Lake View Dr –
mill/overlay, widen shoulders.
Ownership: Forest Service
Est. Cost: \$2,355,000

Double A Ranch Road

Cumberland Rd to Quarry Rd –
mill/overlay.
Ownership: Coconino County
Est. Cost: \$2,000,000

Perkinsville Road

Williams City Limits to E Foothill Tr – mill/overlay.
Ownership: Forest Service
Est. Cost: \$1,540,000

Slayton Ranch Road

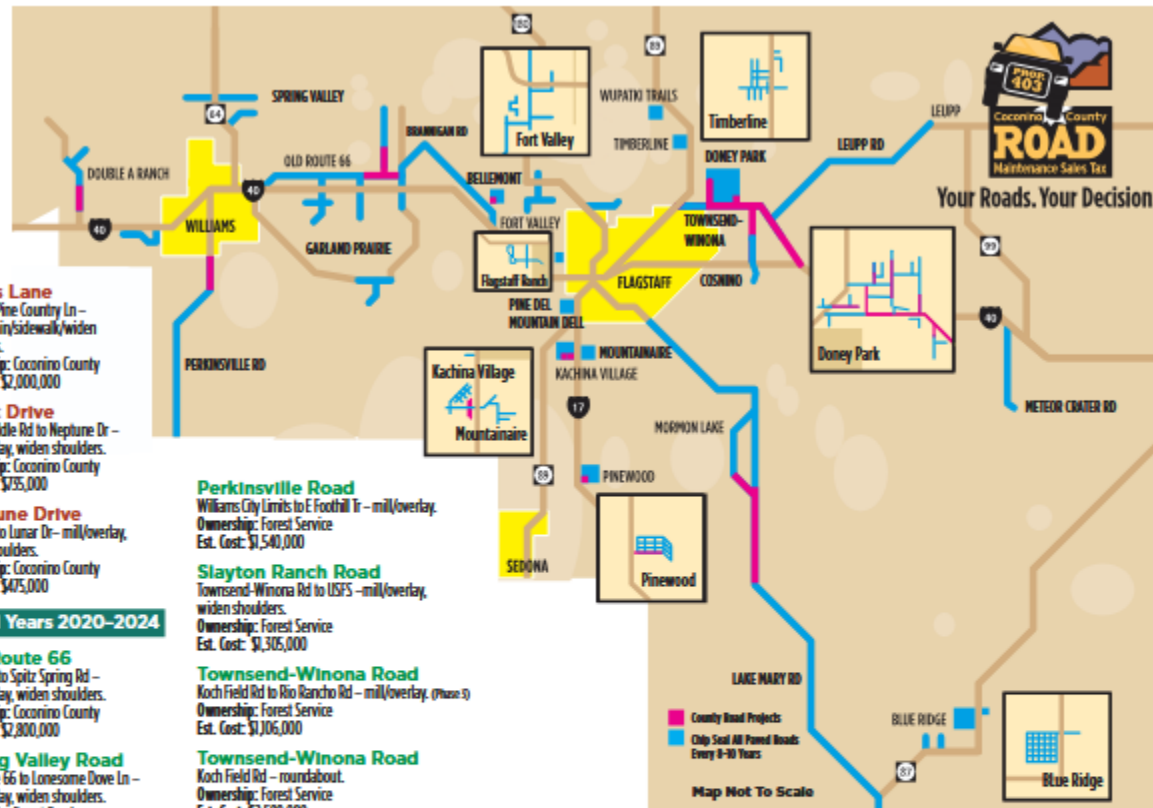
Townsend-Winona Rd to USFS – mill/overlay,
widen shoulders.
Ownership: Forest Service
Est. Cost: \$1,305,000

Townsend-Winona Road

Koch Field Rd to Rio Rancho Rd – mill/overlay, (phase 1)
Ownership: Forest Service
Est. Cost: \$1,106,000

Townsend-Winona Road

Koch Field Rd – roundabout.
Ownership: Forest Service
Est. Cost: \$2,500,000



The Implementation of the County's Roads Capital Improvement Plan is contingent upon voter approval of the Road Maintenance Sales Tax Initiative, Prop. 403, on the November ballot. The project costs and construction schedules outlined on this page are estimates. The County's actual annual investment in the Roads CIP will be affected by:

- ➔ Economic downturns, which impact the total revenue generated from the sales tax and the gasoline tax
- ➔ Annual maintenance costs, such as snow severity, and cost of oil, gasoline & diesel
- ➔ Road/bridge failures
- ➔ Response to disasters

Projects selected are based on a variety of criteria, such as level of traffic, current road conditions, public safety, and cost.



Coconino County/Navajo Nation Roads Plan
go to www.coconino.az.gov/CountyRoads

To view the entire Roads CIP
and detailed maps, go to
www.coconino.az.gov/CountyRoads

Coconino County Response and Corrective Action Plan

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Stephanie Palmertree, CPA, CFE, CGMA

2168 Main Street, Suite A
Madison, MS 39110

RE: Coconino County Public Works Road Maintenance Sales Tax 10-Year Audit

Dear Ms. Palmertree,

The Coconino County Public Works Department has completed a comprehensive review of Novum Advisory, PLLC's report and appreciates the opportunity to respond to the audit findings. We will be implementing the recommendations as outlined in the attached response.

As a department, we are firmly committed to operational integrity, continuous improvement, and the delivery of high-quality public service. The findings from the audit serve as a valuable resource to help us further strengthen our internal controls, refine administrative procedures, and enhance service delivery to the communities we serve.

We recognize and thank Novum Advisory, PLLC for its professionalism and collaborative approach throughout the audit process. Your team's diligence and objectivity contributed to a constructive experience, and we look forward to building on the recommendations to improve transparency, efficiency, and accountability within Public Works.

Should you have any questions or require further information, please contact me directly at (928) 679-8317 or ctressler@coconino.az.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Christopher Tressler".

Christopher Tressler, PE

Director, Coconino County Public Works
5600 E Commerce Ave
Flagstaff, AZ 86004

Finding 1: No unallowable salary or wage expenditures were identified during the review. However, Coconino County did not present a documented methodology or calculation to demonstrate that salary and wage transfers were planned, verified, or aligned with statutory requirements. Compliance was ultimately demonstrated through the auditors' independent analysis during the course of the audit.

Coconino County Response: The audit finding is agreed to.

Response Explanation: Coconino County acknowledges the finding regarding the lack of a documented methodology to support salary and wage transfers from the Road Maintenance Sales Tax (RMST) fund. While the audit confirmed that no unallowable salary or wage expenditures occurred during the review period, we recognize the importance of formalizing our internal processes to ensure transparent, auditable, and statutory-aligned fund allocations.

Planned Improvements and Commitments:

1. Formal Policy Development

The County is currently developing a written policy that clearly defines the methodology used to allocate personnel costs to restricted transportation revenue sources, including RMST and the Highway User Revenue Fund (HURF). This policy will establish:

- Eligibility criteria for allocation
- Approved calculation methods (e.g., time-based or functional allocation)
- Required documentation standards

2. Enhanced Timekeeping and Project Coding

We will implement improvements to our payroll and time-tracking process to allow for the assignment of employee time to specific, eligible transportation projects and activities. This will include:

- Use of job/project codes within timekeeping tools
- Supervisor-level verification of time allocations
- Integration with financial reporting for traceability

3. Periodic Compliance Reviews

A process will be instituted for conducting **annual internal compliance reviews** of salary and wage allocations to transportation funds. These reviews will:

- Assess alignment with statutory and internal policy
- Confirm consistency of documentation
- Identify and address any discrepancies proactively

4. Training and Communication

Relevant staff in Public Works, Finance, and Payroll will receive regular training on the allowable uses of RMST and the documentation requirements for personnel cost allocations. This initiative will reinforce understanding of both legal requirements and internal expectations.

Conclusion

Coconino County appreciates the audit team's diligence in identifying areas for improvement. While compliance was ultimately demonstrated during the audit, we fully support the recommendation to formalize our methodology and enhance accountability. We are committed to implementing the above corrective actions during the current fiscal year and will document all progress accordingly.

Recommendation 1: Implement a process to track and allocate salary and wage expenditures based on actual time spent on eligible road and highway activities.

Coconino County Response: The audit recommendation will be implemented.

Response Explanation

The County will implement updated procedures to improve transparency around wages and salary reporting, ensuring that documentation clearly demonstrates compliance with the specific requirements outlined in the voter mandate. Public Works will implement a direct charge method in the enterprise resource system to enable salaries and employee-related expenses (EREs) to be charged directly to projects funded by the Road Maintenance Sales Tax.

Recommendation 2: Develop and adopt a formal policy that outlines the methodology to allocate salary and wage costs to transportation related funding.

Coconino County Response: The audit recommendation will be implemented.

Response Explanation

The County will develop and implement a policy for identifying and tracking salaries and employee-related expenses (EREs) associated with projects deemed eligible for streets and roads purposes. This will ensure that wages and salary information are more transparent, and the documentation more clearly supports how they meet the specific requirements in the voter intent.

The policy will define, eligibility criteria; timekeeping and documentation standards and use of project ledgers.

Recommendation 3: Establish a process for conducting periodic compliance reviews of salary and wage allocations charged to transportation funds.

Coconino County Response: The audit recommendation will be implemented.

Response Explanation

Internal reviews will be conducted on a quarterly basis, with an annual comprehensive audit-style review to ensure compliance with the Road Maintenance Sales Tax voter mandate and internal cost allocation guidelines.

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