July 27, 2026

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Coconino County Board of Supervisors and Manager

We have issued an initial followup report regarding the implementation statuses of the recommendations from the June 2025 *Performance Audit of the Coconino County Transportation Excise Tax report* (see report 25-102) conducted by the independent firm Novum Advisory, PLLC under contract with the Arizona Auditor General and in response to Arizona Revised Statutes §41-1279.03.

The June 2025 report made 3 recommendations to Coconino County. My Office contracted with Novum Advisory, PLLC to conduct initial followup work with Coconino County, and as of this initial followup report, all 3 recommendations are in process.

My Office has contracted with Novum Advisory, PLLC to follow up with Coconino County again at 18 months to assess its progress in implementing the 3 outstanding recommendations.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Initial Follow-up of Performance Audit Report 25-102

The June 2025 Coconino County Transportation Excise Tax performance audit found that Coconino County (County) used Road Maintenance Sales Tax (RMST) monies we reviewed consistent with statute for highway and street purposes and demonstrated project impacts. However, the County did not have a consistent, documented methodology to support RMST salary and wage fund transfers. We made 3 recommendations to help strengthen transaction-level accountability for these transfers. This follow-up summarizes the County's progress in implementing those recommendations.

County's Status in Implementing 3 Recommendations

Implementation Status, as of January 2026	Number of recommendations
In Process	3

We will conduct an 18-month follow-up with the County on the status of the 3 recommendations that have not yet been fully implemented.

Recommendations

Finding 1: Lack of transaction-level accountability for salary and wage fund transfers.

1. The County should implement a process to track and allocate personnel expenditures based on actual time spent on eligible road and highway activities.

Status: Implementation in process.

The County reported that it would complete its transition from retrospective estimates of RMST-funded salary and employee-related expenses (EREs) to direct charging supported by time tracking and project coding in February 2026. County management stated that direct charging of RMST-eligible salary and EREs would begin after payroll system configuration, labor code setup, and coordination among Public Works, Finance, and Payroll were completed. The County reported that implementation required coordination across systems and functions, including establishing RMST general ledger accounts, updating personnel actions, revising purchasing card coding, and updating fleet and related systems to support direct charging.

The County developed an implementation memorandum outlining the steps for shifting RMST-eligible salary, ERE, and operating costs from the Highway User Revenue Fund (HURF) to direct charging in the RMST fund. The memorandum included actions such as obtaining Board of Supervisors budget authorization, establishing RMST salary and ERE general ledger accounts, updating payroll funding sources through personnel actions, and making related system updates for purchasing card and fleet charges to promote consistent coding across departments. In addition, as discussed in Recommendation 2, the County has developed and adopted a policy establishing the methodology and documentation requirements for allocating RMST-eligible personnel costs, including the use of time tracking and project coding.

We confirmed that the County had initiated the implementation process by reviewing the approved budget authorization, the establishment of general ledger accounts for RMST salaries and EREs necessary personnel actions for payroll funding, and system updates for purchasing card and fleet charges. Given the recent implementation date, we could not determine that the corrective actions had been fully implemented and applied consistently over time as required to consider this recommendation fully addressed. Therefore, we will further assess the County's implementation of this recommendation during the 18-month follow-up.

2. The County should 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.

Status: Implementation in process.

As of February 2026, the County has developed and formally adopted an RMST Personnel Cost Allocation Policy that defines RMST-eligible activities, establishes time-based allocation expectations, and requires supervisory review of timekeeping and supporting documentation, including supervisor approval of payroll support and the use of supervisor-attested records for mixed-duty rolls. Specifically, the policy references *Arizona Revised Statutes §28-6392(B)* as it establishes the legal restriction that RMST funds may be only used for highway and street purposes. The policy further explains why RMST-eligible road and highway activities must be specifically documented before personnel costs are charged to RMST. It also describes a process for assigning and charging personnel costs prospectively based on functional assignment reviews, labor tracking through RMST general ledger accounts and project codes in the County's financial and timekeeping systems, and annual reviews by Public Works and Finance with updates as needed. The policy does not establish fixed allowable percentages or thresholds. Rather, it requires that personnel costs be allocated based on documented RMST-eligible work and provides that supervisory and indirect costs may be charged only when they are demonstrably linked to RMST-eligible activities. As referenced in recommendation 1, the RMST Personnel Cost Allocation policy has been initiated but has not been in effect long enough to demonstrate its full implementation and the implementation of the associated procedures.

Additionally, the policy provides guidance for charging personnel costs related to mixed-duty roles, such as supervisors or administrative staff who perform both RMST-eligible and ineligible work and requires employees to track time by activity type or project code, along with establishing documentation and retention requirements. We reviewed the newly designed timesheet to ensure time would be tracked by activity type or project as evidence that the recommendation was fully implemented.

Finally, the policy states that the County will retain supporting records, such as time records, job logs, and crew schedules, through RMST's first sunset in 2034 and archive them in County systems in accordance with retention requirements.

We will further assess the County's implementation of this recommendation during the 18-month follow-up.

3. The County should establish a process for conducting periodic compliance reviews—at least annually—of salary and wage allocations charged to transportation funds.

Status: Implementation in process.

The County's policies referenced in Recommendation 2 establish an annual compliance review process led by its Finance Department. This process requires the County's Finance Department, with assistance from Public Works, to randomly sample and review no fewer than 25 items from payroll and timekeeping records annually to confirm that payroll charges (including those for mixed-duty roles), employee timekeeping records, and supporting documentation are consistent with RMST-eligible activities and approved coding. Additionally, the policies require the Finance Department to document the results of its review, scope and sampling methodology, and any required corrective and/or follow-up actions in the County's compliance review records; and retain the supporting documentation in Tyler MUNIS, as needed.[1] Finally, the policy notes that the County plans to maintain records and review processes sufficient to support future audits and compliance reviews and to make adjustments to the allocation methodology as it gains experience with direct charging and time-based tracking.

The County formally adopted and began implementing this policy in February 2026, when the direct charging referenced in Recommendation 1 began. We will further assess the County's implementation of its compliance review process during the 18-month follow-up.

[1] Tyler MUNIS is the County's enterprise resource planning system that it uses to manage payroll, general ledger accounts, and related financial and administrative records.