

# Gila County Transportation Excise Tax

County, city, and most towns used excise tax monies we reviewed appropriately and were able to demonstrate their impact, but 2 towns need to improve how they use these monies

Performance Audit

June 2024

Report 24-104

A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





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June 27, 2024

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Gila County Board of Supervisors and Manager

Incorporated Cities' and Towns' Councils, Mayors, and Managers

Transmitted herewith is the Auditor General's report, a performance audit of the Gila County Transportation Excise Tax. The report was conducted under the authority vested in the Auditor General by 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. Also, included within the report is a 60-month followup on the implementation status of our recommendations from the June 2019 Gila County Transportation Excise Tax audit.

As outlined in their responses, the Towns of Hayden and Winkelman agree with the finding and plan to implement all the recommendations. I express my appreciation to Gila County, the City of Globe, and the Towns of Hayden, Miami, Payson, Star Valley, and Winkelman for their cooperation and assistance 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

cc: Arizona Department of Transportation

## Gila County Transportation Excise Tax

County, city, and most towns used excise tax monies we reviewed appropriately and were able to demonstrate their impact, but 2 towns need to improve how they use these monies

### Audit purpose

To determine whether Gila County (County), the City of Globe, and the Towns of Hayden, Miami, Payson, Star Valley, and Winkelman used excise tax monies from January 1, 2019 through December 31, 2023, in accordance with State law and were able to demonstrate their impact in solving transportation issues within the County and also to follow up on outstanding recommendations from our previous Gila County Transportation Excise Tax audit (Report 19-108) to determine their implementation status.

### Key findings

- The County, Globe, and 3 towns (Miami, Payson, and Star Valley) used excise tax monies we reviewed consistent with statute for various highway and street purposes.
- The Towns of Hayden and Winkelman spent some excise tax monies inappropriately, did not review and approve most excise tax expenditures we tested, and lacked appropriate processes to use excise tax monies for salaries and related expenses.
- The County, Globe, and towns demonstrated the impact of their use of excise tax monies in solving transportation problems within the County.
- Four outstanding recommendations from our previous report—directed at Globe and the Towns of Miami and Payson have been implemented, and 1 outstanding recommendation—directed at the Town of Miami—is in progress.

### Key recommendations

The Towns of Hayden and Winkelman should:

- Review past and future excise tax expenditures they charged or will charge to determine if they were for highway and street purposes and repay any impermissible expenditures.
- Develop and implement policies and procedures that outline step-by-step procedures, including documentation requirements, for the independent review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies, and train all individuals responsible for the use of excise tax monies on the new policies and procedures.
- Implement a mechanism to capture and document the time that staff spend on street-related activities to more accurately allocate salaries and related expenditures to excise tax monies.



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The Arizona Auditor General has completed a performance audit of the Gila County Transportation Excise Tax (excise tax). This report addresses whether excise tax monies from January 1, 2019 through December 31, 2023, were used in accordance with State law and provides examples of their impact in solving transportation problems within Gila County (County).

## Transportation excise tax history

In 1994 and again in 2014, pursuant to Arizona Revised Statutes (A.R.S.) §42-6107, Gila County voters passed a half-cent sales tax to be used for highway and street purposes within the County and its incorporated City of Globe and Towns of Hayden, Miami, Payson, Star Valley, and Winkelman (see Figure 1).

Under the 1994 voter-approved transportation excise tax, the County received all excise tax revenue to spend on highway and street projects throughout the County. However, in 2014, the voters approved the excise tax revenue to be distributed to the unincorporated County, Globe, and the 5 towns based on population for highway and street purposes within their jurisdiction. The County, Globe, and towns maintain approximately 1,055 miles of paved and unpaved roads (see Table 1 on page 2).

**Figure 1**  
Gila County map showing city and towns that receive excise tax revenue



Source: Auditor General staff reproductions of <https://google.com/maps/place/Gila+County+AZ>.

## County, Globe, and towns received \$20.6 million in excise tax revenue

During calendar years 2019 through 2023, the period this audit covered, the County, Globe, and towns received \$20.6 million in excise tax revenue. Table 1 on page 2 shows the amount of excise tax revenue distributed to the County, Globe, and towns during this period. The Arizona Treasurer's Office distributes collected excise tax revenue to the County, Globe, and the towns proportionately based on their population. In addition to excise tax revenue, the County, Globe, and towns rely on other revenue to complete highway and street projects, such as highway user revenue fund (HURF) monies.<sup>1</sup>

<sup>1</sup> The County and the Towns of Hayden, Miami, Payson, and Winkelman combine excise tax revenues with other restricted transportation fund monies, such as HURF, into a single fund in their accounting records and report these monies together on the audited financial statements.

**Table 1****Excise tax revenue recipients, distributions, population, and road miles maintained  
Calendar years 2019 through 2023**

<b>Recipient</b>	<b>Excise tax revenue</b>	<b>Population July 1, 2023</b>	<b>Road miles maintained</b>
Gila County—Unincorporated	\$ 9,687,363	25,112	757
Globe	2,972,426	7,143	141
Hayden	425,842	509	10
Miami <sup>1</sup>	278,176	1,529	13
Payson	5,850,741	16,679	111
Star Valley	1,033,685	2,536	11
Winkelman	310,631	292	12
<b>Total</b>	<b>\$20,558,864</b>	<b>53,800</b>	<b>1,055</b>

<sup>1</sup> Miami's excise tax revenues have been withheld since November 1, 2020. See page a-1 for discussion about the restrictions.

Source: Auditor General staff analysis of excise tax revenue distribution data obtained from the Arizona Treasurer's Office for calendar years 2019 through 2023; population estimates as of July 1, 2023, from the Arizona Office of Economic Opportunity website; and road miles, as of December 31, 2023, reported by the County, Globe, and towns.

## Statute outlines allowable excise tax uses

A.R.S. §28-6392 requires that excise tax monies be used only for highway and street purposes, which include highway and street improvements, such as construction, maintenance, repair, and roadside development of county, city, and town roads, streets, and bridges. Excise tax monies can also be used for administrative expenses that indirectly support the functions of highway and street purposes, such as transportation department management and administrative payroll; central services costs for accounting or information technology support; and utilities associated with highways and streets. However, as explained in Finding 1 (see page 6), Hayden and Winkelman spent some excise tax monies inappropriately.

During the period covered by this audit, the County, Globe, and the towns used excise tax monies for various highway and street purposes, including paving and resurfacing roads, building bridges, and paying electricity expenses for streetlights. Table 2 on page 3 shows the uses of excise tax revenue by the County, Globe, and the towns in 2 categories: highway and street improvements and administrative uses.

## County, Globe, and towns used various methods to identify highway and street needs

The County, Globe, and the towns used various methods to identify appropriate projects and uses of excise tax monies for the time period reviewed. The following describes the methods used:

- The County selected and prioritized potential projects based on a 20-year transportation study that it completed in January 2014. This study identified the County's most critical transportation infrastructure needs and recommended near-, mid-, and long-term projects that the County intends to fund with excise tax and other transportation revenues. Additionally, the County reported that its public works employees monitor road conditions through visual inspections and propose road improvements on an annual basis.

**Table 2**  
**Excise tax expenditures by jurisdiction and category**  
**Calendar years 2019 through 2023**

Jurisdiction	Highway and street improvements <sup>1</sup>	Percent of total	Administrative uses <sup>2</sup>	Percent of total	Total
Gila County—Unincorporated <sup>3</sup>	\$ 6,160,975	93.5%	\$ 426,574	6.5%	\$ 6,587,549
Globe	1,634,487	99.7	4,751	0.3	1,639,238
Hayden <sup>3</sup>	294,170	79.2	77,045	20.8	371,215
Miami <sup>3</sup>	190,142	56.4	147,094	43.6	337,236
Payson <sup>3</sup>	3,870,152	91.4	365,727	8.6	4,235,879
Star Valley	35,027	97.9	754	2.1	35,781
Winkelman <sup>3</sup>	179,748	83.7	34,896	16.3	214,644
<b>Total</b>	<b>\$12,364,701</b>	<b>92.1%</b>	<b>\$1,056,841</b>	<b>7.9%</b>	<b>\$13,421,542</b>

<sup>1</sup> Highway and street improvements include construction, reconstruction, maintenance, repair, and roadside development of roads, streets, and bridges; rights-of-way acquisitions; transportation studies; and environmental studies, if required, before road construction. This includes associated personnel costs.

<sup>2</sup> Administrative uses include general expenses that support highway and street improvements, such as the electricity expenses for streetlights and costs for centralized services, such as accounting and information technology support.

<sup>3</sup> These jurisdictions combine excise tax monies with other restricted transportation monies, such as HURF, into a single fund in their accounting records. Auditor General staff calculated excise tax expenditures for these jurisdictions based on the percentage of excise tax revenue received to all other restricted revenue received within that fund.

Source: Auditor General staff analysis of excise tax expenditures from the County's, Globe's, and the towns' general ledger for calendar years 2019 through 2023.

- Globe identified and prioritized projects based on a strategic street improvement plan it prepared in 2017. This plan includes a list of streets to be treated and repaired as part of Globe's ongoing asphalt preservation efforts. In addition, city council members prioritized and approved an annual listing of street projects based on the strategic street improvement plan, available budget, and public input regarding road conditions.
- Payson utilized several documents to monitor, prioritize, and select street projects. Specifically, Payson compiled a street projects spreadsheet that outlined the projects needed for resurfacing and maintaining roads in short-, medium-, and long-term categories based on a 2011 Arizona Department of Transportation (ADOT) transportation study. That study identified transportation infrastructure that will be required during the next 20 years to accommodate projected levels of growth and development in the Payson area. Payson also developed a 5-year Capital Improvement Plan in 2021 that lists proposed street projects and estimated costs. Finally, Payson used a 2021 Pavement Management Report developed by a private company that includes a street inventory and condition summary and assessment that it used to identify and prioritize projects.
- Miami completed a Road Condition Survey in 2021 and maintains a street maintenance schedule that it used to prioritize and monitor street projects. In addition, Miami reported that it plans to potentially fund portions of some large-scale road and bridge projects that it has identified as needing urgent attention once its excise tax restrictions are lifted (see page a-1 for discussion about the restrictions).



- Star Valley engaged a contractor to assist in identifying and prioritizing the Town's street and road projects. Star Valley also had a Road Safety Assessment of State Route 260 prepared by ADOT in November 2018 that it used to help identify and prioritize street projects under its jurisdiction. Star Valley reported that the town manager and town council are involved in reviewing and prioritizing current and future projects based on the contractor's input, and they also look at costs, time frame, financing needs, and other services required for the project in making project determinations.
- Hayden and Winkelman reported that staff conduct visual street inspections, and the town councils receive public input regarding street-related issues to determine potential projects. Hayden and Winkelman prioritize projects based on this information and whether the project will improve safety and transportation within the respective town.

## Excise tax helped solve highway and street problems

The County, Globe, and towns were able to demonstrate the impact the excise tax had in solving highway and street problems. Specifically, excise tax monies were used for projects to help address issues such as access to emergency services, roadway safety, and deteriorating roads. Some of the projects include:

- **Colcord Road bridge**—The County, in conjunction with ADOT, completed construction of a bridge on Colcord Road over Gold Canyon Creek in October 2020. The project replaced an existing functionally obsolete bridge and provides access to private residential neighborhoods, recreational facilities, and logging activities in the area (see Photo 1). The total cost of the Colcord Road bridge project was \$1,503,607, of which the County paid \$85,760 with excise tax monies and the remaining amount was paid by ADOT.
- **Tonto Creek bridge**—The County began construction of the Tonto Creek bridge in calendar year 2022 and completed the bridge and associated roadway improvements in June 2024. The bridge will replace a low water crossing of Tonto Creek and allow emergency services to access residents of Tonto Basin when weather makes Tonto Creek impassible (see Photo 2). The County further reported that the bridge will allow for additional opportunities for recreation and development on the eastern side of the Tonto Basin. The total estimated cost of the Tonto Creek bridge project is \$24.5 million, with the County providing a match of \$3 million in excise tax monies and the remaining costs of the project paid for with federal Better Utilizing Investments to Leverage Development (BUILD) grant monies.
- **Road maintenance**—During calendar years 2019 through 2023, Globe paid a contractor \$1.2 million, or 74 percent of its excise tax revenues, to chip seal, crack seal, or fog coat streets throughout the city to extend their useful lives. For example, in calendar year 2021, the city paid \$89,741 in excise tax monies to apply new chip seals to 2 streets in the

**Photo 1**  
Colcord Road bridge



Source: Photo courtesy of Gila County.

**Photo 2**  
Tonto Creek bridge (in progress)



Source: Photo courtesy of Gila County.

Soto/Chaparral Loop Area to repair asphalt deterioration resulting from water runoff, ensuring the roads remained accessible to the public.

- **Streets improvement**—In calendar year 2020, Hayden paid a contractor \$160,000 of its excise tax monies to slurry seal 3 of its main arterial streets that most residents and visitors use to travel in and out of the town.
- **McLane Road**—In calendar year 2020, Payson used \$607,155 of excise tax monies to repair 2,030 square feet of asphalt and place 225,500 square yards of slurry seal and 80,000 lineal feet of striping along North McLane Road and in 2 adjacent residential neighborhoods that improved local traffic mobility.
- **Street repair**—In calendar year 2021, Winkelman paid a contractor \$119,373 of its excise tax monies to repair 4 of its streets with slurry seal. Specifically, the project resurfaced the roads and filled in hazardous potholes, improving travel safety.

Slurry seal is a paving system that creates a new wear layer, which corrects street defects, prolongs the life of the streets, and improves travel safety.



## Hayden and Winkelman spent some excise tax monies inappropriately

### Hayden and Winkelman used some excise tax monies inappropriately, which could make them unavailable for street purposes

Our review of the County's, Globe's, and the towns' use of excise tax monies for calendar years 2019 through 2023 found that Hayden and Winkelman used some excise tax monies inappropriately. As discussed in the introduction (see page 2), excise tax monies are statutorily restricted to highway and street purposes. However, our analysis of a sample of transactions made by the Towns of Hayden and Winkelman identified inappropriate, unsupported, and/or incorrectly recorded expenditures totaling \$498,039 for Hayden and \$129,208 for Winkelman for the time period reviewed, which could make them potentially unavailable for valid street purposes, as follows:<sup>2</sup>

- **Town of Hayden**—Our analysis of 13 of Hayden's 1,346 Highway Users Fund (Fund) transactions found several instances where Hayden either inappropriately used restricted Fund monies or lacked documentation to show that the expenditures were appropriate:<sup>3</sup>
  - **\$496,904** of personnel costs—such as salary, wages, and benefit expenditures—charged to the Fund lacked supporting documentation to validate Hayden's estimates and basis for allocating public works employees' payroll expenditures and benefits costs to the Fund (and other public works department activities).
  - **\$423** for a hotel room credit card expenditure that lacked supporting documentation to indicate that the charge was related to highway and street purposes and properly charged to the Fund. Hayden staff reported to us that the hotel room charge was for a League of Cities and Towns conference.
  - **\$359** of May 2023 gas charges for the public works director that lacked supporting documentation to demonstrate the gasoline purchases were strictly related to street projects and properly charged to the Fund.
  - **\$353** of inappropriate equipment repair expenditures that should have been charged to Hayden's public golf course.
- **Town of Winkelman**—Our review of 11 of Winkelman's 1,110 Streets Fund transactions found several instances where Winkelman either inappropriately used restricted Street Fund monies or lacked the documentation to show that the expenditures were appropriate:<sup>4</sup>

<sup>2</sup> These expenditure amounts include both Excise Tax and HURF monies as the towns combine these restricted monies into 1 fund. As we could not determine which transactions were specific to excise tax monies, we included the total expenditure amount here.

<sup>3</sup> Hayden's Highway Users Fund includes restricted excise tax and HURF monies.

<sup>4</sup> Winkelman's Streets Fund includes restricted excise tax and HURF monies.

- **\$122,836** of personnel costs—such as salary, wages, and benefit expenditures—charged to the Streets Fund lacked supporting documentation to validate Winkelman’s estimates and basis for allocating public works employees’ payroll expenditures and benefits costs to the Streets Fund (and other public works department activities).
- **\$4,868** inappropriately paid to a vendor twice, once as part of a change order for a street improvement project and again a few weeks later as part of the final invoice.
- **\$1,110** paid for various paint supplies and a lawn mower at Home Depot that lacked supporting documentation to demonstrate that the purchases were for allowable street projects.
- **\$394** for grocery store purchases for various items including water, ice, Gatorade, hand soap, bleach, bagels, and cream cheese. Winkelman was unable to provide support to indicate the public purpose and specific street projects for these purchases. Some of these items (Gatorade, bagels and cream cheese, and hand soap) may violate the Arizona Constitution’s prohibition on gifts of public monies.<sup>5</sup>

## Hayden and Winkelman did not review and approve most excise tax expenditures we tested and lacked appropriate processes to use excise tax monies for salaries and related expenses

**Towns did not review and approve excise tax expenditures**—Our review of the previously mentioned sample of expenditures for the period January 1, 2019 through December 31, 2023, found that the towns were unable to provide evidence of review and approval for 11 of 13 items tested (Hayden) and 10 of 11 items tested (Winkelman). Hayden and Winkelman’s policies and procedures for the use of their respective Fund and Streets Fund monies, including excise tax monies, lacked appropriate internal controls, such as documenting the review and approval of these expenditures. Further, Hayden and Winkelman staff reported to us that review and approvals were mostly done verbally. By not requiring a documented review and approval of statutorily restricted transportation monies, including excise tax monies, there is an increased risk that excise tax monies may be used for impermissible purposes, such as those identified earlier.

**Towns lacked appropriate processes to use excise tax monies for salaries and related expenses**—Both Hayden and Winkelman used an informal system to allocate their personnel salary costs to their respective Fund and Streets Fund and other public works department activities. Specifically, neither town tracked or documented the actual number of hours that employees spent on various jobs or projects, including road-related projects, and instead used unsupported estimates to allocate personnel costs to their respective Fund and Streets Fund.

Specifically, according to Hayden’s management, the public works director’s salary and benefit costs were charged to the Fund each pay period, and then portions were allocated to the other public works activities at fiscal year-end based on the public works director’s verbal estimate of the percentage of time spent on streets and other public works activities during the year. Conversely, the personnel costs for all other public works employees were charged to their respective departments during the year, and then a portion was allocated to the Fund at fiscal year-end to reflect their time spent on street projects based on allocation percentages communicated verbally by the public works director. Approximately \$388,000 of personnel costs were initially charged to the Fund during the review period, and approximately \$109,000 of net year-end adjustments were made to reallocate time charged from other public works activities.

Regarding Winkelman, according to Winkelman’s management, during the budget process, the public works director developed percentage allocations for payroll costs for each public works department employee that were used throughout the fiscal year to charge employees’ personnel costs to various funds, including the Streets Fund. Management further explained that at fiscal year-end, the public works director then verbally provided adjustments to the percentages based on what he believed occurred. Approximately \$97,000 of

<sup>5</sup> Arizona Constitution, Art. IX, Sec. 7.

personnel costs was initially charged to the Streets Fund during the review period, and approximately \$25,000 of additional charges were made for year-end adjustments.

## Recommendations

1. Hayden should review past and future excise tax expenditures it charged or will charge to its Fund to determine if they were for highway and street purposes. It should repay any impermissible expenditures, including the potential \$498,039 of inappropriate, unsupported, and/or incorrectly recorded transactions it charged to its Fund that we identified during our review.<sup>6</sup>
2. Hayden should develop and implement policies and procedures that, at a minimum, outline step-by-step procedures, including documentation requirements, for the independent review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies, and train all individuals responsible for the use of excise tax monies on the new policies and procedures.
3. Hayden should implement a mechanism, such as a time accounting system, spreadsheet, or a manual time log, to more accurately capture and document the time that staff spend on street-related activities and to more accurately allocate salaries and related expenditures to its Fund.

**Hayden response:** As outlined in its [response](#), Hayden agrees with the finding and will implement the recommendations.

4. Winkelman should review past and future excise tax expenditures it charged or will charge to its Streets Fund to determine if they were for highway and street purposes. It should repay any impermissible expenditures, including the potential \$129,208 of inappropriate, unsupported, and/or incorrectly recorded transactions it charged to its Streets Fund that we identified during our review, and work with its attorney to determine if any monies were spent in violation of the State Constitution's gift clause and how to address these violations.<sup>7</sup>
5. Winkelman should develop and implement policies and procedures that, at a minimum, outline step-by-step procedures, including documentation requirements, for the independent review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies, and train all individuals responsible for the use of excise tax monies on the new policies and procedures.
6. Winkelman should implement a mechanism, such as a time accounting system, spreadsheet, or a manual time log, to more accurately capture and document the time that staff spend on street-related activities and to more accurately allocate salaries and related expenditures to its Streets Fund.

**Winkelman response:** As outlined in its [response](#), Winkelman agrees with the finding and will implement the recommendations.

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<sup>6</sup> Hayden's Fund includes restricted excise tax and HURF monies.

<sup>7</sup> Winkelman's Streets Fund includes restricted excise tax and HURF monies.



# SUMMARY OF RECOMMENDATIONS

## Auditor General makes 6 recommendations

1. Hayden should review past and future excise tax expenditures it charged or will charge to its Fund to determine if they were for highway and street purposes. It should repay any impermissible expenditures, including the potential \$498,039 of inappropriate, unsupported, and/or incorrectly recorded transactions it charged to its Fund that we identified during our review.<sup>8</sup>
2. Hayden should develop and implement policies and procedures that, at a minimum, outline step-by-step procedures, including documentation requirements, for the independent review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies, and train all individuals responsible for the use of excise tax monies on the new policies and procedures.
3. Hayden should implement a mechanism, such as a time accounting system, spreadsheet, or a manual time log, to more accurately capture and document the time that staff spend on street-related activities and to more accurately allocate salaries and related expenditures to its Fund.
4. Winkelman should review past and future excise tax expenditures it charged or will charge to its Streets Fund to determine if they were for highway and street purposes. It should repay any impermissible expenditures, including the potential \$129,208 of inappropriate, unsupported, and/or incorrectly recorded transactions it charged to its Streets Fund that we identified during our review, and work with its attorney to determine if any monies were spent in violation of the State Constitution's gift clause and how to address these violations.<sup>9</sup>
5. Winkelman should develop and implement policies and procedures that, at a minimum, outline step-by-step procedures, including documentation requirements, for the independent review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies, and train all individuals responsible for the use of excise tax monies on the new policies and procedures.
6. Winkelman should implement a mechanism, such as a time accounting system, spreadsheet, or a manual time log, to more accurately capture and document the time that staff spend on street-related activities and to more accurately allocate salaries and related expenditures to its Streets Fund.

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<sup>8</sup> Hayden's Fund includes restricted excise tax and HURF monies.

<sup>9</sup> Winkelman's Streets Fund includes restricted excise tax and HURF monies.



## 60-month follow-up report

The June 2019 Gila County Transportation Excise Tax performance audit found that the Town of Miami did not always use excise tax monies appropriately, and Globe, Payson, and Miami lacked policies and procedures regarding allowable excise tax use. The status in implementing the recommendations is as follows:

### Status of 5 recommendations

Implemented	4
Implementation in progress	1

### Finding 1: Miami did not use excise tax monies appropriately, and 3 entities lacked policies regarding allowable excise tax uses

1. Miami should repay its Road Fund for the inappropriately loaned excise tax monies and discontinue the practice of loaning any restricted monies, including excise tax monies, to other funds. If resources are not currently available to completely repay the loans, it should develop and implement a repayment schedule in accordance with Arizona Revised Statutes (A.R.S.) §28-6392(B).

**Implementation in progress**—As part of this audit, we examined Miami’s audited financial statements and financial records and determined it paid off its remaining \$75,298 excise tax loan balance as of June 30, 2021. However, we were unable to determine whether the Town of Miami had made any additional loans during fiscal years 2022 and 2023 because Miami has yet to complete its annual financial audit for each of these fiscal years, which were due March 31, 2023 and March 31, 2024, respectively.

In our 12-month follow-up report issued in August 2020, we reported that as of June 30, 2019, Miami had an inappropriate transportation excise tax loan balance of \$75,298 and did not meet its statutory repayment requirements. As a result, pursuant to A.R.S. §28-6392(B)(2), the Arizona Department of Transportation notified the State Treasurer to withhold Miami’s transportation excise tax revenues. The State Treasurer began withholding the excise tax revenues as of November 1, 2020. As of December 31, 2023, the State Treasurer has withheld \$582,691 of transportation excise tax revenues.

We will conduct a followup with the Town of Miami on the status of this recommendation once the Town has completed and submitted audits of its fiscal years 2022 and 2023 financial statements.

2. Miami should review its past and future indirect administrative expenses it charged or will charge to its Road Fund to determine if they were for highway and street purposes. Any impermissible past expenditures should be repaid.

**Implemented at 12 months**

3. Globe should develop and implement appropriate policies and procedures that define the allowable uses of excise tax monies, including obtaining appropriate city/town council approval.

**Implemented at 12 months**

4. Miami should develop and implement appropriate policies and procedures that define the allowable uses of excise tax monies, including obtaining appropriate city/town council approval.

**Implemented at 12 months**

5. Payson should develop and implement appropriate policies and procedures that define the allowable uses of excise tax monies, including obtaining appropriate city/town council approval.

**Implemented at 12 months**





## Objectives, scope, and methodology

The Arizona Auditor General has conducted a performance audit of the Gila County Transportation Excise Tax pursuant to A.R.S. §41-1279.03(A)(6). This statute requires a performance audit to be conducted in the fifth year that a county transportation excise tax has been in effect and every fifth year thereafter. This is the fifth performance audit of the County excise tax since its initial establishment in 1995.

We used various methods to evaluate this performance audit's objectives. Specifically:

- To determine compliance with State laws that require excise tax monies be spent only for highway and street purposes, we:
  - Obtained and analyzed the County's, Globe's, and Towns of Hayden's, Miami's, Payson's, Star Valley's, and Winkelman's revenue and expenditure data for the period January 1, 2019 through December 31, 2023. We reconciled the State of Arizona's Treasurer's Office excise tax disbursements to the County's, Globe's, and towns' respective funds into which they deposit excise tax monies. To determine the revenue and expenditure data was complete and reliable, we compared the County-, Globe-, and town-provided general ledger data to their fiscal years 2019 through 2023 audited financial statements. However, the audited financial statements for fiscal years 2022 and 2023 have not been completed for Globe or Miami. In those instances, we relied on detailed general ledger report information to determine that the revenue and expenditure data was reasonably complete and reliable.
  - The County and Towns of Hayden, Miami, Payson, and Winkelman combine excise tax monies with other restricted transportation monies, such as HURF, into a single fund in their accounting records. As these monies are all restricted for transportation use and as we could not determine which transactions were specific to excise tax monies, we included all transactions in the fund for our testing population. Globe and the Town of Star Valley maintain a separate fund for excise tax activity. From there, we analyzed the expenditure data and judgmentally or randomly selected samples of 2 to 30 transactions for each entity. For judgmental samples, we selected transactions for review based on project type, vendor name, transaction description, or types of transactions that had the greatest risk of noncompliance, such as operating transfers out or credit card transactions. For all transactions we selected, we obtained additional information, such as invoices, from the County, Globe, and the towns, to determine compliance with State law.
  - Our work on internal controls included reviewing the County's, Globe's, and towns' policies and procedures over excise tax monies and, where applicable, testing compliance with these policies and procedures on the sample items discussed above. Our work included reviewing the following components and associated principles of internal controls:
    - Control activities, including the design and effectiveness of activities that help ensure excise tax monies are used in compliance with State law.
    - Control environment, including management's commitment to complying with State law.
    - Information and communication, including the review of policies and procedures that define the allowable use of excise tax monies.

Auditors noted deficiencies in internal control with Hayden and Winkelman, See Finding 1.

- To determine the County's, Globe's, and towns' ability to demonstrate the impact of the excise tax in solving highway and street problems, we analyzed information related to highway and street projects completed during calendar years 2019 through 2023, including project costs, descriptions, and contract information. We also reviewed information related to future project planning and selection processes, including transportation studies, and minutes of County board or city/town council meetings, and discussed project planning with County, Globe, or town management.

We selected the previously indicated audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit of the Gila County Transportation Excise Tax in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

We express our appreciation to the County, Globe, and towns for their cooperation and assistance throughout the audit.

# RESPONSES



# TOWN OF HAYDEN

P.O.Box B • 520 Velasco Avenue, Hayden, Arizona 85135 • (520) 356-7801 • Fax (520) 356-6334

June 20, 2024

Lindsey A Perry, Auditor General  
Arizona office of the Auditor General  
2910 N. 44<sup>th</sup> St., Ste. 410  
Phoenix, AZ 85018

Dear Ms. Perry:

Please see the Town of Hayden response below to the Auditor General recommendations for the 2023 Gila County Excise Tax Audit.

## **Finding 1:** Hayden spent some excise tax monies inappropriately

**Recommendation 1:** Hayden should review past and future excise tax expenditures it charged or will charge to its Fund to determine if they were for highway and street purposes. It should repay any impermissible expenditures, including the potential \$498,039 of inappropriate, unsupported, and/or incorrectly recorded transactions it charged to its Fund that we identified during our review. [Hayden's Fund includes restricted excise tax and HURF monies.]

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

Response explanation: The Town agrees that the expenditures were unsupported and will implement procedures so that all excise tax expenditures are supported in the future.

**Recommendation 2:** Hayden should develop and implement policies and procedures that, at a minimum, outline step-by-step procedures, including documentation requirements, for the independent review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies, and train all individuals responsible for the use of excise tax monies on the new policies and procedures.

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

Response explanation: The Town will develop policies and procedures for independent review and approval of excise tax expenditures.

**Recommendation 3:** Hayden should implement a mechanism, such as a time accounting system, spreadsheet, or a manual time log, to more accurately capture and document the time that staff spend on street-related activities and to more accurately allocate salaries and related expenditures to its Fund.

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

Response explanation: The Town will implement a mechanism to more accurately allocate salaries and related expenditures for excise tax monies.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Hetrick', with a long, sweeping horizontal line extending to the right.

Dean Hetrick  
Mayor

P. O. BOX 386  
WINKELMAN, ARIZONA 85192-0386



206 GIFFIN AVENUE  
(520) 356-7854  
FAX (520) 356-7709

June 27, 2024

Lindsey Perry, Auditor General  
Office of the Auditor General  
2910 N. 44th St, Suite 410  
Phoenix, AZ 85018

Dear Ms. Perry:

We reviewed the information for the Gila County Excise Tax Audit for the years 2019 to 2024 for the Town of Winkelman. Please review our responses.

**Section 4:** *Winkelman should review past and future excise tax expenditures it charged or will charge to its Streets Fund to determine if they were for highway and street purposes. It should repay and impermissible expenditures, including the potential \$129,208 we identified during our review, and work with its attorney to determine if any monies were spent in violation of the State Constitution's gift clause and how to address these violations.*

**Winkelman Response:** The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

**Response Explanation:** The Town of Winkelman will implement procedures so that all excise tax expenditures are supported in the future.

**Section 5:** *Winkelman should develop and implement policies and procedures that, at a minimum, outline step-by-step procedures, including documentation requirements, for the independent review and approval of excise tax expenditures by an individual familiar with the restrictions of excise tax monies, and train all individuals responsible for the use of excise tax monies on the new policies and procedures.*

**Winkelman Response:** The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

**Response Explanation:** The Town of Winkelman will develop policies and procedures for independent review and approval of excise tax expenditures.

**Section 6:** *Winkelman should implement a mechanism, such as a time accounting system, spreadsheet, or a manual time log, to more accurately capture and document the time that staff spend on street-related activities and to more accurately allocate salaries and related expenditures to its Streets Fund.*

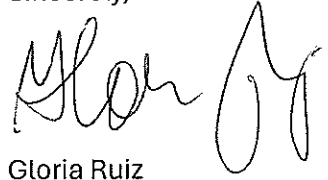
**Winkelman Response:** The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

**Response Explanation:** The Town of Winkelman will implement a mechanism to more accurately allocate salaries and related expenditures for excise tax monies.

Arizona Auditor General  
Attn: Lindsey Perry  
Audit Response Letter  
Town of Winkelman  
Page 2 of 2

Thank you for your time.

Sincerely,

A handwritten signature in black ink, appearing to read "Gloria Ruiz". The signature is fluid and cursive, with the first name "Gloria" written in a larger, more prominent script than the last name "Ruiz".

Gloria Ruiz  
Town Clerk  
Town of Winkelman

