

# CITY OF GLENDALE, ARIZONA



## GLENDALE ONBOARD TRANSPORTATION PROGRAM

### PERFORMANCE AUDIT

FISCAL YEARS 2005-06 THROUGH 2007-08

NOVEMBER 2010

## **Acknowledgements**

We would like to acknowledge the following groups and individuals and the many City employees not named here who have supported the Glendale Onboard Transportation Program in the preparation and conduct of its second triennial Performance Audit. We appreciate the time and effort all have contributed to ensure a quality audit was performed.

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# EXECUTIVE SUMMARY

In November 2001, the City of Glendale, Arizona (City) voters approved Proposition 402 (Proposition), which authorized a half-cent sales tax. The new revenue generated from the increase would be used specifically for transportation purposes, such as improvements to intersections and streets, pedestrian facilities, bikeways, expansion of bus and Dial-A-Ride services and reduce air pollution throughout the City.

The passage of the Proposition resulted in the City adopting Ordinance Number 2241 formalizing the Glendale Onboard Transportation Program (GO Program). As a provision of the Ordinance, a Citizens' Transportation Oversight Commission (CTOC) was established to monitor the activities of the GO Program and whether the intent of the voters has been met. The Ordinance also called for the City to have independent triennial performance audits of the GO Program. As a result, the City created an Audit Oversight Committee (AOC) to oversee the performance audits. The City contracted with Heinfeld, Meech & Co., P.C. to conduct the triennial performance audit for the fiscal years 2005-06 through 2007-08, with portions of the audit subcontracted to Thompson, Cobb, Bazilio & Associates, P.C.

## Focus of this Performance Audit

The purpose of the performance audit, as defined by City staff, is to evaluate performance measures, consistency with voter actions and project completion in a timely and cost effective manner. The following five major tasks were identified by the AOC and the GO Program management as key objectives of the audit:

- Evaluate whether commitments to the voters are being met
- Evaluate whether the CTOC is meeting voter commitments
- Summarize the City's financial audits
- Evaluate whether the GO Program is addressed fairly and accurately in the City's financial practices
- Evaluate whether the 25-Year Program is financially balanced and based on reasonable estimates

Each major task is reported in separate sections within the report with detailed discussions of the audit criteria, findings and recommendations.

## Audit Methodology

The methodology for this audit was comprised of interviews of City staff in the Transportation, Engineering, Finance, Management and Budget, City Auditor's Office, City Manager's Office and City Attorney's Office; interviews of CTOC members; reviews of statistical and financial records; observance of CTOC proceedings; and review of pertinent documents such as City Council and CTOC meeting minutes, GO Program

Annual Reports, the Proposition 402 ballot and Publicity Pamphlet, transit and project schedules, pertinent policies and manuals, adopted budgets and the CTOC bylaws.

A brief summary of the conclusions for each task with some of the more significant observations and recommendations follows:

### **A. Are Commitments to Voters Being Met?**

Overall, we concluded that the commitments to the voter's were being met. The 2005 Performance Audit found that the pledge to the voters to increase the frequency of bus service to every 30 minutes and to extend hours of service had been met. Our audit shows that this commitment has continued, an additional bus route was added, and the GO Transportation funds have been used to expand the Express Bus services.

Many of the projects committed to voters for street, bicycle/pedestrian, transit and airport projects have been met, but some projects have been delayed. These delays were due to efforts to obtain matching federal and state funds and project funding limitations. We also noted that pavement preservation projects were included in GO funding for fiscal years 2006-07 and 2007-08 that were previously funded by the City's General Fund. We saw no restrictions in the Ballot language that would prohibit the supplanting of GO funds for general revenue funds, and we found that pavement preservation projects were consistent with the Ballot requirement that funds be used for transportation purposes only.

### **B. Is the Citizens' Transportation Oversight Commission (CTOC) Meeting Voter Commitments?**

We concluded that the CTOC is meeting its legal requirements and is effectively serving the public interest. However, the Publicity Pamphlet outlined specific improvements that were to be accomplished through the GO Program using the tax funds generated including improve traffic flow, relieve traffic congestion, increase transportation choices, improve air quality, promote economic vitality and provide regional transportation connections. There has been no effort to define or measure these improvements. Doing so could provide greater assurance that the commitment made to voters is being met, and that the GO Program projects are targeted in the most effective way. We recommend the CTOC, working with GO Program management, consider developing specific performance indicators to measure progress made, to the extent practical, over time in each of the improvement areas described in the Publicity Pamphlet. (See Finding and Recommendation 1 on page 24.)

### **C. Summary of the City's Financial Audits**

We summarized and analyzed the GO Program elements of the City's comprehensive annual financial reports (CAFR) for fiscal years 2001-02 through 2007-08. Overall

the financial health of the GO Program looks strong, with adequate fund balance, operating expenditures within budgeted amounts and a bond issuance in fiscal year 2007-08 to ensure funding in the upcoming fiscal years.

#### **D. Is the GO Program Being Addressed Fairly and Accurately in the City Financial Practices?**

Overall, we determined that the controls over the financial practices of the GO Program were adequate to ensure that all allocations and calculations affecting the Program were fair and accurate.

We noted that the City's tax system automatically writes off unreconciled differences causing the need for manual adjustments. Also, the City's tax system is not reconciled to the information entered into the cashiering system. (See Findings and Recommendations 1 and 2 on page 42.) We recommend the City modify the tax system so that manual adjustments are not necessary. In addition, we recommend reconciling amounts between the tax system and the cashiering system.

The City does not have written policies documenting the procedures used to allocate interest to participating funds, and allocations are not based on actual interest earned. (See Findings and Recommendations 1 on page 43.) We recommend the City document the allocation process and consider allocating based on actual interest earned.

Purchases were not always supported with appropriate documentation or approval. (See Findings and Recommendations 1 on page 50.) Purchases should not be made using the check request process unless allowed under the provisions of City Manager Directive (CMD) #11.

#### **E. Is The 25-Year Program Financially Balanced and Based on Reasonable Estimates?**

Overall, we determined that the forecasts were reasonable in light of all contributing circumstances and that the Consultant who provided support to the forecasts, URS Corporation, was appropriately qualified. We reviewed the projections and the assumptions underlying the projections set forth in the Program of Projects and financial models for the projection years 2006-2030, 2007-2031 and 2008-2032, compared those projections against historical data, reviewed the underlying assumptions for reasonableness and evaluated whether other financial factors should have influenced the forecasted amounts.

# **OVERVIEW AND INTRODUCTION**

# OVERVIEW AND INTRODUCTION

## I. Background

The Glendale Onboard Transportation Program (GO Program) is a voter-approved initiative to fund transit, bicycle, safety education and neighborhood programs in the City of Glendale (City). Voters of the City approved Proposition 402 (Proposition) in November 2001, which authorized the half-cent sales tax to create this program. The Citizens' Advisory Committee for Transportation Issues (CACTI), a 61-member committee, developed the initial proposed plan that was included in the Proposition 402 ballot (Ballot) and Publicity Pamphlet. This plan formed a multi-faceted program of projects intended to accomplish the following objectives:

- Improve traffic flow
- Relieve traffic congestion
- Increase transportation choices
- Improve air quality
- Promote economic vitality
- Provide regional transportation connections

In the Ballot, four maps identified street improvements, local bus service expansions, specialized transit service expansions and bicycle and pedestrian projects that would be accomplished with the new sales taxes monies. The plan called for many of the projects to be completed within the first five years of the program.

In addition to the revenues generated by the half-cent sales tax, the voter-approved GO Program is funded by federal, state, regional and local matching funds, including transit user fees and City general funds, as well as bond issuances used to expedite the completion of certain projects.

The passage of the Proposition resulted in the City adopting Ordinance Number 2241 (Ordinance) formalizing the GO Program. As a provision of the Ordinance, a Citizens' Transportation Oversight Commission (CTOC) was established to monitor the activities of the GO Program and whether the intent of the voters has been met. In order for the CTOC to provide effective oversight, City staff annually provides the members long-range programs of sales tax funded projects and annual reports that address funding balances and status of projects undertaken.

The Ordinance also calls for the City to have independent triennial performance audits of the GO Program. As a result, the City created an Audit Oversight Committee (AOC) to oversee the performance audits. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action and contribute to public accountability.

The City contracted with Heinfeld, Meech & Co., P.C. to conduct the triennial performance audit for the fiscal years 2005-06 through 2007-08, with portions of the audit subcontracted to Thompson, Cobb, Bazilio & Associates, P.C.

## II. Objectives, Scope and Methodology

The purpose of the GO Program audit, as defined by City staff, is to evaluate performance measures, consistency with voter actions and project completion in a timely and cost effective manner. The following five major tasks were identified by the AOC and the GO Program management as key objectives of the audit:

- Evaluate whether commitments to the voters are being met
- Evaluate whether the CTOC is meeting voter commitments
- Summarize the City's financial audits
- Evaluate whether the GO Program is addressed fairly and accurately in City's financial practices
- Evaluate whether the 25-Year Program is financially balanced and based on reasonable estimates

We conducted this performance audit 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 findings and conclusions based on our audit objectives.

The GO Program's revenues, expenditures and balances are reviewed each year as part of the City's independent financial statement audit. The annual financial audit assesses the appropriateness of the City's accounting practices and financial statements while this performance audit evaluates the GO Program's performance, fiscal accountability, commitments to voters and progress in completion of the projects.

We kicked off the audit with an entrance conference with the AOC on June 23, 2009 to confirm the scope of work and audit schedule. We then developed a specific audit plan outlining the objectives and steps needed to be addressed based on the audit tasks defined in the audit proposal. The methodology for this audit was comprised of interviews of City staff in the Transportation, Engineering, Finance, Management and Budget, City Auditor's Office, City Manager's Office and City Attorney's Office; interviews of CTOC members; reviews of statistical and financial records; observance of CTOC proceedings; and review of pertinent documents such as City Council and CTOC meeting minutes, GO Program Annual Reports, the Proposition 402 ballot and Publicity Pamphlet, transit and project schedules, pertinent policies and manuals, adopted budgets and the CTOC bylaws.

Each major task is reported in separate sections within the report with detailed discussions of the audit criteria, findings and recommendations. A brief summary of the objectives for each task follows.

### **A. Are Commitments to Voters Being Met?**

We performed the following in order to determine whether the commitments to voters were being met in accordance with the Publicity Pamphlet and the Proposition 402 ballot.

- Gained an understanding of laws, regulations and guidelines related to the GO Program.
- Determined what commitments were made to the voters.
- Determined the general objectives of Proposition 402 to be used in evaluating if changes in specific projects were consistent with those objectives.
- Compared the list of projects on the Ballot and Publicity Pamphlet with the project status reports.
- Determined the status of the projects that were committed to the voters in the Ballot.
- Determined if additions and deletions, or other changes in the transportation improvement projects and other elements defined in Proposition 402 are consistent with the general objectives of the Proposition.
- Determined if commitments to the voters were being met.

### **B. Is the Citizens' Transportation Oversight Commission (CTOC) Meeting Voter Commitments?**

We performed the following in order to determine whether the CTOC was meeting voter commitments in accordance with the Publicity Pamphlet and the Proposition 402 ballot.

- Gained an understanding of laws, regulations and guidelines related to the expectations of the CTOC.
- Determined what commitments were made to voters in regards to the CTOC in the Ballot.
- Determined the responsibilities and commitments of the CTOC.
- Reviewed plans, goals, objectives and performance indicators or metrics used by the CTOC to ensure it is effectively providing oversight and serving the public's interest.
- Conducted interviews with members of the CTOC to determine member views of the CTOC's effectiveness in meeting its legal requirements and serving the public interest.
- Determined if commitments to the voters were being met by the CTOC.

## **C. Summary of the City's Financial Audits**

We summarized the GO Program elements of the City's comprehensive annual financial reports (CAFRs) for fiscal years 2001-02 through 2007-08, and we summarized the basic findings of our financial analysis including annual revenues, expenditures and fund balance.

In addition to compiling and analyzing the financial statements, we reviewed the CAFRs, Single Audit reports and management letters from fiscal years 2004-05 through 2007-08 for findings or recommendations related to the GO Program. Additionally, we reviewed the past GO Program Performance Audit and the City Auditor's Office Audit of Transit Operations as of February 2009. We have addressed each finding or recommendation within the specific task with which it relates.

## **D. Is the GO Program Being Addressed Fairly and Accurately in City Financial Practices?**

We reviewed the City's financial and accounting records and assessed the internal processes to ensure that the GO Program was being addressed fairly and accurately in the City's financial practices. In the course of our review, we performed the following:

- Determined whether GO funds were recorded in a separate general ledger account.
- Determined whether reasonable interest was accrued on unused funds.
- Determined whether general funds were allocated consistent with past practices.
- Determined whether indirect charges were fair and accurate.
- Reviewed the adequacy of the City's policies and procedures for the investment of surplus funds.
- Determined whether maintenance charges were fairly allocated.
- Determined whether Capital Improvement Plan (CIP) set-asides were fair and accurate.
- Determined whether the GO Program followed all accepted City standards for purchasing.

The initial plan included a determination of whether GO Program monies were used to supplant projects and programs in place prior to the election. During the course of

our testwork, it was determined that supplanting was not prohibited; therefore, the applicability of such testwork was deemed unnecessary.

## **E. Is the 25-Year Program Financially Balanced and Based on Reasonable Estimates?**

We reviewed the projections and the assumptions underlying the projections set forth in the Program of Projects and financial models for the projection years 2006-2030, 2007-2031 and 2008-2032, compared those projections against historical data, reviewed the underlying assumptions for reasonableness and evaluated whether other financial factors should have influenced the forecasted amounts. Based on the information provided, we evaluated whether the 25-year plans were financially balanced and based on reasonable estimates as follows:

- Determined whether the financial projections were reasonable, including sales taxes, general funds, farebox revenues and regional, state and federal sources.
- Determined whether cost estimates were reasonable.
- Determined whether the financial factors used such as interest rates, bonding levels and inflation rates were reasonable.
- Analyzed the schedule of planned activity to determine if planned levels were achievable.
- Reviewed the process for adjusting the schedule and evaluated whether it was in keeping with the intent of the voters.

**ARE COMMITMENTS TO  
VOTERS BEING MET?**

# ARE COMMITMENTS TO VOTERS BEING MET?

## I. Methodology

We performed the following in order to determine whether the commitments to voters were being met in accordance with the Publicity Pamphlet and the Proposition 402 ballot.

### A. Are Commitments to Voters for Transit Services Being Met?

- We reviewed the specific ballot language as well as the Publicity Pamphlet for the Special Transportation Election dated November 6, 2001 to specifically define and document the commitments made to voters in Proposition 402.
- We identified transit service schedules existing prior to the November 6, 2001 ballot and those services currently being provided.
- We reviewed the 2005 Performance Audit Report to identify services provided during the first three year after the Ballot.
- We compared current services to those services provided before the Ballot and those provided during the first three years after the Ballot.

### B. Are Commitments to Voters for Street, Bicycle/Pedestrian, Transit and Airport Projects Being Met?

- We evaluated project changes to determine whether they were consistent with the objectives of the specific ballot language and the Publicity Pamphlet of Proposition 402.
- We obtained and reviewed Transportation and Engineering Department project status reports for each of the specific projects detailed in the Ballot and Publicity Pamphlet for the Special Election.
- We compared the list of projects on the Ballot and Publicity Pamphlet with the status reports provided by the Transportation and Engineering Departments.
- We identified differences or discrepancies between the Ballot projects and status reports. This included projects that were in the Ballot list of projects that have not been initiated or completed and projects that were not specifically identified on the Ballot that have been added to the list of projects.
- We conducted interviews with Transportation and Engineering staff to determine the rationale for any differences or discrepancies identified, including why projects were deleted or modified as well as why other projects were added.
- We reviewed minutes and actions of the City Council to identify discussions of changes in specific projects and recommendations made by the Committee.

- We reviewed minutes and actions of the Citizens' Transportation Oversight Committee to identify discussions of changes in specific projects and recommendations made by the Committee.
- We determined if additions and deletions, or other changes in the transportation improvement projects and other elements defined in Proposition 402 were consistent with the general objectives of the Proposition.
- We reviewed findings and recommendations from the previous performance audit and requested implementation status information from the Transportation and Engineering Departments. Using this information, we determined the extent to which previous performance audit recommendations have been effectively implemented.

## II. Summary of Observations

### A. Commitments to Voters to Increase the Frequency of Bus Services Have Been Met.

The 2005 Performance Audit found that the pledge to the voters to increase the frequency of bus service on existing fixed routes to every 30 minutes and to extend hours of service and add Saturday and Sunday services had been met. Our audit shows that this commitment has continued and an additional bus route has been added. The bus schedules below for weekday, Saturday and Sunday services show the bus routes and frequency before the election, per the 2005 performance audit, and as of June 30, 2008.

#### Bus Routes and Frequency - WEEKDAYS

Route	Before Election			Per Performance Audit 2005			As of June 30, 2008		
	Frequency	Start Time	End Time	Frequency	Start Time	End Time	Frequency	Start Time	End Time
50	30 Minutes	4:24 AM	9:59 PM	30 Minutes	4.23 A.M.	10.48 P.M.	30 Minutes	5.03 A.M.	10.47 P.M.
60	30 Minutes	4:44 AM	7:40 PM	30 Minutes	4.25 A.M.	10.11 P.M.	30 Minutes	5.04 A.M.	9.39 P.M.
24/70	Hourly	6:10 AM	6:18 PM	30 Minutes	5.40 A.M.	7.14 P.M.	30 Minutes	4.40 A.M.	11.13 P.M.
80	30 Minutes	5:03 AM	6:45 PM	30 Minutes	5.03 A.M.	10.00 P.M.	30 Minutes	5.03 A.M.	9.43 P.M.
90	30 Minutes	5:41 AM	7:04 PM	30 Minutes	5.12 A.M.	10.15 P.M.	30 Minutes	5.12 A.M.	10.15 P.M.
106	45 Minutes	3:47 AM	8:33 PM	30 Minutes	3.40 A.M.	11.02 P.M.	30 Minutes	4:51 A.M.	9:05 P.M.
122	Only in Phoenix						Hourly	5.29 A.M.	9.42 P.M.
138	Hourly	5.00 A.M.	7:45 PM	30 Minutes	5.00 A.M.	9.55 P.M.	30 Minutes	5.00 A.M.	9.55 P.M.
170	30 Minutes	5.00 A.M.	7:46 PM	30 Minutes	4.23 A.M.	11.06 P.M.	30 Minutes	4.57 A.M.	10.30 P.M.
186	Hourly	5:21 AM	6:36 PM	30 Minutes	4.47 A.M.	10.19 P.M.	30 Minutes	4.47 A.M.	10.08 P.M.
43	30 Minutes	5:11 AM	10:04 PM	30 Minutes	4.16 A.M.	11.00 P.M.	30 Minutes	5.30 A.M.	10.25 P.M.
51	Did not exist			30 Minutes	4.36 A.M.	9.10 P.M.	30 Minutes	4:36 A.M.	9:10 P.M.
59	30 Minutes	5.00 A.M.	6.00 P.M.	30 Minutes	4.58 A.M.	10.36 P.M.	30 Minutes	4:49 A.M.	10.39 P.M.
67	Hourly	5:55 AM	7:53 PM	30 Minutes	5.44 A.M.	10.08 P.M.	30 Minutes	5.46 A.M.	10.00 P.M.

### Bus Routes and Frequency - SATURDAYS

Route	Before Election			Per Performance Audit 2005			As of June 30, 2008		
	Frequency	Start Time	End Time	Frequency	Start Time	End Time	Frequency	Start Time	End Time
50	30 Minutes	5:07 AM	7:57 PM	30 Minutes	5:06 A.M.	9:58 P.M.	30 Minutes	6:04 A.M.	9:12 P.M.
60	Hourly	5:43 AM	8:01 PM	30 Minutes	5:55 A.M.	9:59 P.M.	Hourly	5:56 A.M.	8:39 P.M.
24/70	No Service			Hourly	7:15 A.M.	7:14 P.M.	30 Minutes	4:37 A.M.	10:01 P.M.
80	Hourly	6:05 AM	6:02 PM	30 Minutes	5:02 A.M.	9:58 P.M.	Hourly	6:31 A.M.	9:35 P.M.
90	Hourly	5:36 AM	7:28 PM	30 Minutes	5:08 A.M.	9:47 P.M.	30 Minutes	5:51 A.M.	9:28 P.M.
106	No Service			30 Minutes	5:25 A.M.	10:14 P.M.	30 Minutes	5:57 A.M.	9:32 P.M.
122	Only in Phoenix						Hourly	6:18 A.M.	8:15 P.M.
138	Only in Phoenix			30 Minutes	5:00 A.M.	9:54 P.M.	Hourly	6:00 A.M.	8:54 P.M.
170	Hourly	5:23 AM	8:07 PM	30 Minutes	5:00 A.M.	10:35 P.M.	30 Minutes	5:29 A.M.	9:13 P.M.
186	Only in Phoenix			30 Minutes	4:50 A.M.	10:18 P.M.	Hourly	5:50 A.M.	8:51 P.M.
43	30 Minutes	5:45 AM	10:20 PM	30 Minutes	5:11 A.M.	10:17 P.M.	Hourly	6:10 A.M.	9:35 P.M.
51	Did not exist			Hourly	5:21 A.M.	7:55 P.M.	Hourly	5:21 A.M.	7:55 P.M.
59	Hourly	6:10 AM	7:40 PM	30 Minutes	5:43 A.M.	10:18 P.M.	Hourly	5:13 A.M.	9:48 P.M.
67	Hourly	5:59 AM	7:49 PM	30 Minutes	5:55 A.M.	10:10 P.M.	Hourly	6:15 A.M.	9:15 P.M.

### Bus Routes and Frequency - SUNDAYS

Route	Before Election			Per Performance Audit 2005			As of June 30, 2008		
	Frequency	Start Time	End Time	Frequency	Start Time	End Time	Frequency	Start Time	End Time
50	Hourly	6:13 AM	7:57 PM	30 Minutes	6:11 A.M.	9:09 P.M.	30 Minutes	6:04 AM	9:12 PM
60	Only in Phoenix			30 Minutes	6:10 A.M.	8:55 P.M.	Hourly	5:56 A.M.	8:39 P.M.
24/70	No Service			Hourly	7:15 A.M.	7:14 P.M.	30 minutes	5:37 A.M.	9:31 P.M.
80	No Service			Hourly	6:32 A.M.	9:29 P.M.	Hourly	6:31 A.M.	9:35 P.M.
90	No Service			30 Minutes	5:52 A.M.	9:13 P.M.	30 Minutes	5:51 A.M.	9:28 P.M.
106	No Service			30 Minutes	6:19 A.M.	9:20 P.M.	Hourly	6:27 A.M.	8:55 P.M.
122	No Service						Hourly	6:18 A.M.	8:15 P.M.
138	Only in Phoenix			Hourly	6:00 A.M.	8:54 P.M.	Hourly	6:00 A.M.	8:54 P.M.
170	Only in Phoenix			30 Minutes	5:45 A.M.	9:04 P.M.	Hourly	5:43 A.M.	8:58 P.M.
186	Only in Phoenix			Hourly	5:53 A.M.	8:48 P.M.	Hourly	5:50 A.M.	8:51 P.M.
43	Hourly	6:18 AM	7:46 PM	Hourly	5:51 A.M.	10:02 P.M.	Hourly	6:10 AM	9:02 PM
51	Did not exist			Hourly	5:22 A.M.	7:55 P.M.	Hourly	5:21 A.M.	7:55 P.M.
59	Only in Phoenix			Hourly	5:13 A.M.	9:48 P.M.	Hourly	5:13 A.M.	9:48 P.M.
67	Only in Phoenix			Hourly	6:16 A.M.	9:32 P.M.	Hourly	6:15 A.M.	9:15 P.M.

GO Transportation funds have also been used to expand Express Bus services as promised in the Publicity Pamphlet for Proposition 402. The schedule below compares the Express Bus services before the election and as of June 30, 2008. Express Bus service is provided on weekdays only.

**Express Bus Routes and Frequency - WEEKDAYS**

Route	Before Election			As of June 30, 2008		
	Frequency	Start Time	End Time	Frequency	Start Time	End Time
Ex 571	30 Minutes	5:40 AM	7:48 PM	30 Minutes (Morning & Evening Only)	5.35 A.M. to 7.33 A.M.	4.50 P.M. to 6.40 P.M.
Ex 581	30 Minutes (Morning & Evenings Only)	5:46 AM	6:27 PM	30 Minutes (Morning & Evening Only)	5.46 A.M. to 6.51 A.M.	5.14 P.M. to 6.32 P.M.
Ex 570	30 Minutes (Morning & Evenings Only)	5:48 AM	6:16 PM	30 Minutes (Morning & Evening Only)	5.56 A.M. to 6.57 A.M.	5.33 P.M. to 6.16 P.M.
Ex 572				30 Minutes (Morning & Evening Only)	5:16 A.M. to 7.08 A.M.	4.28 P.M. to 6.10 P.M.
Ex 573				30 Minutes (Morning & Evening Only)	5.11 A.M. to 9.05 A.M.	4.08 P.M. to 6.52 P.M.
Ex 575				30 Minutes (Morning & Evening Only)	5.55 A.M. to 7.00 A.M.	5.06 P.M. to 6.20 P.M.
Ex 576				Hourly (Morning & Evening Only)	5.45 A.M. to 10.45 A.M.	5.10 P.M. to 7.30 P.M.

There were no recommendations in this area.

**B. Many of the Commitments to Voters for Street, Bicycle/Pedestrian, Transit and Airport Projects Have Been Met, but Some Projects Have Been Delayed.**

As of June 30, 2008, 45 projects were completed (28 street, 8 bicycle/pedestrian, 3 transit and 6 airport). Thirteen projects were under construction (11 street and 2 bicycle/pedestrian), and 22 projects were in design (16 street and 6 bicycle/pedestrian). One project for pavement preservation was ongoing.

A total of 19 projects (13 street and 6 bicycle/pedestrian) were in design that, according to the Publicity Pamphlet, were targeted for completion within the first five years after the ballot. These projects had been delayed to obtain matching federal/state funds or because of GO Program funding availability limitations.

Five projects that were not considered part of the GO Program at the time of the Ballot have been added to the GO project list. Four of these projects were consistent

with Ballot objectives. One project, pavement preservation, represented a substitution of GO Program funds for general revenue funds previously used to pay such activities. Such substitution of GO Program funds was not identified in the Publicity Pamphlet, but it was not prohibited by the Ballot language or the GO Program ordinance.

The results of our review are summarized below by streets projects, bicycle/pedestrian projects, transit projects and airport projects.

### ***Street Projects***

Following is a list of 56 street projects included in the GO Program FY 2008 Annual Report and the status of those projects. All projects included in the Publicity Pamphlet for Proposition 402 are included in this list except for three projects that were deleted prior to our audit period. These projects were discussed in the prior GO Program Performance Audit report.

## **STATUS OF STREET PROJECTS**

No.	PROJECT DESCRIPTION	Note	1st Five Years?	Status as of June 30, 2008	Completed
1	67th Ave intersection at Bell Rd		Yes	Completed	2008
2	67th Ave intersection at Thunderbird		Yes	Construction	
3	67th Ave intersection at Cactus Rd		Yes	Construction	
4	Intersection improvements at 67th Ave/Peoria Ave		Yes	Completed	2007
5	67th Ave intersection at Olive Ave		Yes	Construction	
6	67th Ave intersection at Glendale Ave		Yes	Completed	2008
7	67th Ave intersection at Camelback Rd		Yes	Completed	2008
8	59th Ave intersection at Bell Rd	1	Yes	Design	
9	59th Ave intersection at Greenway	1	Yes	Design	
10	59th Ave intersection at Thunderbird	1	Yes	Design	
11	59th Ave intersection at Cactus Rd	1	Yes	Design	
12	59th Ave intersection at Peoria Ave	1	Yes	Design	
13	59th Ave intersection at Olive Ave	1	Yes	Design	
14	59th Ave intersection at Northern Ave	1	Yes	Design	
15	Medians and beautification from Grand Ave to Loop 101	1	Yes	Design	
16	59th Ave intersection at Bethany Home Rd		No	Design	
17	59th Ave intersection at Camelback Rd		Yes	Design	
18	51st Ave intersection at Peoria Ave		Yes	Construction	
19	51st Ave intersection at Bell Rd		No	Design	
20	51st Ave intersection at Northern Ave		Yes	Design	

## STATUS OF STREET PROJECTS

No.	PROJECT DESCRIPTION	Note	1st Five Years?	Status as of June 30, 2008	Completed
21	51st Ave intersection at Glendale Ave		Yes	Construction	
22	51st Ave intersection at Camelback Rd		Yes	Design	
23	43rd Ave intersection at Peoria Ave		Yes	Construction	
24	43rd Ave intersection at Olive Ave		Yes	Construction	
25	43rd Ave intersection at Northern Ave		Yes	Construction	
26	43rd Ave intersection at Glendale Ave		Yes	Construction	
27	43rd Ave intersection at Bethany Home Rd		Yes	Construction	
28	75th Ave intersection at Glendale Ave		Yes	Completed	2008
29	75th Ave intersection at Bethany Home Rd		Yes	Completed	2008
30	75th Ave intersection at Camelback Rd		Yes	Completed	2008
31	Northern Parkway improvements from Loop 101 to Grand Ave	2	No	Design	
32	57th Ave bridge at Skunk Creek	3	Yes	Design	
33	75th Ave from Rose Garden Ln to Deer Valley Rd		Yes	Completed	2005
34	Bethany Home Rd – 91st Ave to 99th Ave	4	Yes	Completed	2006
35	Bridge crash barrier on Northbound 83rd Ave at Loop 101	5	Yes	Completed	2006
36	Bridge crash barrier on Westbound Thunderbird west of 59th Ave	5	Yes	Completed	2006
37	Bridge crash barrier on Westbound Cactus Rd west of 51st Ave	5	Yes	Completed	2006
38	Bridge crash barrier on Eastbound Cactus Rd west of 51st Ave	5	Yes	Completed	2006
39	Grand Ave access control and beautification from 43rd Ave to 71st Ave	6	Yes	Design	
40	Traffic Control Center on 59th Ave between Olive Ave and Peoria Ave	7	No	Completed	2006
41	Bus Bay on 59th Ave north of Union Hills	7	No	Completed	2006
42	83rd Ave Scalloped Street north of Bell Road to Loop 101	7	No	Completed	2006
43	Safety improvements on Thunderbird between 56th Ave and 57th Dr	7	No	Completed	2007
44	Bus Bay on 59th Ave north of Northern Ave	7	No	Completed	2006
45	Street and sidewalk improvements on Northern Ave west of 43rd Ave	7	No	Completed	2007

## STATUS OF STREET PROJECTS

No.	PROJECT DESCRIPTION	Note	1st Five Years?	Status as of June 30, 2008	Completed
46	Street and sidewalk improvements on Bethany Home Rd between 47th Ave & 48th Ave	7	No	Completed	2007
47	Maryland Ave between 95th Ave & 99th Ave, including bridge over Loop 101	7	No	Completed	2006
48	95th Ave between Maryland Ave and Bethany Home Rd		New	Completed	2006
49	Scalloped street improvements on Glendale Ave from 67th Ave to 91st Ave	7	No	Completed	2008
50	Scalloped street improvements on 75th Ave from Glendale Ave to south of Bethany Home Rd	7	No	Completed	2008
51	Scalloped street improvements on 83rd Ave from Glendale Ave to Camelback Rd	7	No	Completed	2008
52	Street widening on Myrtle Ave from 59th Ave to 62nd Ave	8	Yes	Construction	
53	Street improvements on Glendale Ave from 43rd Ave to 67th Ave	9	Yes	Completed	2008
54	Median improvements on Grand Ave from 43rd Ave to 57th Drive	8	Yes	Completed	2008
55	Street widening on Greenbrier St from 59th Ave to 64th Ave		No	Completed	2008
56	Pavement Overlay		New	Ongoing	

- Note 1 Now combined as one project on 59<sup>th</sup> Ave.
- Note 2 Was called East/West Super Connector.
- Note 3 Was called 57<sup>th</sup> Ave north of Union Hills.
- Note 4 Revised segment to be improved from 83<sup>rd</sup> Ave to 99<sup>th</sup> as discussed in prior report.
- Note 5 Previously called Blunt End Safety Improvements.
- Note 6 Median improvements have been completed.
- Note 7 Part of Ballot but not specifically listed.
- Note 8 Part of Grand Ave Access Control and Beautification from 43<sup>rd</sup> Ave to 71<sup>st</sup> Ave.
- Note 9 Part of this project was previously listed as Bicycle Downtown Improvements.

The list of 56 street projects includes two new projects, 95<sup>th</sup> Avenue Extension from Maryland Avenue to Bethany Home Road and Pavement Overlay. The 95<sup>th</sup> Avenue Extension was added to improve circulation and relieve congestion associated with

activities within the Sports and Entertainment District. The Pavement Overlay project was added at the direction of the City Council to fund a portion of the City's pavement preservation program that previously was financed through City general revenues. Such substitution of GO Program funds was not identified in the Publicity Pamphlet, but it is not prohibited by the Ballot language or the GO Program Ordinance.

The list includes 11 projects (footnote 7) that were not specifically listed in the Publicity Pamphlet but were part of the Ballot language. We found these projects to be consistent with the objectives discussed in the Publicity Pamphlet for Proposition 402.

The status of the 56 projects showed 28 that were completed as of June 30, 2008, 11 that were in construction and 16 that were in various stages of design. The Pavement Overlay project is an ongoing project.

There were 39 projects that according to the Publicity Pamphlet for Proposition 402 were to be completed within the first five years of the GO Program. We found that 26 of those projects were either complete or under construction as of June 30, 2008. The remaining 13 were in various stages of design. Program officials provided the following explanations for why these 13 projects were delayed and the expected completion dates as follows:

1. Intersections at 59<sup>th</sup> Avenue and Bell Road, at 59<sup>th</sup> Avenue and Greenway Road, at 59<sup>th</sup> Avenue and Thunderbird Street, at 59<sup>th</sup> Avenue and Cactus Road, at 59<sup>th</sup> Avenue and Peoria Avenue, at 59<sup>th</sup> Avenue and Olive Avenue, at 59<sup>th</sup> Avenue and Northern Avenue, and medians and beautification from Grand Avenue to Arizona Loop 101 (a total of 8 projects) were first delayed because of cost escalation and limits on funds available. Later delays were due to revenue shortfalls, which resulted in the inability to maintain the required revenue to debt service ratio of 2:1. Thus, the projects were pushed back to keep the program in financial balance. The projects have completed Design Concept Review (DCR). Engineering design is scheduled for 2021-2022, and construction is scheduled for 2022-2023.
2. The intersection at 59th Avenue and Camelback Road was delayed for the same reasons as discussed above for the other 59th Avenue projects. DCR is complete. Engineering design is scheduled for 2020, and construction for 2021.
3. The intersections at 51st Avenue and Northern Avenue and 51st Avenue and Camelback Road, (2 projects) were delayed to achieve matching of federal funds availability and the additional time required for the federal approval process. Federal funds are Congestion Mitigation & Air Quality (CMAQ) and Hazard Elimination Safety (HES). CMAQ is passed through the Maricopa Association of Governments and managed by the Arizona Department of Transportation (ADOT). Engineering design is complete, and construction will start in 2010 and complete in 2011.

4. The 57th Avenue Bridge at Skunk Creek (was called 57th Avenue North of Union Hills Drive) was scheduled toward the end of the five-year period (2005) and was delayed due to right-of-way acquisition issues. This project is currently in construction (2009) and will be completed in 2010. (This project is also listed in the prior Performance Audit Report as a bicycle project. However, it is more a street project than a bicycle project.)
5. The Median and Beautification Work project on Grand Avenue from 43rd Avenue to 71st Avenue was delayed due to matching federal funding availability. The project will be partially funded with Highway User Revenue funds administered by ADOT. The project consists of median improvements, access control and beautification work. The median improvements are complete. The remaining work under the project is in design, and construction will start in 2010 and be completed in 2011.

### ***Bicycle/Pedestrian Projects***

Following is a list of 16 bicycle/pedestrian projects included in the GO Program FY 2008 Annual Report and the status of those projects. All projects included in the Publicity Pamphlet for Proposition 402 are included in this list.

#### **STATUS OF BICYCLE/PEDESTRIAN PROJECTS**

No.	PROJECT DESCRIPTION	Note	1st Five Years?	Status as of June 30, 2008	Year Completed
1	51st Ave sidewalk and landscape improvements from Camelback Rd to south of Grand Ave	1	Yes	Completed	2008
2	63rd Ave bike lanes from Grand Ave to Olive Ave	2	Yes	Construction	
3	Bike lane on Cholla St west of 59th Ave		Yes	Completed	2005
4	Grand Canal bicycle/pedestrian pathway from 91st Ave to New River	3	Yes	Design	
5	New River bicycle/pedestrian pathway from Northern Ave to Bethany Home Rd	3	Yes	Design	
6	63rd Ave bicycle/pedestrian overpass at Loop 101		Yes	Design	
7	Bicycle/pedestrian bridge over Grand Canal at Missouri Ave/79th Ave		Yes	Completed	2005
8	Skunk Creek bicycle/pedestrian pathway under Union Hills Dr		Yes	Design	
9	Glendale Ave bridge widening at New River for bike pedestrian path		Yes	Completed	2006
10	Downtown pedestrian enhancements	4	Yes	Completed	2008
11	Catlin Court alley beautification	5	Yes	Construction	
12	Old Roma alley pedestrian enhancements	5	Yes	Design	
13	Bike/pedestrian bridge over 71st Ave channel at Skunk Creek)	6	Yes	Completed	2006
14	71st Ave channel bike/pedestrian pathway from Camino San Xavier to Skunk Creek	6	Yes	Completed	2008
15	Skunk Creek bicycle/pedestrian pathway under Bell Road	6	Yes	Design	
16	51st Ave/ACDC bicycle underpass		New	Completed	2008

- Note 1 Was titled as 51<sup>st</sup> Ave – Camelback Rd to Bethany Home Rd.
- Note 2 Project was revised from Northern Ave to Peoria Ave to Grand Ave to Olive Ave.
- Note 3 Listed as one project in prior report: Bicycle Routes – New River and Grand Canal Multi-Use Paths.
- Note 4 Was Pedestrian Circulation Improvement Area – Downtown Glendale.
- Note 5 Split out from Downtown pedestrian enhancements.
- Note 6 Split out from the Pedestrian & Bicycle Circulation Improvement Area – Arrowhead Towne Center Project.

The list includes one new project. The 51<sup>st</sup> Avenue/Arizona Canal Diversion Channel (ACDC) bicycle underpass was added to GO Transportation funds to meet additional fund matching requirements on a joint project with the City of Phoenix.

The status of the 16 projects showed 8 that were completed as of June 30, 2008, 2 that were in construction and 6 that were in various stages of design.

There were 15 projects that according to the Publicity Pamphlet for Proposition 402 were to be completed within the first five years of the GO Program. We found that 9 of those projects were either complete or under construction as of June 30, 2008. The remaining 6 were in various stages of design. Program officials provided the following explanations for why these 6 projects were delayed and the expected completion dates as follows:

1. The Grand Canal Multi-Use Path project was delayed due to matching federal funding availability. Federal funds are CMAQ and Transportation Enhancement administered by ADOT. Construction is scheduled for 2012 with completion in 2013.
2. New River Bike/Pedestrian Pathway from Northern Avenue to Bethany Home Road was delayed due to matching federal funding availability. Federal funds are CMAQ administered by ADOT. Construction is scheduled for 2013 with completion in 2014.
3. Bicycle/Pedestrian Crossing – 63rd Avenue and Arizona Loop 101 was delayed due to complex design issues and to achieve federal matching funds. Design issues concerned the need to relocate utilities and waterlines. Federal funds are CMAQ and American Recovery and Reinvestment Act (ARRA). Construction will start 2010 and complete 2011.
4. Bicycle/Pedestrian Crossing – Underpass at Union Hills Drive and Skunk Creek (was part of Arrowhead Towne Center Project) was delayed due to matching the availability of federal funds and due to additional time required for the federal approval process. Federal funds are CMAQ. Construction is scheduled for 2011, and completion is scheduled in the same year.
5. The Old Roma Alley Pedestrian Enhancements project was delayed due to lack of contractor interest in a small project. The project was put out to bid in 2007, but no contractors responded. The project is now starting with ARRA

funds. With the current economy there is more interest in a small job. Construction will start in 2010 and will be completed in 2011.

6. Skunk Creek Bike/Pedestrian Pathway under Bell Road was delayed due to matching federal fund availability and due to the need to redefine the project to be within federal funding limitations. The original plan was to widen Bell Road and have the bicycle path on the bridge. These plans were revised to have the path under Bell Road. Federal funds are CMAQ. Construction is schedule for 2011, and completion is scheduled for 2012.

### ***Transit Projects***

The election package stated that GO Program funds would be used for park-and-rides and transit centers without specifically identifying projects. As of June 30, 2008 the following transit projects have been completed.

1. Stadium overflow parking facility on 91<sup>st</sup> Avenue between Glendale Avenue and Northern Avenue.
2. New Transit Office at Myrtle Avenue and 63<sup>rd</sup> Avenue.
3. Arizona Loop 101/Glendale Avenue park-and-ride lot.

GO Program officials stated that the parking facility at 91<sup>st</sup> Avenue was not part of its plans at the time of the November 2001 ballot, but was added to address congestion and safety issues in the high traffic volume area near the Sports and Entertainment District. They also stated that the New Transit Office was not part of the November 1, 2001 plan, but was added to provide a centralized office for the administration and dispatch of all GO funded transit services. An Arizona Loop 101 park-and-ride was part of the November 1, 2001 ballot plan, but at another nearby location. The location was changed to Glendale Avenue because the state provided the land and this site was close to the original plan.

### ***Airport Projects***

The election package included a reservation of funds for the Glendale Airport without specifically identifying projects. As of June 30, 2008 the following airport projects have been completed.

1. Installation of the Standard Terminal Automation Replacement System (STARS) Air Traffic Control System.
2. Pavement Preservation – Aviation Easement.
3. Airport Eastside Access Road.
4. Security Fencing Replacement.
5. Airport Property (Rivera) Acquisition.
6. Eastside Parallel Taxiway Connector.

There were no recommendations in this area.

### **III. Status of Prior Audit Findings**

The prior performance audit completed in 2005 made one recommendation that was applicable to this section. The recommendation was to track current and planned capital projects in a common location.

#### Actions Taken

The Engineering Department uses the software Primavera to schedule and track all projects. Project schedules data for active projects are posted on the City's website.

**IS THE CITIZENS'  
TRANSPORTATION OVERSIGHT  
COMMISSION (CTOC) MEETING  
VOTER COMMITMENTS?**

# IS THE CITIZENS' TRANSPORTATION OVERSIGHT COMMISSION (CTOC) MEETING VOTER COMMITMENTS?

## **I. Methodology**

We performed the following in order to determine whether the CTOC was meeting voter commitments in accordance with the Publicity Pamphlet and the Proposition 402 ballot.

### **A. Is the Citizens' Transportation Oversight Commission Meeting Its Legal Requirements?**

- We reviewed the specific ballot language as well as the Publicity Pamphlet for the Special Transportation Election dated November 6, 2001 to specifically define and document the commitments made to voters regarding the formation and support of the Citizens' Transportation Oversight Commission.
- We reviewed the City Council Ordinance used to specifically create the CTOC to determine the specific expectations and legal requirements of the CTOC.
- We developed a detailed list of the legal requirements for the CTOC based on the ballot item and the City Council Ordinance.
- We obtained and reviewed the charter, bylaws, policies statements, meeting agendas and minutes for the CTOC to determine the extent to which legal requirements are being met.

### **B. Is the Citizens' Transportation Oversight Commission Effectively Serving the Public Interest?**

- We obtained and reviewed plans, goals, objectives, and performance indicators or metrics used by the CTOC to ensure it is effectively providing oversight and serving the public's interest.
- We conducted interviews with members of the CTOC to determine member views of the CTOC's effectiveness in meeting its legal requirements and serving the public interest.
- We attended a meeting of the CTOC to observe the discussion and decision-making process of the Commission.
- We reviewed findings and recommendations from the previous performance audit and requested implementation status information from the CTOC. Using this information we determined the extent to which previous performance audit recommendations have been effectively implemented.

## **II. Summary of Observations and Recommendations**

### **A. The Citizens' Transportation Oversight Commission (CTOC) is Meeting its Legal Requirements**

The Publicity Pamphlet for the Special Transportation election in November 2001 stated that the CTOC would be established to:

“Ensure that voter-approved projects are completed in a timely and cost effective manner.”

The City Council Ordinance (2241) formally establishing the CTOC further established this as the principle responsibility of the Commission. The Ordinance also clearly stated that the powers and duties of the Commission are advisory in nature, and that all acts and actions of the CTOC are subject to review by the City Council.

The Ordinance further defined the duties and responsibilities of the CTOC to include:

- Advising the City Council on regional transportation issues, public transit, issues relating to bicycles, and issues related to alternative modes of transportation.
- Reviewing a financially balanced Long Range Transportation Program each year and recommending this program to the City Council for action.
- Reviewing the annual report of the Transportation Sales Tax Program and forwarding it to the City Council for consideration.
- Reviewing independent audits of the performance and fiscal accountability of the Transportation Sales Tax Program conducted every three years and forwarding them to the City Council.
- Performing all other duties, tasks, and responsibilities as delegated to the Commission by the City Council.

To determine the extent to which the CTOC was meeting its duties and responsibilities we reviewed the agendas and minutes for CTOC meetings, materials and presentations provided to the CTOC, the GO Program of Projects updated each year, and annual status reports. We also interviewed members of the CTOC to determine their views of how well the Commission performed its duties and responsibilities. We found the following:

- The CTOC receives detailed information on the various projects undertaken as part of the GO Program, including specific implementation status and changes made to these projects.
- The CTOC reviews, discusses, and approves the annual Program of Projects for the 25-year period. This Program provides substantial information on the

GO Program and projects, including the status of voter commitments and major accomplishments, project Program revenue, and Program costs and project schedules. The Program as presented and approved is financially balanced. This Program is the primary mechanism for advising the City Council on transportation issues.

- The CTOC received the prior independent performance and fiscal accountability audit report as well as a presentation on the results.

Through this review we have concluded the CTOC is meeting its legal requirements as established by the Publicity Pamphlet for the November 2001 election and the City Council Ordinance establishing the CTOC.

## **B. The Citizens' Transportation Oversight Commission (CTOC) is Effectively Serving the Public Interest.**

Based on our review of CTOC minutes, documents, interviews, and observations of the Commission's decision-making, it is clear that the CTOC is effectively serving the public interest. The CTOC provides an important focus for transportation issues and projects that could not be provided by the City Council or other body. The CTOC and its members provide good representation of the community of Glendale, and provide a mechanism for obtaining community information and input into transportation priorities. The members have widely varying backgrounds bringing a depth of perspective to their deliberations.

The CTOC, although advisory, provides an important role in ensuring original voter commitments are being met, and that future program and project changes are consistent with the original intent of the ballot measure. The CTOC has had spirited discussions on changes to projects and uses of GO Program funds. Positions that were counter to those of the City Council have been clearly shared with the City Council, and it is clear from City Council minutes that these perspectives are taken very seriously.

Finally, the CTOC serves the public interest by providing a mechanism for providing public input and oversight into ongoing transportation decisions. Much has changed in the City of Glendale since the original ballot measure was proposed and passed. Many of these changes, including the development of the Sports Complex, could not have been foreseen by City leaders or voters in 2001. The CTOC provides a mechanism for balancing the original intent of the ballot measure and voters with the current realities of the City of Glendale.

### ***Finding and Recommendation:***

#### **1. No Performance Indicators for Monitoring Progress.**

The Publicity Pamphlet for the November 2001 ballot measure outlined specific improvements that were to be accomplished through the GO Program using the tax funds generated. These included:

- Improve traffic flow
- Relieve traffic congestion
- Increase transportation choices
- Improve air quality
- Promote economic vitality
- Provide regional transportation connections

It appears clear that the GO Program has had a substantial positive impact on most if not all of these improvement areas. However, the GO Program has not developed performance indicators to define or measure these improvements. Doing so could provide greater assurance that the commitment made to voters is being met, and that the GO Program projects are targeted in the most effective way. In addition, performance indicators add a level of transparency that demonstrates to the community the effectiveness of the impacts of the GO Program.

#### **Recommendation**

The CTOC, working with GO Program management, should consider developing specific performance indicators to measure progress made, to the extent practical, over time in each of the improvement areas described in the Publicity Pamphlet.

### **III. Status of Prior Audit Findings**

The prior performance audit completed in 2005 made two recommendations related to the CTOC.

- Recommendation 1 – The CTOC should monitor project status in greater detail with support from the Engineering Department.

**Actions taken:** The CTOC has been given access to more detailed project reports from the Engineering Department, including individual project budgets, expenditures, schedules, and completion data.

- Recommendation 2 – The CTOC should consider developing an orientation or training program for new members.

**Actions taken:** The CTOC, with assistance from staff, developed an orientation and training program for new members. This training is provided through two sessions – one providing basic training and one providing advanced training for new CTOC members. In addition, the CTOC held a planning workshop in July 2007 for all members. The objectives of this workshop were to answer questions regarding the responsibilities of the CTOC, the best way to fulfill those responsibilities, and ways to interact with the City Council.

**SUMMARY OF THE  
CITY'S FINANCIAL  
AUDITS**

# SUMMARY OF THE CITY'S FINANCIAL AUDITS

## I. Methodology

The following compilation and analysis of the City's financial statements from fiscal years 2001-02 through 2007-08 uses amounts taken from the City's fund financial statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the related debt service fund for payments to be made shortly after fiscal year-end.

Revenues susceptible to accrual include sales tax and interest earned on investments. Charges for services and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

In applying the susceptible-to-accrual concept to intergovernmental revenues, the decision to accrue depends on the terms of the arrangement or agreement. Generally, these resources are reflected as revenue at the time of receipt or earlier if they meet the available criterion. Certain grant revenues are recognized based on expenditures recorded.

The City's Transportation Fund as reported in the CAFR includes the following general ledger sub-funds:

- Fund 13/1640 – Local Transportation Assistance
- Fund 24/1650 – Transportation Grants
- Fund 25/1660 – Transportation Sales Tax
- Fund 26/1680 – Public Transit Revenue
- Fund 33/2210 – Transportation Capital Projects (started in fiscal year 2005-06)

During fiscal years 2001-02 through 2004-05 the assets, liabilities, revenues and expenditures, for the City's GO Program were tracked in fund number 25, identified by the City as the Transportation Sales Tax Fund. In fiscal year 2005-06 the City added a second fund in order to better track the GO Transportation Program's capital

expenditures. This fund number, 33, is identified by the City as the Transportation Capital Projects Fund. These two funds, 25 and 33, compose the entire GO Program. In fiscal year 2006-07 the City changed their account code structure and as a result fund 25 became fund 1660 and fund 33 became fund 2210. The following financial statement presentations include the combined amounts in both funds 25/1660 and 33/2210 for years after fiscal year 2005-06. Any intra-fund transfers between these two funds have been eliminated for presentation purposes. The GO Program was started midway through fiscal year 2001-02 and as a result the numbers for this year vary greatly from the other fiscal years. In the following schedules we have chosen to present the numbers for fiscal year 2001-02; however, we have chosen not to include it in our analysis.

We reviewed all CAFRs, Management Letters and Single Audit Reporting Packages for fiscal years 2005-06, 2006-07 and 2007-08 for any findings or recommendations that related to the GO Program. Additionally, we reviewed other audits the City has had that may have pertained to the GO Program including the prior performance audit completed in 2006 as well as the City Auditor's Office Audit of Transit Operations completed in February 2009 (issued July 2009).

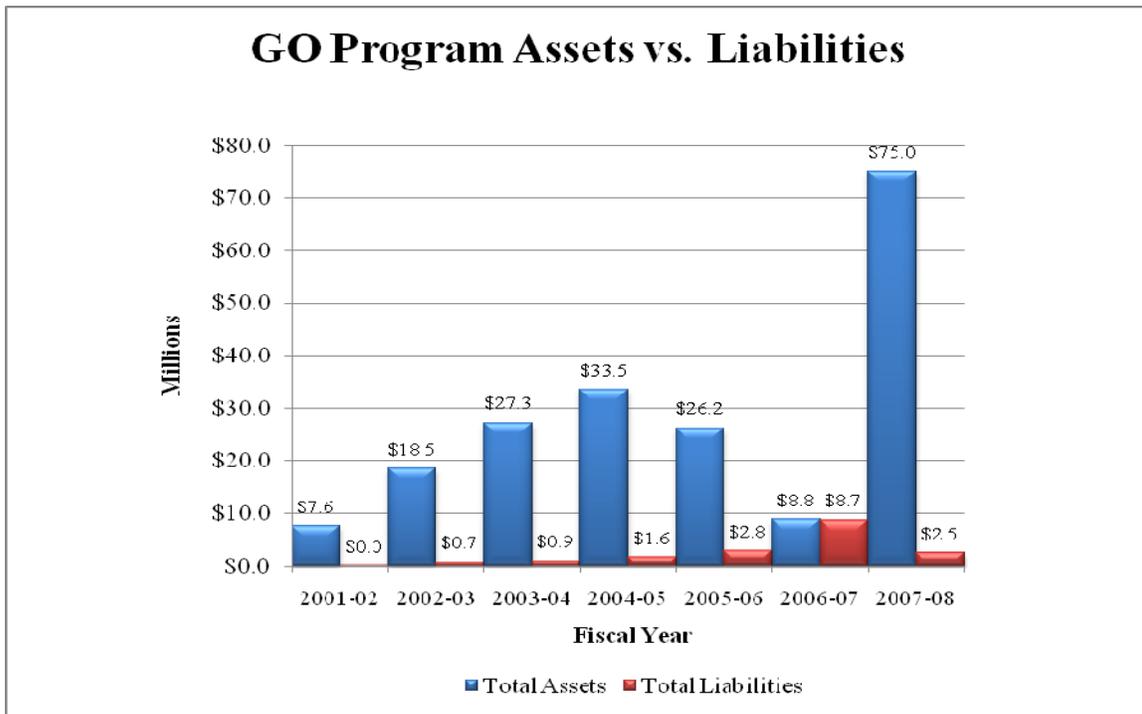
## **II. Summary of Observations and Recommendations**

For the GO Program Balance Sheet for fiscal years 2001-02 through 2007-08, see Schedule A on page 36.

For the GO Program Statement of Revenues, Expenditures and Changes in Fund Balances for fiscal years 2001-02 through 2007-08, see Schedule B on page 37.

### **A. Assets and Liabilities**

The total assets of the GO Program consisted almost entirely of cash and accounts receivable. Much of the first three and a half years of the Program was spent planning future construction projects which led to a steady increase in the Program's total assets. In fiscal year 2005-06 the City began the construction phase of several large projects including \$6.5 million for improvements on West Bethany Home Road from 91<sup>st</sup> Avenue to 99<sup>th</sup> Avenue and \$4.0 million for improvements to 95<sup>th</sup> Avenue from Maryland Avenue to West Bethany Home Road. As the expenditures for projects increased relative to prior years, in accordance with the City's plan, so did the GO Program's need for cash. The City anticipated that their upfront costs for transportation projects would exceed their available cash. Therefore, a provision was included in the initial ballot allowing the City to issue bonds and to later use the sales tax revenues to repay the debt. In fiscal year 2007-08 the City issued bonds in the amount of \$109.1 million which accounts for the significant increase in cash in fiscal year 2007-08.

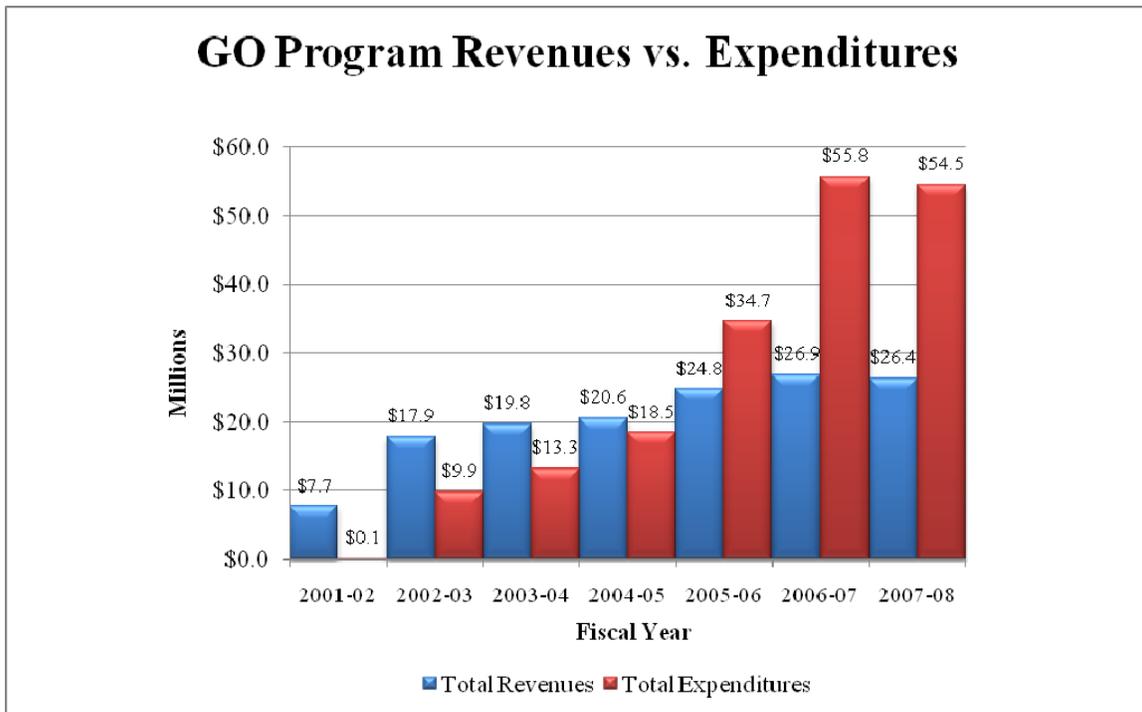


Source: City of Glendale detailed reports for sub-funds 25/1660 and 33/2210 for fiscal years 2001-02 through 2007-08. These sub-funds form a portion of the Transportation Fund as reported in the City's CAFR.

The City's short-term liabilities have been minimal since the inception of the GO Program consisting nearly entirely of vouchers payable and retainage payable. It should be noted that the City's intention is to repay the bonds issued in fiscal year 2007-08 from GO Program revenues. As of June 30, 2008 there was \$109.1 million outstanding with \$4.1 million due in fiscal year 2008-09. These amounts due will not show up as a liability but are currently planned to be paid from the GO Program in which case the expenditures would show up on the financial statements as a transfer out in future years.

## B. Revenues and Expenditures

Total revenues for the GO Program consisted mostly of those revenues received from the half-cent sales tax, which accounted for at least 90% of the total revenue of each fiscal year. Tax revenues remained consistent from year to year with the exception of fiscal year 2005-06 where the City had a 17% increase in sales tax revenues received. During this year the City saw an overall increase in their governmental tax revenues of 17% in part due to the development of the west side of the City including Cabela's, University of Phoenix Stadium and Westgate City Center.

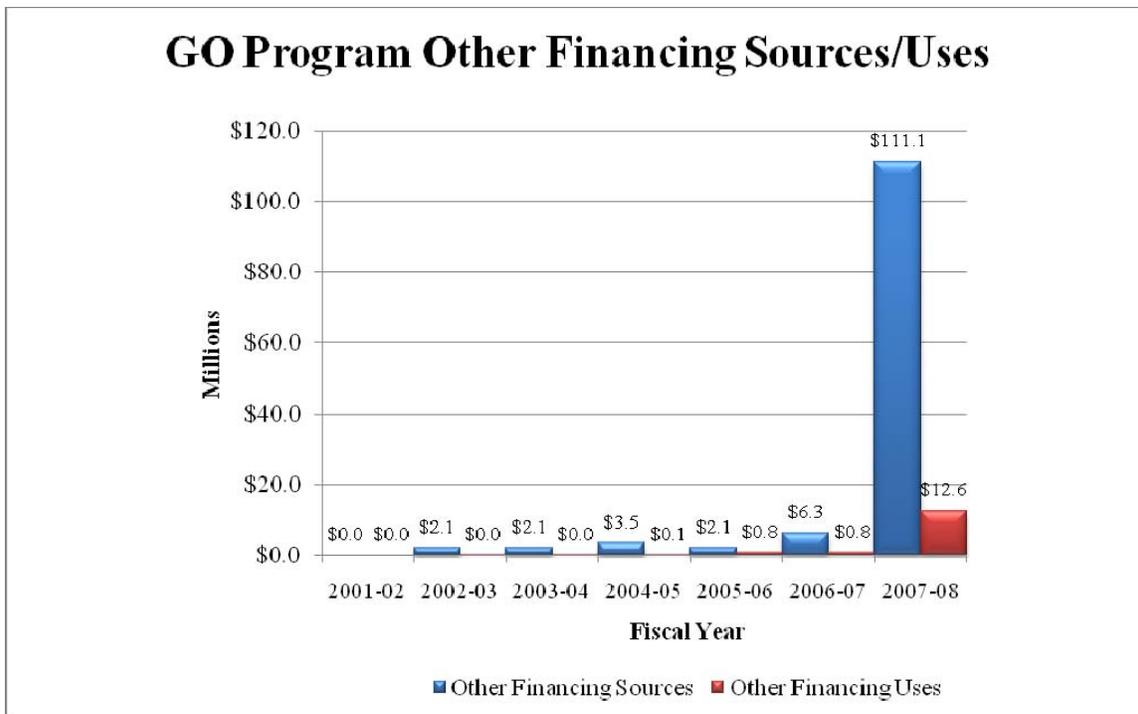


Source: City of Glendale detailed reports for sub-funds 25/1660 and 33/2210 for fiscal years 2001-02 through 2007-08. These sub-funds form a portion of the Transportation Fund as reported in the City's CAFR.

Compared to prior years, expenditures have increased dramatically. The increases resulted mainly from additional capital expenditures in accordance with the City's plan. For fiscal year 2005-06 new projects included \$6.5 million for improvements on West Bethany Home Road from 91<sup>st</sup> Avenue to 99<sup>th</sup> Avenue and \$4.0 million for improvements to 95<sup>th</sup> Avenue from Maryland Avenue to West Bethany Home Road. In fiscal year 2006-07 there were also large increases in capital expenditures in accordance with the City's plan. Some of the expenditures included \$9.3 million on the downtown pedestrian enhancement, \$5.8 million on construction costs for 67<sup>th</sup> Avenue from Camelback Road to Grand Avenue and \$6.7 million for the improvements to Glendale Avenue from 75<sup>th</sup> Avenue to 83<sup>rd</sup> Avenue. Total capital expenditures in fiscal year 2007-08 were comparable with the prior year although the major projects under construction have changed. Some of the expenditures included \$6.9 million for the Arizona Loop 101 and Glendale Avenue Park and Ride and \$5.2 million for the 51<sup>st</sup> Avenue and Camelback Road to Peoria Avenue project. Fiscal year 2007-08 had a significant increase in operating expenditures as the City renewed their contract with the City of Phoenix for bus services at an increased rate. Additionally, the City undertook a capital project to convert approximately 8,500 out of a total of 18,500 street lights from low pressure street lamps to high pressure street lamps.

### C. Other Financing Sources/Uses

Other financing sources for the GO Program included proceeds from the sale of bonds, proceeds from the sale of equipment and operating transfers in. The amount transferred in remained consistent at approximately \$2 million coming in from one or more of the following funds; the General Fund, the Local Transportation Assistance Fund and the Public Transit Revenue Fund. In fiscal year 2006-07 the GO Program received an additional transfer of \$4.3 million from the Streets Construction – 1999 Authorized Fund as a loan until the GO Program was able to issue bonds in the following year. The City entered into a note payable with Arizona Department of Transportation for the purchase of land in fiscal year 2004-05 for \$1.4 million and issued revenue bonds in 2007-08 for \$109.1 million for various transportation projects. The bond issuance resulted in a significant increase in the amount of other financing sources reported for fiscal year 2007-08. The \$1.4 million note was paid off entirely in fiscal year 2006-07 leaving only the \$109.1 million bonds as outstanding. As of June 30, 2008 the entire amount of the bonds remained outstanding with \$4.1 million due within one year.



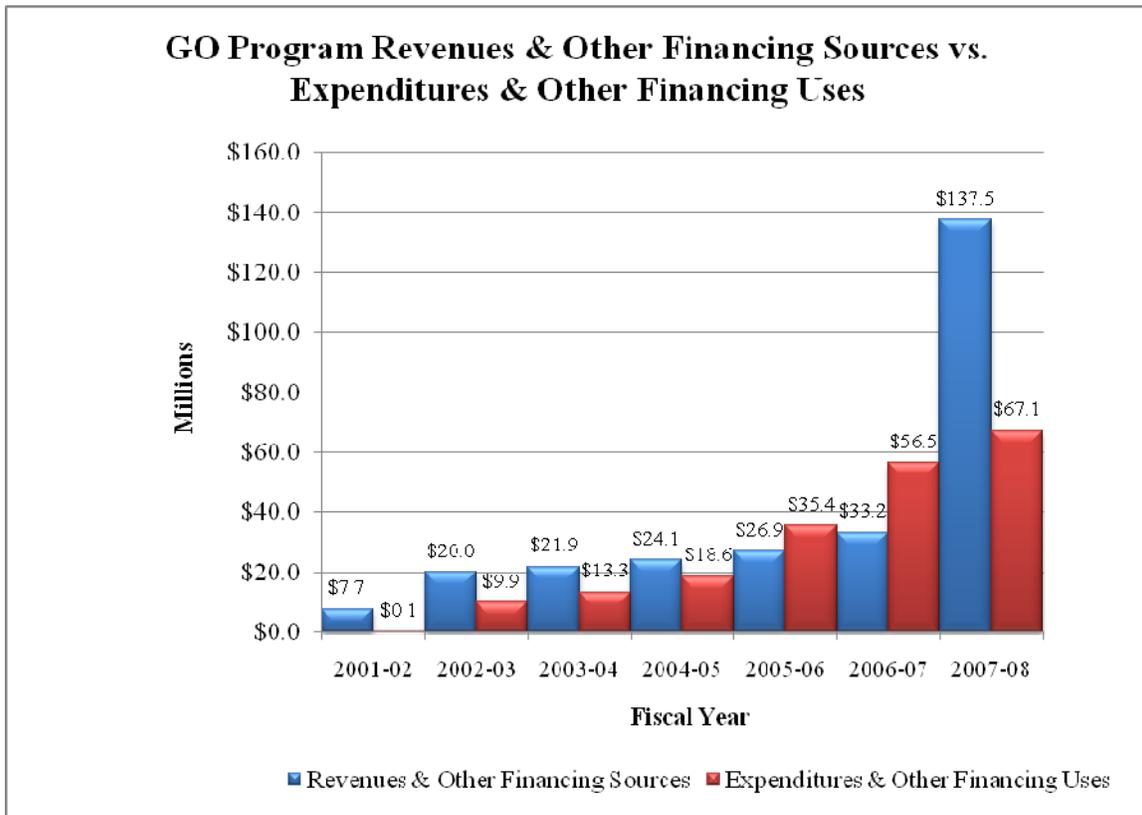
Source: City of Glendale detailed reports for sub-funds 25/1660 and 33/2210 for fiscal years 2001-02 through 2007-08. These sub-funds form a portion of the Transportation Fund as reported in the City's CAFR.

Total other financing uses increased by \$660,820 in fiscal year 2005-06 as a result of the City transferring out \$750,000 to the Highway User Gas Tax Fund. This transfer out was approved by the Citizens Transportation Oversight Committee (CTOC) and was used for the pavement management program. Other financing uses increased

again in fiscal year 2007-08 by nearly \$11.9 million. The City transferred \$1.0 million to the Highway User Revenue Fund (HURF) Debt Service Fund which was approved by the CTOC and \$7.3 million to the Transportation Debt Service Fund for the first payment of the \$109.1 million bond issue due on July 1, 2008. Finally, \$4.3 million was transferred to the Streets Construction – 1999 Authorized Fund in order to repay the loan from the prior year.

#### D. Revenues/Other Financing Sources and Expenditures/Other Financing Uses

In order to obtain a clear picture of how each year’s fund balance was arrived at, it is necessary to look at revenues, expenditures and other financing sources and uses combined. The previous charts and narrative discussions provide more detailed information on each account type while the charts and narratives in this section have a big picture focus.



Source: City of Glendale detailed reports for sub-funds 25/1660 and 33/2210 for fiscal years 2001-02 through 2007-08. These sub-funds form a portion of the Transportation Fund as reported in the City’s CAFR.

Revenues and other financing sources exceeded expenditures and other financing uses in fiscal year 2001-02 through 2004-05 resulting in the program having a positive fund balance. This fund balance was utilized in fiscal years 2005-06 and 2006-07 as

expenditures increased, due to increased construction projects in accordance with the City's plan, to the point of exceeding revenues and other financing sources. As previously discussed, the City issued bonds in fiscal year 2007-08 in order to meet the program's need for funding of the new construction projects. The fund balance resulting from the bond issuance is planned to fund construction over the next few years.

## E. Analysis

The ratio of revenues to expenditures indicates the ability of a program to continue to operate in future years. It can be used to evaluate the efficiency with which the program is running. A ratio of 1.0 indicates that revenues for the year exactly equaled expenditures and that a program should be able to run indefinitely. A ratio of greater than 1.0 indicates that a program is spending less than it is earning. Programs with a ratio significantly less than 1.0 would not be able to sustain themselves over time without another financing source. The ratios displayed in Table A below are somewhat misleading as the total revenues only include tax revenues, charges for services, investment income and miscellaneous income. In actuality the program receives additional funding from operating transfers and bonds. At the current rate of expenditures the program is not able to fund itself solely from the half-cent sales tax.

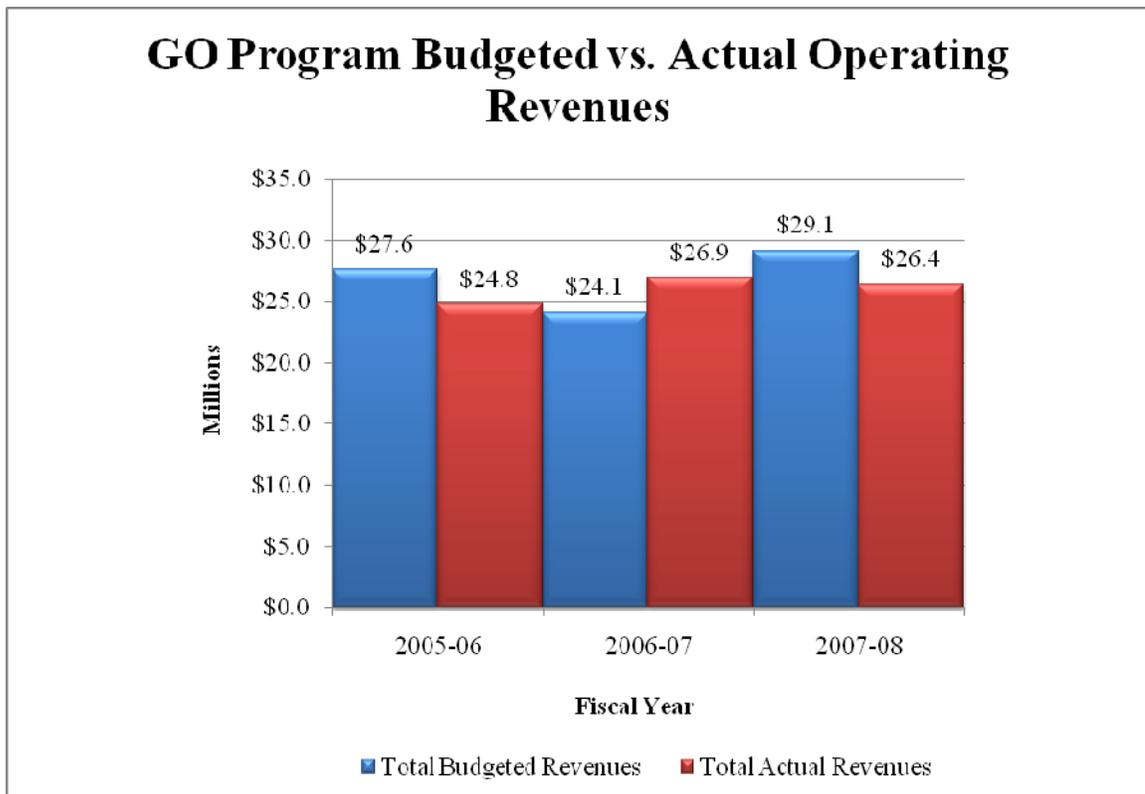
Table A		Table B		Table C	
Revenues to Expenditures		Fund Balance to Expenditures		Current Assets to Current Liabilities	
Fiscal Year	Ratio	Fiscal Year	Ratio	Fiscal Year	Ratio
2001-02	68.4	2001-02	67.4	2001-02	645.1
2002-03	1.8	2002-03	1.8	2002-03	27.0
2003-04	1.5	2003-04	2.0	2003-04	31.9
2004-05	1.1	2004-05	1.7	2004-05	21.2
2005-06	0.7	2005-06	0.7	2005-06	9.3
2006-07	0.5	2006-07	0.0	2006-07	1.0
2007-08	0.5	2007-08	1.3	2007-08	30.1

The fund balance to expenditure ratio gives an indication of the overall financial health of the program. A ratio of 1.0 would indicate the program could continue operating at its current rate of expenditures for an entire fiscal year. With a ratio greater than 1.0 the program could continue for longer than a year if expenditures were to stay the same. A program could continue for less than a year with a ratio less than 1.0. See Table B for a list of ratios from fiscal years 2001-02 to 2007-08. The GO Program's fund balance to expenditure ratio was constant for fiscal years 2002-03 through 2004-05. There was a large drop in 2005-06 and again in 2006-07 leaving the program with almost no fund balance. This was the result of a large increase in the number of construction projects being undertaken. See the discussion on expenditures for more detail on which projects were started. The City planned for this and issued bonds in 2007-08 in order to ensure there was enough fund balance available to avoid running out of funding for their ongoing and upcoming projects. The City plans on reducing expenditures in future years and using the half-cent sales tax to repay bonds.

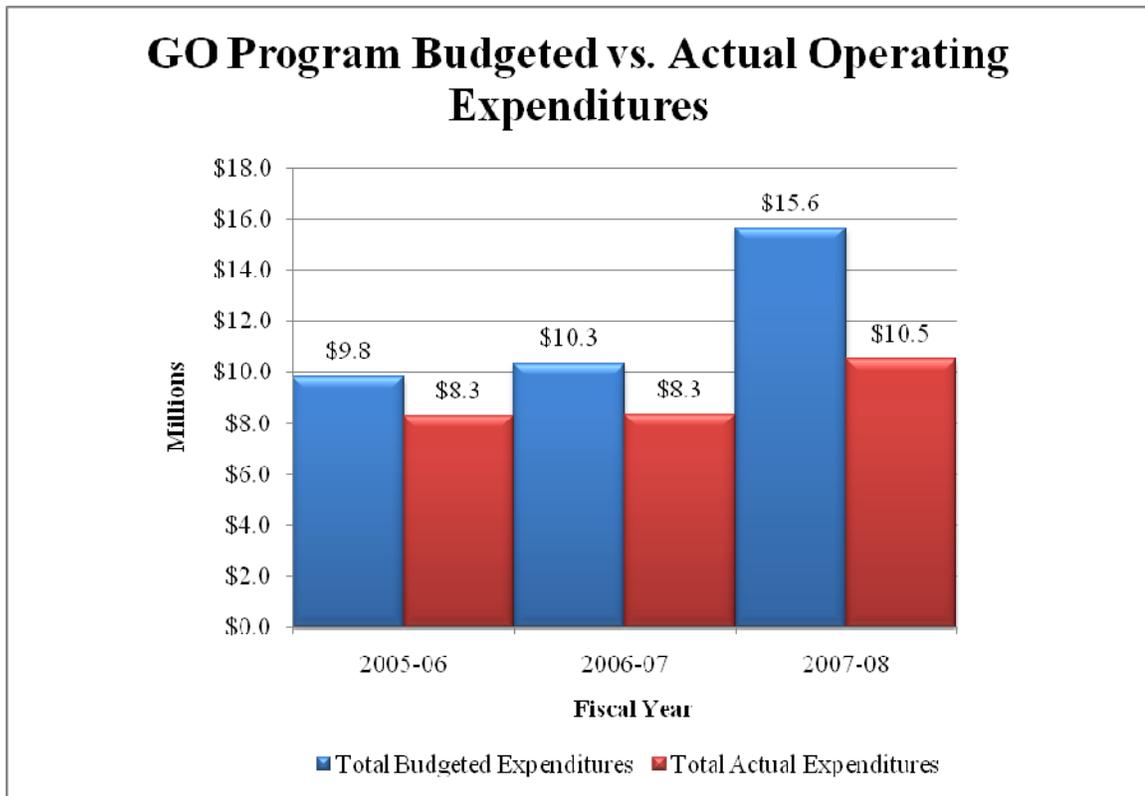
The current ratio is a measure of the ability to meet financial obligations over the coming year. It is derived by dividing the current assets by the current liabilities. A ratio of 1.0 indicates the ability to meet all current liabilities with a higher number meaning a stronger ability to meet current needs. A ratio of less than 1.0 can be a sign of financial weakness; the total current liabilities are unable to be met given total current assets. See Table C for a list of ratios from fiscal years 2001-02 to 2007-08. The GO Program has always been at or above a ratio of 1.0. Additionally as the majority of the Program's assets are cash and short-term investments the City's ability to meet their short-term financing needs for the GO Program looks excellent.

## F. Operating Budget to Actual

The following comparison of the Program's Budgeted Revenues and Expenditures to Actual Revenues and Expenditures focuses solely on the Operating Budget for the GO Program and includes expenditures from Fund 25/1660 for fiscal years 2005-06 through 2007-08. The Operating Budget is created with the intent of meeting the day-to-day needs of the Program. For comparison of the Operating Budget for fiscal years 2005-06 through 2007-08 see Schedule C on page 38.



Sources: City of Glendale Operating Budget for sub-fund 25/1660 for fiscal years 2005-06 through 2007-08. City of Glendale detailed reports for sub-fund 25/1660 for fiscal years 2005-06 through 2007-08. This sub-fund forms a portion of the Transportation Fund as reported in the City's CAFR.



Sources: City of Glendale Operating Budget for sub-fund 25/1660 for fiscal years 2005-06 through 2007-08. City of Glendale detailed reports for sub-fund 25/1660 for fiscal years 2005-06 through 2007-08. This sub-fund forms a portion of the Transportation Fund as reported in the City's CAFR.

Variations of note between budgeted and actual operating expenditures for the GO Program during fiscal year 2005-06 include the following. The City had budgeted to receive \$6.4 million in grant revenue; however, they ended up not receiving any as the projects that the revenue was tied to, were not started. The City is still planning on completing some of these projects in the future in which case they would be eligible to receive the grant revenue at that time. Total sales tax revenues were \$2.7 million more than budgeted as a result of growth in the City including Cabela's, University of Phoenix Stadium and Westgate City Center. Operating expenditures were 16% less than budgeted expenditures as the purchases for services and equipment that had been budgeted for were foregone in the current year and the decision was made to revisit them in the next year. Additionally, there were several projects which were not completed and carried over to the following year.

For fiscal year 2006-07 the most significant variances between the operating budget and actual expenditures are described below. The City anticipated issuing \$25 million in debt; however, due to the process of receiving bond ratings and Council approval taking longer than anticipated, none were issued for the year. The City's GO Program had transfers in for \$4.2 million more than was budgeted as a result of a loan from the Streets Construction – 1999 Authorized Fund that was to be repaid in the following year once the bonds were issued. Total operating expenditures were

\$5.1 million less than budgeted due to the starting date for several projects being pushed back to future fiscal years.

During fiscal year 2007-08 the GO Program saw the greatest difference between budgeted and actual operating expenditures in the following accounts. Operating expenditures were \$5.1 million less than budgeted as purchases for current year projects were delayed. The City issued bonds for \$19.1 million more than the originally projected need as the GO Program's anticipated need for funds increased subsequent to budget adoption. Transfers out exceeded the budgeted amount by \$11.6 million due to the payments made for the bond issuance of \$7.3 million and the repayment of the \$4.3 million loan to the Streets Construction – 1999 Authorized Fund. Operating revenues for the GO Program were 14.3% less than budgeted as the result of reduced sales taxes which was attributed to the overall decline in the state of the economy.

## **G. Identifying Prior Audit Findings Related to the GO Transportation Program**

We have obtained and reviewed the CAFRs, management letters and Single Audit Reporting Packages for fiscal years 2006-07, 2007-08 and 2008-09. The City was not issued any management letters during the years previously mentioned. We were, however, able to review the CAFRs and Single Audit Reporting Packages. During our review we noted no findings which related to the GO Program.

The City's past GO Program performance audit report did outline nine specific recommendations. The City's response to those recommendations was included in the prior report. Additionally, the City Auditor's Office recently completed an audit of transit operations as of February 2009. In their report they made several recommendations that were specific to the Transportation Department. The recommendations applicable to the tasks within this performance audit will be addressed in conjunction with those tasks. None of the recommendations made are applicable to this task.

**GO Transportation Program  
 Balance Sheet**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>ASSETS</b>							
Cash and short-term investments	\$ 6,296,861	\$ 16,293,609	\$ 25,539,032	\$ 31,682,357	\$ 24,081,577	\$ 5,961,569	\$ 72,127,716
Accounts receivable	1,336,004	1,536,229	1,592,329	1,841,864	2,145,282	2,155,466	2,312,532
Intergovernmental receivable	-	656,417	124,215	-	-	675,300	550,088
Total assets	<u>\$ 7,632,865</u>	<u>\$ 18,486,255</u>	<u>\$ 27,255,576</u>	<u>\$ 33,524,221</u>	<u>\$ 26,226,859</u>	<u>\$ 8,792,335</u>	<u>\$ 74,990,336</u>
<b>LIABILITIES AND FUND BALANCE</b>							
Liabilities:							
Vouchers payable	\$ 10,159	\$ 663,673	\$ 772,253	\$ 1,549,647	\$ 2,738,211	\$ 7,449,121	\$ 1,814,028
Retainage payable	-	-	51,075	8,657	66,995	1,012,745	637,279
Compensated absences - current	1,673	10,447	20,656	15,613	20,534	77,302	25,442
Intergovernmental payable	-	(105)	-	-	-	-	-
Deferred revenue	-	9,874	9,638	9,456	9,399	129,384	15,600
Total liabilities	<u>11,832</u>	<u>683,889</u>	<u>853,622</u>	<u>1,583,373</u>	<u>2,835,139</u>	<u>8,668,552</u>	<u>2,492,349</u>
Fund Balance:							
Reserved for equipment replacement	-	-	-	811	-	-	-
Undesignated, unreserved	<u>7,621,033</u>	<u>17,802,366</u>	<u>26,401,954</u>	<u>31,940,037</u>	<u>23,391,720</u>	<u>123,783</u>	<u>72,497,987</u>
Total fund balance	<u>7,621,033</u>	<u>17,802,366</u>	<u>26,401,954</u>	<u>31,940,848</u>	<u>23,391,720</u>	<u>123,783</u>	<u>72,497,987</u>
Total liabilities and fund balances	<u>\$ 7,632,865</u>	<u>\$ 18,486,255</u>	<u>\$ 27,255,576</u>	<u>\$ 33,524,221</u>	<u>\$ 26,226,859</u>	<u>\$ 8,792,335</u>	<u>\$ 74,990,336</u>

Source: City of Glendale detailed reports for sub-funds 25/1660 and 33/2210 for fiscal years 2001-02 through 2007-08. These sub-funds form a portion of the Transportation Fund as reported in the City's CAFR.

**GO Transportation Program**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>REVENUES</b>							
Taxes	\$ 7,692,706	\$ 16,787,695	\$ 19,024,309	\$ 19,827,346	\$ 23,215,361	\$ 25,051,368	\$ 23,672,386
Intergovernmental	-	654,417	227,645	3,613	-	-	-
Charges for services	-	170,321	166,525	184,639	187,715	871,816	695,179
Investment income	41,479.00	296,994	340,751	599,405	1,045,255	997,430	1,962,932
Miscellaneous	-	1,664	2,833	532	327,182	13,767	63,755
Total revenues	<u>7,734,185</u>	<u>17,911,091</u>	<u>19,762,063</u>	<u>20,615,535</u>	<u>24,775,513</u>	<u>26,934,381</u>	<u>26,394,252</u>
<b>EXPENDITURES</b>							
Current:							
Community services	113,152	6,873,006	8,026,429	7,903,772	8,177,635	9,136,432	11,963,023
Debt service:							
Principal	-	-	-	-	-	1,414,500	-
Interest	-	-	-	-	-	176,317	-
Bond issuance costs	-	-	-	-	-	-	1,058,584
Capital outlay	-	2,983,853	5,226,032	10,585,997	26,488,390	45,032,839	41,473,655
Total expenditures	<u>113,152</u>	<u>9,856,859</u>	<u>13,252,461</u>	<u>18,489,769</u>	<u>34,666,025</u>	<u>55,760,088</u>	<u>54,495,262</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>7,621,033</u>	<u>8,054,232</u>	<u>6,509,602</u>	<u>2,125,766</u>	<u>(9,890,512)</u>	<u>(28,825,707)</u>	<u>(28,101,010)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Long-term debt issued	-	-	-	1,414,500	-	-	109,110,000
Premium on long-term debt issued	-	-	-	-	-	-	1,953,499
Proceeds from sale of equipment	-	1,478	-	812	-	-	-
Transfers in	-	2,128,273	2,106,952	2,086,996	2,091,384	6,307,770	2,017,962
Transfers out	-	(2,650)	(16,966)	(89,180)	(750,000)	(750,000)	(12,606,247)
Total other financing sources and uses	-	2,127,101	2,089,986	3,413,128	1,341,384	5,557,770	100,475,214
Net change in fund balances	<u>7,621,033</u>	<u>10,181,333</u>	<u>8,599,588</u>	<u>5,538,894</u>	<u>(8,549,128)</u>	<u>(23,267,937)</u>	<u>72,374,204</u>
Fund balances, July 1	-	7,621,033	17,802,366	26,401,954	31,940,848	23,391,720	123,783
Fund balances, June 30	<u>\$ 7,621,033</u>	<u>\$ 17,802,366</u>	<u>\$ 26,401,954</u>	<u>\$ 31,940,848</u>	<u>\$ 23,391,720</u>	<u>\$ 123,783</u>	<u>\$ 72,497,987</u>

Source: City of Glendale detailed reports for sub-funds 25/1660 and 33/2210 for fiscal years 2001-02 through 2007-08. These sub-funds form a portion of the Transportation Fund as reported in the City's CAFR.

**GO Transportation Program**  
**Operating Budget to Actual**

	2005-06			2006-07			2007-08		
	Budgeted	Actual	Difference	Budgeted	Actual	Difference	Budgeted	Actual	Difference
<b>REVENUES</b>									
Taxes and special assessments	\$ 20,534,000	\$ 23,215,361	\$ 2,681,361	\$ 23,474,824	\$ 25,051,368	\$ 1,576,544	\$ 27,613,000	\$ 23,672,386	\$ (3,940,614)
Intergovernmental	6,441,750	-	(6,441,750)	-	-	-	-	-	-
Charges for services	200,000	187,715	(12,285)	200,000	871,816	671,816	200,000	695,179	495,179
Investment income	447,000	1,045,255	598,255	447,000	997,430	550,430	1,000,000	1,962,932	962,932
Miscellaneous	260	327,182	326,922	260	13,767	13,507	327,000	63,755	(263,245)
Total operating revenues	\$ 27,623,010	\$ 24,775,513	\$ (2,847,497)	\$ 24,122,084	\$ 26,934,381	\$ 2,812,297	\$ 29,140,000	\$ 26,394,252	\$ (2,745,748)
<b>EXPENDITURES</b>									
Community Services	\$ 9,819,711	\$ 8,281,562	\$ 1,538,149	\$ 10,349,635	\$ 8,334,107	\$ 2,015,528	\$ 15,634,494	\$ 10,527,492	\$ 5,107,002
Total operating expenditures	\$ 9,819,711	\$ 8,281,562	\$ 1,538,149	\$ 10,349,635	\$ 8,334,107	\$ 2,015,528	\$ 15,634,494	\$ 10,527,492	\$ 5,107,002
<b>OTHER FINANCING SOURCES/USES</b>									
Long-term debt issued	\$ -	\$ -	\$ -	\$ 25,000,000	\$ -	\$ (25,000,000)	\$ 90,000,000	\$ 109,110,000	\$ 19,110,000
Transfers in	2,060,000	2,091,384	31,384	2,060,000	6,307,770	4,247,770	2,018,000	2,017,962	(38)
Transfers out	(750,000)	(750,000)	-	(750,000)	(750,000)	-	(1,000,000)	(12,606,247)	(11,606,247)
Total other financing sources/uses	\$ 1,310,000	\$ 1,341,384	\$ 31,384	\$ 26,310,000	\$ 5,557,770	\$ (20,752,230)	\$ 91,018,000	\$ 98,521,715	\$ 7,503,715

Note: The budgeted amounts shown include only the operating budget for the GO Program. In order to have a meaningful comparison the actual amounts include only the amounts from fund 25/1660, the operating account for the GO Program. As a result the actual amounts presented above will not agree to the amounts presented on Schedules A and B.

Sources: City of Glendale Operating Budget for sub-fund 25/1660 for fiscal years 2005-06 through 2007-08. City of Glendale detailed reports for sub-fund 25/1660 for fiscal years 2005-06 through 2007-08. This sub-fund forms a portion of the Transportation Fund as reported in the City's CAFR.

**IS THE GO PROGRAM BEING  
ADDRESSED FAIRLY AND  
ACCURATELY IN CITY  
FINANCIAL PRACTICES?**

# IS THE GO PROGRAM BEING ADDRESSED FAIRLY AND ACCURATELY IN CITY FINANCIAL PRACTICES?

## **I. Methodology**

We reviewed the following processes to determine that the GO Program is accounting for and managing its funds (Funds 25/1660, 33/2210) in accordance with the City's financial practices and commitments made to voters.

### **A. Are GO Funds Being Deposited in a Separate General Ledger Account?**

- We reviewed the fund ledgers for funds 25/1660 and 33/2210 in order to verify that the sales tax revenues are reported in these funds.
- We reviewed the transportation fund ledgers to ensure that funds 25/1660 and 33/2210 were the only funds accounting for sales tax revenues.
- We reviewed the City's policies and procedures for the collection and recording of sales tax revenues.
- We reviewed the allocation process of the sales tax revenues to the appropriate funds.
- We compared financial records from the Accounting Department to those of the Sales Tax Department for four months and in total for each fiscal year audited to ensure that the allocation of tax revenues is reasonable in relation to the total amount collected.
- We confirmed the sales tax table used in the City's sales tax system was using the one-half cent transportation tax as committed to voters.

### **B. Is Reasonable Interest Being Accrued on Surplus Funds?**

- We reviewed the ledger for fund 25/1660 ensuring that monthly allocations of interest were being deposited into the account.
- We reviewed the City's policies and procedures for the investment of surplus funds. This included reviewing the Investment Policy for the City as well as conducting interviews with staff.
- We reviewed the interest allocation process selecting one month from each fiscal year under review for which we recalculated the allocated amount.
- We performed analytical procedures on the GO Program to determine if the rate of return for the investments was reasonable.

### **C. Is the Allocation of General Funds in Accord with Voter Commitments?**

- We reviewed the Ballot language to determine whether commitments to the voters were made.
- We reviewed the City's policies and procedures for the allocation of general funds to the GO Program. This included reviewing the Annual Budget Report and conducting interviews with staff.
- We compared the transfer amount reported in the Annual Budget Report to the actual amount recorded to the general ledger.
- We interviewed the Transportation Planner to determine the basis of the annual \$900,000 General Fund transfer to Fund 25/1660.
- We compared the local funding levels in the GO Program to historical amounts.

### **D. Are Indirect Charges to the GO Program Fair and Accurate?**

- We reviewed the City's indirect cost allocation procedures.
- We reviewed the worksheets used to complete the indirect cost allocation ensuring that the amounts allocated to the GO Program were completed in accordance with the City's allocation plan and that the charges to the GO Program were for services or benefits received by the Program.
- We interviewed the Transportation Planner regarding his procedures for reviewing the City's indirect cost allocation plan and the impacts to the GO Program.

### **E. How is the Fund Balance Being Invested? Should There be a Separate Policy for This Fund?**

- We reviewed the City's policies and procedures for the investment of surplus funds. This included reviewing the Investment Policy for the City as well as conducting interviews with staff.
- We evaluated the appropriateness of the City's investment policies and practices in accordance with state statutes and prudent investment practices for public funds.
- We evaluated the City's question regarding whether a separate policy for the GO Program was necessary.

### **F. Are Maintenance Charges Being Fairly Allocated?**

- We discussed with Management and Budget Department personnel and Transportation personnel the allocation process of maintenance charges.
- We reviewed the general ledger for funds 25/1660 and 33/2210 for any maintenance allocations related to capital projects.

- We analyzed whether the 25-year plan accounted for maintenance charges and determined how it affected the maintenance charge allocation.
- We reviewed maintenance charges ensuring that the charges were for new projects and not for ones that existed prior to the transportation sales tax.

### **G. Are the Capital Improvement Plan (CIP) Set-asides Fair and Accurate?**

- We reviewed the CIP Project Request Forms which are submitted to the Management and Budget Department each year for use in the City's Annual Budget.
- We reviewed the set-aside amounts on the CIP Project Request Forms for arts, engineering, finance and operations and maintenance costs.
- We tested that the CIP set-aside amounts were in accordance with the City's requirements for financial set-asides for the CIP project.

### **H. Is the Program Following All Accepted City Standards for Purchasing?**

- We reviewed the practices related to purchases of the City established by City ordinances and City Manager directives.
- We tested a sample of 25 purchases above and below the formal procurement threshold and reviewed them to ensure the method of procurement was in keeping with the City's procurement practices.
- We reviewed a sample of 25 disbursements to determine that the Transportation Department had followed the appropriate purchase order/check request process and that supporting documentation for each purchase had been retained and was properly approved.
- We discussed with the Transportation Director the validity of the 25 purchases reviewed in relation to the objectives of the GO Program.

### **I. Are the GO Funds Being Used to Supplant Projects and Programs in Place Prior to Election?**

- We discussed with the City Attorney and the Transportation Director the applicability of this question.

## **II. Summary of Observations and Recommendations**

### **A. GO Funds Are Being Deposited in a Separate General Ledger Account with Some Exceptions Noted.**

The collections process for the sales tax cash receipts follow the City's general policies and procedures. All sales tax revenues were recorded into the appropriate funds based upon system-generated reports from the City's internal sales tax software. The journal entries were appropriately reviewed and approved to ensure accuracy.

#### ***Findings and Recommendations:***

#### **1. The City's Tax System Automatically Writes Off Unreconciled Differences in Taxes Received.**

Differences between the amount of taxes received in the lockbox batches and the amounts reported in the tax system are written off automatically in the system. A manual adjustment is made by the tax and licensing personnel in order to prevent the write-off from taking place.

##### **Recommendation**

We recommend that the City consider modifying the tax system to streamline processes so that these manual adjustments are not necessary.

#### **2. The Information Entered into the Tax System Is Not Reconciled to the Information Entered into the Cashiering System.**

Without performing a reconciliation, there is no way to determine if the information in both systems is consistent. While no material differences were noted in our testwork, over time there is a risk of developing material differences between the systems.

##### **Recommendation**

We recommend that the City reconciles the information entered into the tax system with the information entered into the cashiering system.

### **B. Reasonable Interest Is Being Accrued on Unused Funds with Some Exceptions Noted.**

All of the City's funds, with the exception of restricted or special accounts, such as cash received from a bond issuance, were pooled. The City had investments in commercial paper, U.S. Agencies, and in the State Treasurer's investment account. The interest earned on the pooled balances was allocated to each fund in the pool

once a month based on the fund's average cash balance. In computing the cash balance the City did not include proceeds from restricted or special accounts which are tracked and allocated separately. In order to calculate the average cash balance, the City used the amounts from the Bank of America account (1110/101200) and the cash equity account (1156/103400). The City allocated the GO Program portion of interest earned from the pooled accounts to fund 25/1660 on a monthly basis. The interest revenue for fund 33/2210 was moved through a journal entry at the end of the year.

At June 30, 2008 the short-term account for the GO Program 2007 transportation bonds had \$1.2 million, of which \$737,255 was interest that had been earned. The City is planning to use the interest to help pay off the upcoming debt service payments for the bonds. In fiscal year 2008-09, the money will be transferred to the Transportation Debt Service Fund for this purpose.

***Finding and Recommendation:***

**1. The City Does Not Have Written Policies Detailing the Process for Allocating Interest Among the Participating Funds.**

The City's Investment Policy states only that the investment income derived from the pooled investments account shall be allocated to the various funds in accordance with internal allocation policies. The City does not have any written policies documenting the procedures used to allocate interest. The City's current method of allocation is atypical as it does not allocate actual interest earned. All interest is allocated based on the interest rate earned in the MBIA account while the activity in the State investment pool is ignored.

**Recommendation**

We recommend that the City documents their interest allocation process of choice and, additionally, look to using an allocation method based on the actual interest earned in the pooled account.

**C. General Funds Are Allocated Consistent with Past Practices.**

We reviewed the Official Ballot and all applicable ordinances and found no mention of a requirement for the City to fund a portion of the GO Program with local funds. The City transfers \$900,000 from the General Fund to the GO Program Transportation Fund (Fund 25/1660) each year. This amount was the amount that was funded by the General Fund prior to the inception of the half-cent sales tax funding. The City decided to maintain the same level of General Fund funding for the GO Program after the half-cent sales tax was passed.

There were no recommendations in this area.

## **D. Indirect Charges Are Fair And Accurate with Some Exceptions Noted.**

The City has developed an in-house cost allocation worksheet in Microsoft Excel which is used to determine the amount of indirect charges that will be charged to the Transportation Department. Each year a journal entry is made by the City to transfer funds from the GO Program to the General Fund in order to cover the indirect costs the GO Program is incurring. The transfer is made from fund 25/1660 as it is the fund used to track all operating costs of the GO Program.

The City uses a step-down allocation method which allocates expenditures from the department that services other departments the most while receiving the least amount of support from other departments. In a step-down allocation the costs are not allocated back and forth, and as a result the order in which the costs are allocated can significantly change the outcome of the allocation. In the City's case they allocate all common costs first, followed by general governmental services, then financial services.

The City evaluates the cost allocation plan on an annual basis taking into account the input of every department. As a result of this evaluation, there were a few changes to the plan during fiscal years 2006-07 and 2007-08. It came to the Management and Budget Department's attention that the costs of the agreement with Motorola to provide the ability for City personnel to communicate through hand held radios was a cost that should be attributed to each individual department. As a result, they changed the allocation plan in fiscal year 2006-07 to include an allocation for the cost of the Motorola service agreement. Similarly, in fiscal year 2007-08 the Management and Budget Department decided that the Community Development costs should be allocated among departments. The chart below provides detail as to how much indirect cost each department is charging to the GO Program.

**Indirect Cost Allocation for Transportation Funds**

**Detailed Allocation**

	<u>Fiscal Year 2005-06</u>	<u>Fiscal Year 2006-07</u>	<u>Fiscal Year 2007-08</u>
<b>Step One - Common Costs</b>			
Facilities Management	\$ 16,000	\$ 16,000	\$ 22,000
Information Systems	30,000	32,000	37,000
Total Common Costs	46,000	48,000	59,000
<b>Step Two - Administrative</b>			
City Council & Mayor	36,000	36,000	32,000
City Clerk	20,000	20,000	20,000
City Manager	34,000	35,000	33,000
City Attorney	60,000	65,000	72,000
City Auditor	10,000	11,000	11,000
Marketing	247,000	270,000	298,000
Risk Management	10,000	14,000	15,000
Intergovernmental	12,000	17,000	16,000
Human Resources	51,000	53,000	65,000
Step One Allocation	51,000	50,000	78,000
Total Administrative	531,000	571,000	640,000
<b>Step Three - Financial</b>			
Finance	106,000	107,000	87,000
Budget	22,000	18,000	16,000
Purchasing	15,000	15,000	14,000
DCM Administrative Services	-	-	7,000
Step One Allocation	41,000	39,000	18,000
Step Two Allocation	22,000	6,000	16,000
Total Financial	206,000	185,000	158,000
<b>Intergroup Allocations:</b>			
<b>Community Development 1</b>			
Engineering Administration	-	-	35,000
CIP Administration	-	-	15,000
CIP Construction	-	-	12,000
Land Development	-	-	8,000
Construction Inspection	-	-	12,000
Materials Testing	-	-	5,000
Mapping & Records	-	-	17,000
Property Management	-	-	16,000
CIP Design	-	-	21,000
Step One Allocation	-	-	5,000
Step Two Allocation	-	-	8,000
Step Three Allocation	-	-	2,000
Total Community Development	-	-	156,000
<b>Motorola<sup>2</sup></b>			
Service Agreement	-	6,000	5,000
Total Motorola	-	6,000	5,000
Total Indirect Cost Allocation	\$ 783,000	\$ 810,000	\$ 1,018,000

Source: City of Glendale Management and Budget Department cost allocation worksheets.

<sup>1</sup> In fiscal year 2007-08 the City determined that the Community Development administrative costs should be allocated. There were no allocations made in prior years.

<sup>2</sup> In fiscal year 2006-07 the City determined that the Motorola service agreement costs should be allocated. There were no allocations made in prior years.

We were previously hired by the City to conduct an in-depth evaluation of their Fiscal Year 2008-09 Indirect Cost Allocation Model. There were several recommendations that were made as a result of our evaluation. As the current performance audit is concerned solely with the Transportation Program, we have limited the inclusion of any prior recommendations to those that directly affect the Transportation Program. See below for our list of findings and recommendations.

***Findings and Recommendations:***

**1. The City's Cost Allocation Plan Did Not Follow Common Practices for the Step-Down Allocation Method.**

In fiscal years 2005-06 and 2006-07, the common costs and the general governmental services steps allocated a portion of those indirect costs back to that steps' service departments. In fiscal year 2007-08, the common costs, governmental services and financial services steps allocated a portion of those indirect costs back to that steps' service departments. In a step-down allocation the goal is to remove all expenditures from each service department. By allocating back to a service department after it has completed its allocation, the service department will be left with an unallocated portion of expenditures. The impact would be to increase the indirect costs to the GO Program and other end service departments.

**Recommendation**

We recommend the City consider the implementation of a reciprocal allocation method. While this is more complicated than the City's current method, it would allow for the allocation of costs back and forth among service departments. According to *Cost Analysis and Activity Based Costing for Government* published by the Government Finance Officers Association, the reciprocal method will produce a more accurate allocation.

**2. The City's Cost Allocation Plan Worksheet Design Is Very Complex.**

We found the City's cost allocation plan worksheets to be difficult to follow. The workbook for each fiscal year includes several unnecessary tabs and very little instruction or explanation of the process.

**Recommendation**

The City should work to make the Cost Allocation worksheets easier to follow. This can help to prevent future deviations from the plan and can also aide in the GO Program's ability to understand and evaluate the indirect costs they have been charged.

### **3. Allocation Methods Were Based on Estimations.**

Marketing services, information technology services and engineering services allocations are estimated based on professional judgment. No records were available to substantiate the allocations.

#### **Recommendation**

We recommended a more tangible method be used to allocate each of the costs listed above. For instance, the allocations could be based on minutes of labor for each Department or Division, number of service requests from each Department or Division, or number of serviced projects for each Department or Division. For the IT allocations, the City may wish to consider other options, such as system time usage or number of serviced equipment items. These alternative methods would allow for a better substantiated distribution of indirect costs. However, it is important to consider whether the benefits of obtaining this information outweigh the costs of gathering the data.

### **4. Allocation Methods Were Based on Budgets.**

Several indirect service costs are allocated based on the prorated share of each Department's adopted budget amounts. The current method may not be the best method of allocation.

#### **Recommendation**

The allocation bases should be based on one of the following, stated in order of preference:

- Cause-and-effect relationship, in which the indirect cost allocation is based on the costs caused by each object
- Benefits received, in which the cost rate is based on the amount of benefits received
- Fairness, in which the allocation is reasonable, equitable, and consistent
- Ability to bear, in which the costs distributed are based on each cost objectives ability to bear the costs

We recommend the City consider allocating indirect costs using methods other than adopted budget amounts. In some cases, the City may determine that budget allocations are the most equitable method.

### **5. The City's Cost Allocation Workbook Contained Formula Errors.**

During our review of the City's cost allocation Excel workbook we noted errors within some of the formulas. None of the errors had a material effect on the allocation to the Transportation Department.

### **Recommendation**

We recommend that the City review the formulas within their current cost allocation workbook ensuring that they are operating as intended.

## **E. Surplus Funds Are Appropriately Invested with Some Exceptions Noted.**

We reviewed the City's general policies and practices related to the investment of surplus funds. This included reviewing the Investment Policy for the City of Glendale (last amended as of February 2005) as well as carrying out discussions with Finance Department personnel in order to determine the procedures used to track and allocate investments.

The City's investment policy states that when bond proceeds are invested, the permitted investment's portion of the bond indenture takes precedence over investment policy. The City tracked each bond issuance using a separate account. The City opened a new account, object number 114500, in November 2007 in order to track the proceeds from the Transportation bond issuance. Within each account, the City further separated the funds into short-term and long-term investments. The short-term investments for the GO Program were kept in a treasury money market fund. The long-term investments for the GO Program were kept in U.S. Securities. All interest earned from both short-term and long-term investments were placed in the short-term account. As the short-term account grew in size or as long-term securities were redeemed, the City purchased more long-term securities after ensuring that the short-term cash was adequate to meet the City's upcoming needs. In general the City tried to keep less than \$100,000 in any bank account as this was the amount insured by the FDIC; however, all of the City's investments are backed and insured as they are invested solely in treasury bonds and other U.S. Agencies.

The City has questioned whether a separate investment policy should be required for the GO Program. Based on our review, the City is investing surplus funds within legal requirements and prudent investment practices. Generally, the best practice is to pool funds wherever possible to achieve the highest returns. We saw no pressing need for a separate investment policy.

### ***Finding and Recommendation:***

#### **1. The City Does Not Have Written Procedures Detailing the Process for Determining the Amount of Short-Term Cash Needed.**

There are no written procedures to be followed in determining how much cash is needed for short-term needs. The investment policy for the City states only that the responsibility for the investment of all temporarily idle funds has been delegated to the Finance Director.

**Recommendation**

We recommend that the City establishes a written process for determining the amount of short-term cash needed.

**F. Maintenance Charges Are Being Fairly Allocated.**

According to the Capital Improvement Plan (CIP) Training Manual, all projects should include Operations and Maintenance (O&M) charges as part of the CIP Request Forms that are submitted to the Management and Budget Department. These O&M charges displayed on the CIP are for informational purposes only. These O&M charges are not charged or allocated by the Management and Budget or Finance Departments.

Once the project has been completed, the program will record actual O&M costs incurred as a result of the project. Any O&M costs that existed prior to the completion of the project are not funded by the GO Program. The Program only takes on the additional operating costs that resulted from the projects. Once the GO Program begins to incur operating costs, the GO Program personnel will review their budget capacity for those projects and request additional budget if necessary. In some cases the GO Program may be able to handle the new O&M charges within its existing operating budget. Then the GO Program will not have to submit a request for additional funding. If additional funding is needed, the additional budget requests are submitted to the Management and Budget Department and reviewed. They are then sent to Council to be formally approved.

There were no recommendations in this area.

**G. CIP Set-asides are Fair and Accurate with Some Exceptions Noted.**

Each year the Management and Budget Department releases a CIP Training Manual to help guide the preparers of the CIP Request Forms. The GO Transportation personnel prepare the CIP Request Forms, as indicated above in section F and submit the forms to the Management and Budget Department.

***Finding and Recommendation:***

**1. CIP Set-asides Are Not Always Based on the CIP Training Manuals.**

All set aside allocations reviewed complied with the City's CIP Training Manuals and City policy except where noted below.

- For six of 30 CIP Request Forms reviewed, the finance allocation was not made in accordance with the CIP Training Manual.

- For seven of 30 CIP Request Forms reviewed, the engineering allocation was not made in accordance with the CIP Training Manuals.

**Recommendation**

The GO Program personnel should take more care to ensure that the set-aside charges used on the CIP Request Forms are in accordance with the CIP Training Manuals. The Management and Budget Department should ensure that during their review of the CIP Request Forms that all required set-asides are included and are charged appropriately.

**H. Program is Following Accepted City Standards for Purchasing with Some Exceptions Noted.**

We reviewed the City's general practices established by City ordinances related to the procurement of goods and services for the GO Transportation Program. This included reading the ordinances related to the procurement of goods and services, carrying out discussions with Finance and Purchasing Department personnel in order to determine the procedures used to procure goods and services and examining a sample of transactions.

***Findings and Recommendations:***

**1. Certain Purchases Were Not Supported With Appropriate Documentation or Approval.**

All disbursements were transportation expenditures with proper supporting documentation and approval except where noted below.

- For two of seven disbursements that were made via a check request payment, the disbursement type did not meet the criteria for using a check request outlined under City Manager Directive #11. One of the disbursements occurred in fiscal year 2005-06. The other occurred in fiscal year 2007-08.

**Recommendation**

The use of check requests is outlined in City Manager Directive (CMD) #11. According to that Directive, a disbursement will qualify for payment under a check request if the amount is \$5,000 or less or is specifically listed in the Directive. The Directive lists a number of purchases and purchase types that would qualify for payment with a check request. The Finance Department should ensure that check request payments are not issued unless they are allowed under the provisions of CMD #11.

## **2. Policies Regarding Over-Expenditure of Purchase Order Amounts Are Informal.**

In our sample, we noted two of eighteen disbursements that exceeded the authorized purchase order amount by less than ten percent. Based on our discussions with City staff, the City has an informal policy allowing departments to exceed purchase order amounts by less than ten percent.

### **Recommendation**

If the City wishes to continue this practice of allowing departments to exceed purchase order amounts, we recommend the City establish a formal policy to document the over-expenditure authorization.

## **I. Evaluation of Whether GO Funds Were Used to Supplant Projects and Programs in Place Prior to the Election was Determined Not Applicable.**

Based on discussions with the City Attorney and the Transportation Director, there is no requirement within the Ballot language prohibiting supplanting of projects and programs in place prior to the election. Absent a non-supplanting requirement, the applicability of such testwork was deemed unnecessary.

## **III. Status of Prior Audit Findings**

The prior performance audit completed in 2005 made four recommendations that were applicable to this section.

- Recommendation 1 – the GO program needs to work with the City’s Management and Budget Department to obtain a better understanding of the indirect cost allocations.
- Recommendation 2 – the GO Program should review the City’s indirect cost plan annually to determine that indirect cost allocations are reasonable.
- Recommendation 3 – The GO Program should review the City’s indirect cost plan annually.
- Recommendation 4 – The GO Program should continue to plan for operations and maintenance charges in its CIP and 25-year long-range plan.

All recommendations have been addressed by the GO Program in the time since the last performance audit. GO Program personnel have worked with the City’s Management and Budget Department in order to obtain a full understanding of the City’s indirect cost allocation and how it affects them. GO Program personnel review the City’s indirect cost plan on an annual basis and review the allocation to determine if they are reasonable. The GO Program has continued to plan for operations and maintenance charges in its CIP and 25-year long-range plan.

The City's Internal Auditor's Office completed an Audit of Transit Operations in February 2009. Their Audit covered the period from July 1, 2006 to June 30, 2008 and included a review of budgets, business plans, cellular phone statements, check requests, contracts, financial reports, procurement card transactions, and policies and procedures. From their report, the following recommendations are applicable to the current performance audit.

- Recommendation 1 – Thirteen vendor invoices sampled were not submitted to Finance in a timely manner for payment.
- Recommendation 2 – Procurement card guidelines, including signing receipts and completing procurement card checklists, are not always complied with.

At the time of our audit, management had concurred with these recommendations and was in the process of implementing steps to correct them. As management had concurred with the recommendations, we did not complete any additional testwork as our work would have overlapped with the time period covered by the internal audit.

**IS THE 25-YEAR PROGRAM  
FINANCIALLY BALANCED  
AND BASED ON  
REASONABLE ESTIMATES?**

# IS THE 25-YEAR PROGRAM FINANCIALLY BALANCED AND BASED ON REASONABLE ESTIMATES?

## I. Methodology

We analyzed the 25-year projections and the underlying assumptions used for the fiscal years 2006-2030, 2007-2031 and 2008-2032. There were five main areas of the forecast reviewed:

### A. Are the financial projections reasonable, including: sales tax revenues, general funds contributed to the Transportation Fund, farebox revenues, intergovernmental revenues, and combining ending balance?

- We reviewed the financial projections and the underlying assumptions.
- We reviewed the policies for creating the financial forecasts.
- We assessed the credentials and experience level of the Consultant hired to assist with the financial projections.
- We compared financial projections with those of prior years and other expectations.
- We compared underlying assumptions to commonly accepted forecasting practices factoring in potential factors that may affect future projections.
- We determined and evaluated minimum/maximum fund balance requirements.

### B. Are cost estimates reasonable?

- We compared cost estimates to historical data on a project basis.
- We reviewed underlying assumptions of the cost estimates for reasonableness taking into consideration factors that may affect future projections.

### C. Are financial factors, including debt interest rates, bonding levels and inflation rates reasonable?

- We compared the financial factors against historical measures.
- We compared financial factors against commonly accepted forecasting practices for reasonableness.
- We considered the effect of potential factors affecting future experience.

## **D. Is the schedule of planned activity achievable?**

- We compared the schedule of planned activity against completed projects.
- We considered potential factors that could impact future activity level.

## **E. What is the process used to adjust the schedule of planned activity? Is it in keeping with the voters' intent?**

- We reviewed the adopted policies and procedures directing the appropriate method for making changes to the project list approved by Glendale voters for the GO Program.
- We compared the actual process of altering the schedule of planned activity to Proposition 402 language.
- For a sample of new projects we verified that they were included in the budget and that the budget was approved by the City Council.

To obtain an understanding of the five main areas, the source of the forecasts and the reports in which they were formalized, the documents listed below were reviewed:

- Glendale Onboard Transportation Program 2005 Annual Report and fiscal years 2006-2030 Program of Projects
- Glendale Onboard Transportation Program 2006 Annual Report and fiscal years 2007-2031 Program of Projects
- Glendale Onboard Transportation Program 2007 Annual Report and fiscal years 2008-2032 Program of Projects
- GO Program Financial Model fiscal years 2006-2030
- GO Program Financial Model fiscal years 2007-2031
- GO Program Financial Model fiscal years 2008-2032

Interviews were conducted with various members of the Transportation Department and the Department of Management and Budget to determine the 25-year projections were created with the help of an outside consulting firm, URS Corporation. URS provided forecast amounts and analyses to help the City of Glendale determine inflation rates, determine short-term investment interest rates on fund balance, make adjustments to capital and operating and maintenance costs, forecast sales tax revenues and other revenue types and determine bonding level financing along with interest rates for future bond issuances.

Our review's purpose was to determine the reasonableness of the projections made in the documents and reports aforementioned. A comparison of the forecasts against historical amounts and applied regression analysis<sup>1</sup> was made in addition to other

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<sup>1</sup> Regression analysis is a method for forecasting in which trends are determined by applying a "best fit line" to historical data as a prediction for future expectations.

statistical methods of analysis. A review of the assumptions under which the forecasts were made was performed to determine if those techniques were acceptable in light of other potential factors affecting future experience.

## II. Summary of Observations and Recommendations

### A. The Revenue And Ending Balance Financial Projections Are Reasonably Stated, Except Where Noted.

#### *Consultant*

The URS Consultant who provided forecast figures to be incorporated into the 25-year projection was qualified to perform the analysis.

We reviewed the resume of Robert C. Schaevitz (URS Vice President, Transportation Planning and Implementation Service) and determined he is adequately experienced to prepare forecasts on transportation subject matter.

#### *Sales Taxes*

We applied regression analysis against historical sales tax collected for the Transportation Fund. From our regression model we projected sales tax forward and compared it against the non-inflated projections included in the financial models provided by the City. We determined that our regression model compared to the financial forecasts for each 25-year projection had an R-squared value of greater than .95.<sup>2</sup>

The sales projections were prepared by the City's Department of Management and Budget and URS as follows:

Financial Model	Projection Years	
	City	URS
2006-2030	2006-2010	2011-2030
2007-2031	2007-2011	2012-2031
2008-2032	2008-2009	2010-2032

Sales tax projections made by the Department of Management and Budget relied on a formula which incorporated regional disposable income, changes in employment and an inflation factor based on consumer price index. The formula used was reviewed for appropriateness along with the sources of information which included the Arizona Department of Economic Security, the Eller College

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<sup>2</sup> The R-squared value measures how well a regression line approximates a set of data points. A value of 1.0 indicates a perfect fit.

of Management at the University of Arizona and the Bureau of Economic Analysis.

The Consultant's projections for fiscal years 2011-2030 and 2012-2031 followed a method of projecting sales tax revenue under five scenarios:<sup>3</sup>

1. 0% Real Growth per Capita – based on projected population growth
2. Extrapolation of 2003 Forecast – applies the growth factor from the fiscal year 2002-03 GO Program sales tax forecast to the last Management and Budget estimate
3. 1% Real Growth per Capita – based on the first scenario and adds 1% growth per annum
4. Constant Sales per Employee – based on the first scenario except future taxable sales and tax revenue based on employment growth rather than population
5. Constant Sales per Retail Employee – similar to the fourth scenario, except future taxable sales and tax revenue based on retail employment growth

These five scenarios were plotted on a graph from which the Consultant derived an average line to forecast the sales tax revenues. We determined that the method used to forecast the sales tax revenues was appropriate.

### ***General Funds***

Each year the City has committed to a transfer of \$900,000 to the Transportation Fund to support the activities of that fund. We reviewed the three 25-year projections and determined that a transfer is scheduled for each year forecasted. Based on our discussions with the Senior Transportation Analyst, this amount can reasonably be expected to continue under the assumption that the General Fund will remain solvent.

### ***Intergovernmental Revenues***

Historically, intergovernmental revenues have consisted of Local Transportation Assistance Fund (LTAF) distributions from the Arizona State Treasurer. The total intergovernmental revenues have not exceeded \$5 million for fiscal years 2001-02 through 2007-08, which are a significantly smaller amount compared to the intergovernmental revenues forecasted in the fiscal years 2006-2030 and 2007-2031 financial models. The main reason for these increased projections was due to the inclusion of the Light Rail and Northern Parkway Project that were to be funded via the Regional Transportation Plan created by the Maricopa

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<sup>3</sup> Sources used by Consultant included, the Maricopa Association of Governments, the Bureau of Economic Analysis, the Arizona Department of Transportation, and the Arizona Department of Economic Security.

Association of Governments. These projects will now be undertaken by Maricopa County and Valley Metro Regional Public Transportation Authority (RPTA); and along with the projects, the funding was removed from the projections in the fiscal years 2008-2032 financial model.

### ***Farebox Revenue***

We calculated the average of the historical charges for services as a percent of total transportation revenues and compared it against each 25-year projection's average. We determined that historical charges for services are comparable to each of the 25-year projections and that fluctuation of the total farebox revenue in the projection is minimal.

### ***Cumulative Ending Balance***

According to the Transportation Department there are no requirements that the 25-year projection have positive cumulative ending balances except for the final year of the year projection. Per our review of the financial models for fiscal years 2006-2030, 2007-2031 and 2008-2032, we have determined that all financial models end with a positive cumulative ending balance.

### ***Finding and Recommendation:***

#### **1. Discrepancies in the 2006-2030 Program of Projects Were Noted.**

Discrepancies in Table 5 on page B-18 of the fiscal years 2006-2030 Program of Projects were noted when compared to the "GO Sales Tax Forecast – Alternatives, Average, and Linear Fit" graph (Figure 4) on page B-17. The discrepancies had no impact on the revenue forecast as these were errors in the graphical presentation only.

#### **Recommendation**

Additional reviews of data input can help to minimize errors made.

#### **B. The Cost Estimates And Underlying Assumptions Are Reasonable, Except Where Noted.**

We compared projection totals by project for each of the four major program types (Transit, Streets, Bike/Pedestrian and Other) for projects that represented a significant amount of the program type's activity. The following are highlighted changes to the forecast projection:

### ***Transit***

- In accordance with regional plans, a number of major local bus routes in Glendale (such as Routes 24, 59 and 106) are to be absorbed by the RPTA super grid.
- Operating costs for the City of Glendale section of the light rail (currently planned to open in 2019) fell from \$69 million in the fiscal years 2006-2030 projection to just under \$50 million in the fiscal years 2007-2031 projection. This decrease was a result of a reevaluation by Valley Metro Rail, Inc. of the per mile operating costs.
- Capital costs for the City of Glendale section of the light rail increased from \$317 million in the fiscal years 2006-2030 projection to \$368 million in the fiscal years 2007-2031 projection. This increase was due to projected inflationary increases in the construction sector. In the following 25-year projection (fiscal years 2008-2032) the capital costs decreased to \$125 million due to a change in assumptions. The portion of projects supported by regional funding was deleted since the City has no control over the decisions of other regional entities and the scope of their projects.

### ***Streets***

- 59<sup>th</sup> Avenue: Grand Avenue to Arizona Loop 101 project costs increased from fiscal years 2006-2030 to fiscal years 2007-2031 projection due to a design concept report that provided an updated estimate of total costs.
- The City added \$127 million to the fiscal years 2008-2032 projection in pavement management costs for the street program which had been serviced in prior years by other funds in accordance with Council action.

### ***Bike/Pedestrian***

- The downtown pedestrian enhancement project experienced an increase in estimated costs from \$3 million in the fiscal years 2006-2030 projection to \$16 million in the fiscal years 2007-2031 projection due to policy direction to expand the scope of downtown improvements and inclusion of Myrtle Avenue and Grand Avenue medians in the project to simplify the contract process.

### ***Contingency Reserve***

We also noted that the contingency reserve represented approximately 5% of total estimated expenditures for fiscal years 2006-2030 and 2007-2031 financial models. The fiscal years 2008-2032 projection, however, did not include a contingency reserve for any of the program types.

## ***Finding and Recommendation***

### **1. The Contingency Reserve in the 2008-2032 Program of Projects Was Eliminated.**

The Publicity Pamphlet specified that a 5% contingency reserve would be included in the 25-year program. According to the Senior Transportation Analyst the reason for removing the contingency reserve in the fiscal years 2008-2032 projection was because contingencies are already included in each project and in order to balance the program. Based on discussions with the City Attorney, he has determined that the ballot was advisory in nature. The CTOC voted in September 2007 to eliminate the 5% contingency reserve at the overall program level and rely on the contingencies included at the project level as well as the City's practice of deferring projects when higher priorities arise or higher efficiency can be achieved (i.e., timing projects with other non-transportation activities such as sewer projects within a targeted transportation improvement area) in order to ensure the program remains balanced.

#### **Recommendation**

We recommend that the City include disclosure in the projections that at least a 5% contingency is included at the project level.

### **C. Other Financial Factors Such As Interest Rates, Bonding Levels, and Inflation Rates Are Reasonable, Except Where Noted.**

#### ***Bonding Interest Rates***

The bonding interest rates are based on URS discussions with the City's financial advisors for each of the projection years. These rates are influenced by the assumption that municipal interest rates at the time were at all time lows and as a result of Federal Reserve policy were expected to increase within the projection horizon.

Each financial model had bonding interest rates starting at a marginally higher level than what the City had seen for coupon rates on their revenue bonds historically. We compared the projected coupon rates against the historical Highway User Revenue Fund (HURF) revenue bond rates for City of Glendale, Town of Gilbert and the City of Chandler. We chose the Town of Gilbert and City of Chandler because of the similarity in populations to the City of Glendale.

The average coupon rate for the three municipalities for years 1993 through 2006 was 5.26%, while the weighted average coupon rate for the three 25-year projections was consistently within 2% of this average. While we accept the fact that a 2% variation in bonding interest rates can create significant variations in interest paid, we noted that the rates used in the projections were consistently

greater than other actual municipality levels thus adding a conservative element in projecting the future debt service requirements. We noted that weighted average interest rate in the projections from fiscal years 2006-2030 to fiscal years 2008-2032 decreased in response to the slowing economy after fiscal year 2005-06.

### ***Bonding Levels***

In each of the Programs of Projects, Appendix B describes the following three main reasons for bonding at the level prescribed for each projection:

1. Support construction of street and bicycle projects in the first eight years.
2. Complete a light rail transit project within 10-15 years.
3. Complete the Northern Parkway project within 25 years.

The bonding levels seem to correspond with the major milestones of the projects discussed above. We noted, however, that even with the bonding levels set forth in the Programs of Projects for fiscal years 2006-2030 and fiscal years 2007-2031 the financial models for those projection years resulted in multiple deficit years. While it is the policy of the Transportation Department to ensure that the ending of the 25-year projection is balanced, it should be noted that unbalanced projection years may result in interfund borrowing, which may increase the amount the General Fund would need to contribute to the Transportation Fund.

### ***Inflation Rates***

We compared historical consumer price indices of all urban consumers for the Phoenix-Mesa, Arizona area from years 2002 through 2008 against the inflation rates assumed in the financial models. For the fiscal years from 2002 to 2008 we observed a slow increase from 2.08% to 3.45%. This steady increase, we believe, reflected in the inflation rates of the three financial models. Additionally, all financial models' beginning inflation rates are within 1% of the previous years' actual inflation rate for the Phoenix-Mesa area.

It is important to note that the effects of the recent economic recession should not be ignored. The National Bureau of Economic Research announced in December 2008 that the United States has been in a recession since December of the previous year. Indicators of the recession were present as early as July 2007 when Bear Stearns announced it was having trouble as a result of the failing sub-prime mortgage assets of the housing bubble. Generally during a period of recession, we see a decrease in the inflation rates as growth slows, but the current economic situation is atypical since inflation is continuing to increase and the increase has been supported by the Federal Reserve as indicated by lowering its interest rates. Given these factors the forecasts of the financial model are reasonable in assuming that the inflation rate will continue to increase.

**Finding and Recommendation**

**1. Discrepancies were noted between Inflation Rates Presented in the 2007-2031 and 2008-2032 Programs of Projects and the Supporting Financial Models.**

Even though we noted that the inflation rates used in the financial models were reasonable, we also noted discrepancies between the rates presented in the Programs of Projects for fiscal years 2007-2031 (Table 6 pg B-12) and fiscal years 2008-2032 (Table 1 pg B-7) recommended by URS and the financial models as follows:

<b>Projection 2007-2031</b>				<b>Projection 2008-2032</b>			
Projected Year	Program of Projects		Difference	Projected Year	Program of Projects		Difference
	Inflation Rate	Financial Model Inflation Rate			Inflation Rate	Financial Model Inflation Rate	
FY 2012	3.25%	3.35%	0.10%	FY 2015	3.35%	3.45%	0.10%
FY 2013	3.20%	3.40%	0.20%	FY 2016	3.30%	3.50%	0.20%
FY 2014	3.15%	3.45%	0.30%	FY 2017	3.25%	3.55%	0.30%
FY 2015	3.20%	3.50%	0.30%	FY 2018	3.20%	3.60%	0.40%
FY 2016	3.15%	3.55%	0.40%	FY 2019	3.25%	3.65%	0.40%
FY 2017	3.20%	3.60%	0.40%	FY 2020	3.30%	3.70%	0.40%
FY 2018	3.25%	3.65%	0.40%	FY 2021	3.35%	3.75%	0.40%
FY 2019	3.30%	3.70%	0.40%	FY 2022	3.40%	3.80%	0.40%
FY 2020	3.35%	3.75%	0.40%	FY 2023	3.35%	3.85%	0.50%
FY 2021	3.30%	3.80%	0.50%	FY 2024	3.30%	3.90%	0.60%
FY 2022	3.30%	3.85%	0.55%	FY 2025	3.25%	3.95%	0.70%
FY 2023	3.25%	3.90%	0.65%	FY 2026	3.20%	4.00%	0.80%
FY 2024	3.20%	3.95%	0.75%	FY 2027	3.25%	4.05%	0.80%
FY 2025	3.15%	4.00%	0.85%	FY 2028	3.30%	4.10%	0.80%
FY 2026	3.10%	4.05%	0.95%	FY 2029	3.35%	4.15%	0.80%
FY 2027	3.15%	4.10%	0.95%	FY 2030	3.40%	4.20%	0.80%
FY 2028	3.20%	4.15%	0.95%	FY 2031	3.35%	4.25%	0.90%
FY 2029	3.25%	4.20%	0.95%	FY 2032	3.30%	4.30%	1.00%
FY 2030	3.30%	4.25%	0.95%				
FY 2031	3.30%	4.30%	1.00%				

According to the Senior Transportation Analyst, this was due to clerical errors in updating the financial models.

**Recommendation**

A secondary review of data input can help to minimize errors made.

**D. The Planned Activity Level Is Reasonable.**

We reviewed the planned activity level in terms of operating activities and capital activities. We applied regression analysis against historical non-capital and

capital expenditures for the fiscal years 2001-2002 through 2007-2008 and noted the following for each expenditure type.

### ***Operating Activities***

Comparison of the three projections for non-capital expenditures have yielded results that suggest the financial model has a strong correlation to projected expenditures using linear regression (R-squared value doesn't fall below .90 for any of the 25-year projections), therefore suggesting that the financial model is reasonable in relation to historical non-capital expenditures. Considering the nature of non-capital expenditures in the form of operational expenditures, it is reasonable to believe that a gradual escalation of expenditures is foreseeable.

A significant portion of the operating expenditures occurred under the transit program. The largest projects under the transit program for operating activities for each of the three 25-year projections are local bus routes and the Dial-A-Ride service.

An increase or decrease in activity is not planned for the Dial-A-Ride service; however, the local bus services had a number of expansions, route additions and route deletions planned for the three 25-year projections. We noted that the following routes were to be absorbed by the RPTA for the years noted:

Route	Fiscal year absorbed by the RPTA super grid
24	2007-2008
59	2014-2015
106	2014-2015
170	2018-2019

We also noted that there were planned expansions of existing routes and additional routes. We applied analytical procedures to determine if the addition of route miles for each expansion or addition would significantly impact the service level already provided to the citizens of the City of Glendale and determined that for all, except one expansion, the revenue miles added would be less than 10% of the total already serviced in the preceding year. Route 67 was the only local bus route for which there appeared to be a significant expansion of service; however, we determined that since the expansion of service was not scheduled until fiscal year 2018-2019 in each of the three 25-year projections the expansion was reasonable.

### ***Capital Activities***

We applied certain analytical procedures over the capital expenditures for each program type (Transit, Street, Bike/Pedestrian and Other) and compared the projected amounts against the average amount spent for each fiscal year for each

25-year projection. Additionally, we compared the projected number of projects against the average number of projects for the fiscal years in the 25-year projection. For those fluctuations that fell outside of our expectations we evaluated reasonableness.

We noted there were no fluctuations caused by unreasonable increases in capital projects activity.

There were no recommendations in this area.

## **E. The Process By Which The Schedule Of Activity Is Adjusted Is In Keeping With The Intent Of The Voters.**

Per discussion with the Transportation Department we determined that the following process is in place to add new projects to the planned activities schedule:

1. The Transportation Department explores a new project, including the estimated time it would take to complete and the estimated costs that would be incurred.
2. The project is submitted to the City's Citizens Transportation Oversight Commission (CTOC) for recommendation.
3. The project is further explored by a committee formed under the City Manager's Department.
4. If the committee supports the project, it is sent to City Council to have the budget line items approved.

Additionally, the annual budget of the City discusses the following process for approving capital projects:

*The Capital Improvement Plan (CIP) is a ten-year roadmap for planning Glendale's present and future infrastructure needs. It serves the purpose of planning when and where improvements will be made and helps plan so that the city will have the funds even if there is a change in the external economic environment. CIP projects are non-routine expenditures that generally cost more than \$50,000 and have a useful life of at least five years...The city follows certain requirements for deciding on CIP projects and can't increase the secondary property tax rate. The CIP must support city goals, meet legal and financial requirements, maintain financial integrity of the city, maintain comparable quality and services in all geographic areas, be financed through growth in tax base or development fees, encourage Glendale's economy, maintain current infrastructure, and promote growth. Some projects will affect the city's operating budget for longer periods of time than others and it is also important to consider economic forecasts so that financing is not interrupted. The first year of*

*the ten-year plan is the only one appropriated by council, the following nine years are for planning purposes only and funding is not guaranteed to occur in the year planned. The city assesses valid competing needs, determines priorities, and evaluates costs and financing before moving forward with certain projects. The City council reviews all projects, considers citizen requests, and evaluates financial management and planning staff recommendations before making a final decision. The CFO ensures that debt service costs are addressed in the operating budget. Citizens and businesses have ample opportunity through boards and public hearings to make suggestions or comments which are encouraged. Most of the large capital improvements are not financed from a single annual operating budget.*

We determined the projects added to the schedule of activities follow the process outlined above.

There were no recommendations in this area.

### **III. Status of Prior Audit Findings**

The prior performance audit completed in 2005 made two recommendations that were applicable to this section.

- Recommendation 1 – the GO Program and CTOC should establish a comprehensive formal policy for adding and deleting projects to and from the 25-year plan and notifying the public of the project changes.

Actions Taken:

The City Council and CTOC have not taken formal action to create formal policies for adding and deleting projects to and from the 25-year plan and notifying the public of the project changes. However, the process for adding and deleting projects has been refined and clarified as follows:

1. The Transportation Department explores a new project including the estimated time it would take to complete and the estimated costs that would be incurred.
  2. The project is submitted to CTOC for recommendation.
  3. The project is further explored by a committee formed under the City manager's department.
  4. If the committee supports the project, it is sent to City Council to have the budget line items approved.
- Recommendation 2 – the GO Program should establish formal policies to define contingency reserves.

Actions Taken:

The City has not created formal policies to define contingency reserves for the GO Program. With the approval of the CTOC, the Transportation Department eliminated the 5% program contingency as of the fiscal year 2008-2032 program in order to maintain a financially balanced program; however, the Engineering practice of including contingencies in the cost estimates of each project continues. The amount of the contingency increases with the level of uncertainty in the cost estimating procedures and is set at a minimum of 5%.

# **APPENDICES**

# APPENDIX A

## SUMMARY OF FINDINGS AND RECOMMENDATIONS

### Is the Citizens' Transportation Oversight Commission (CTOC) Meeting Voter Commitments?

#### 1. No Performance Indicators for Monitoring Progress.

The Publicity Pamphlet for the November 2001 ballot measure outlined specific improvements that were to be accomplished through the GO Program using the tax funds generated. These included:

- Improve traffic flow
- Relieve traffic congestion
- Increase transportation choices
- Improve air quality
- Promote economic vitality
- Provide regional transportation connections

It appears clear that the GO Program has had a substantial positive impact on most if not all of these improvement areas. However, the GO Program has not developed performance indicators to define or measure these improvements. Doing so could provide greater assurance that the commitment made to voters is being met, and that the GO Program projects are targeted in the most effective way. In addition, performance indicators add a level of transparency that demonstrates to the community the effectiveness of the impacts of the GO Program.

#### **Recommendation**

The CTOC, working with GO Program management, should consider developing specific performance indicators to measure progress made, to the extent practical, over time in each of the improvement areas described in the Publicity Pamphlet.

### Is the GO Program Being Addressed Fairly and Accurately in the City Financial Practices?

#### 1. The City's Tax System Automatically Writes Off Unreconciled Differences in Taxes Received.

Differences between the amount of taxes received in the lockbox batches and the amounts reported in the tax system are written off automatically in the system. A

manual adjustment is made by the tax and licensing personnel in order to prevent the write-off from taking place.

**Recommendation**

We recommend that the City consider modifying the tax system to streamline processes so that these manual adjustments are not necessary.

**2. The Information Entered into the Tax System Is Not Reconciled to the Information Entered into the Cashiering System.**

Without performing a reconciliation, there is no way to determine if the information in both systems is consistent. While no material differences were noted in our testwork, over time there is a risk of developing material differences between the systems.

**Recommendation**

We recommend that the City reconciles the information entered into the tax system with the information entered into the cashiering system.

**3. The City Does Not Have Written Policies Detailing the Process for Allocating Interest Among the Participating Funds.**

The City's Investment Policy states only that the investment income derived from the pooled investments account shall be allocated to the various funds in accordance with internal allocation policies. The City does not have any written policies documenting the procedures used to allocate interest. The City's current method of allocation is atypical as it does not allocate actual interest earned. All interest is allocated based on the interest rate earned in the MBIA account while the activity in the State investment pool is ignored.

**Recommendation**

We recommend that the City documents their interest allocation process of choice and, additionally, look to using an allocation method based on the actual interest earned in the pooled account.

**4. The City's Cost Allocation Plan Did Not Follow Common Practices for the Step-Down Allocation Method.**

In fiscal years 2005-06 and 2006-07, the common costs and the general governmental services steps allocated a portion of those indirect costs back to that steps' service departments. In fiscal year 2007-08, the common costs, governmental services and financial services steps allocated a portion of those indirect costs back to that steps' service departments. In a step-down allocation the goal is to remove all expenditures from each service department. By allocating back to a service department after it has completed its allocation, the service department will be left with an unallocated

portion of expenditures. The impact would be to increase the indirect costs to the GO Program and other end service departments.

**Recommendation**

We recommend the City consider the implementation of a reciprocal allocation method. While this is more complicated than the City's current method, it would allow for the allocation of costs back and forth among service departments. According to *Cost Analysis and Activity Based Costing for Government* published by the Government Finance Officers Association, the reciprocal method will produce a more accurate allocation.

**5. The City's Cost Allocation Plan Worksheet Design Is Very Complex.**

We found the City's cost allocation plan worksheets to be difficult to follow. The workbook for each fiscal year includes several unnecessary tabs and very little instruction or explanation of the process.

**Recommendation**

The City should work to make the Cost Allocation worksheets easier to follow. This can help to prevent future deviations from the plan and can also aide in the GO Program's ability to understand and evaluate the indirect costs they have been charged.

**6. Allocation Methods Were Based on Estimations.**

Marketing services, information technology services and engineering services allocations are estimated based on professional judgment. No records were available to substantiate the allocations.

**Recommendation**

We recommended a more tangible method be used to allocate each of the costs listed above. For instance, the allocations could be based on minutes of labor for each Department or Division, number of service requests from each Department or Division, or number of serviced projects for each Department or Division. For the IT allocations, the City may wish to consider other options, such as system time usage or

number of serviced equipment items. These alternative methods would allow for a better substantiated distribution of indirect costs. However, it is important to consider whether the benefits of obtaining this information outweigh the costs of gathering the data.

## **7. Allocation Methods Were Based on Budgets.**

Several indirect service costs are allocated based on the prorated share of each Department's adopted budget amounts. The current method may not be the best method of allocation.

### **Recommendation**

The allocation bases should be based on one of the following, stated in order of preference:

- Cause-and-effect relationship, in which the indirect cost allocation is based on the costs caused by each object
- Benefits received, in which the cost rate is based on the amount of benefits received
- Fairness, in which the allocation is reasonable, equitable, and consistent
- Ability to bear, in which the costs distributed are based on each cost objectives ability to bear the costs

We recommend the City consider allocating indirect costs using methods other than adopted budget amounts. In some cases, the City may determine that budget allocations are the most equitable method.

## **8. The City's Cost Allocation Workbook Contained Formula Errors.**

During our review of the City's cost allocation Excel workbook we noted errors within some of the formulas. None of the errors had a material effect on the allocation to the Transportation Department.

### **Recommendation**

We recommend that the City review the formulas within their current cost allocation workbook ensuring that they are operating as intended.

## **9. The City Does Not Have Written Procedures Detailing the Process for Determining the Amount of Short-Term Cash Needed.**

There are no written procedures to be followed in determining how much cash is needed for short-term needs. The investment policy for the City states only that the responsibility for the investment of all temporarily idle funds has been delegated to the Finance Director.

### **Recommendation**

We recommend that the City establishes a written process for determining the amount of short-term cash needed.

## **10. CIP Set-asides Are Not Always Based on the CIP Training Manuals.**

All set aside allocations reviewed complied with the City's CIP Training Manuals and City policy except where noted below.

- For six of 30 CIP Request Forms reviewed, the finance allocation was not made in accordance with the CIP Training Manual.
- For seven of 30 CIP Request Forms reviewed, the engineering allocation was not made in accordance with the CIP Training Manuals.

### **Recommendation**

The GO Program personnel should take more care to ensure that the set-aside charges used on the CIP Request Forms are in accordance with the CIP Training Manuals. The Management and Budget Department should ensure that during their review of the CIP Request Forms that all required set-asides are included and are charged appropriately.

## **11. Certain Purchases Were Not Supported With Appropriate Documentation or Approval.**

All disbursements were transportation expenditures with proper supporting documentation and approval except where noted below.

- For two of seven disbursements that were made via a check request payment, the disbursement type did not meet the criteria for using a check request outlined under City Manager Directive #11. One of the disbursements occurred in fiscal year 2005-06. The other occurred in fiscal year 2007-08.

### **Recommendation**

The use of check requests is outlined in City Manager Directive (CMD) #11. According to that Directive, a disbursement will qualify for payment under a check request if the amount is \$5,000 or less or is specifically listed in the Directive. The Directive lists a number of purchases and purchase types that would qualify for payment with a check request. The Finance Department should ensure that check request payments are not issued unless they are allowed under the provisions of CMD #11.

## **12. Policies Regarding Over-Expenditure of Purchase Order Amounts Are Informal.**

In our sample, we noted two of eighteen disbursements that exceeded the authorized purchase order amount by less than ten percent. Based on our discussions with City staff, the City has an informal policy allowing departments to exceed purchase order amounts by less than ten percent.

**Recommendation**

If the City wishes to continue this practice of allowing departments to exceed purchase order amounts, we recommend the City establish a formal policy to document the over-expenditure authorization.

**Is The 25-Year Program Financially Balanced and Based on Reasonable Estimates?**

**1. Discrepancies in the 2006-2030 Program of Projects Were Noted.**

Discrepancies in Table 5 on page B-18 of the fiscal years 2006-2030 Program of Projects were noted when compared to the “GO Sales Tax Forecast – Alternatives, Average, and Linear Fit” graph (Figure 4) on page B-17. The discrepancies had no impact on the revenue forecast as these were errors in the graphical presentation only.

**Recommendation**

Additional reviews of data input can help to minimize errors made.

**2. The Contingency Reserve in the 2008-2032 Program of Projects Was Eliminated.**

The Publicity Pamphlet specified that a 5% contingency reserve would be included in the 25-year program. According to the Senior Transportation Analyst the reason for removing the contingency reserve in the fiscal years 2008-2032 projection was because contingencies are already included in each project and in order to balance the program. Based on discussions with the City Attorney, he has determined that the ballot was advisory in nature. The CTOC voted in September 2007 to eliminate the 5% contingency reserve at the overall program level and rely on the contingencies included at the project level as well as the City’s practice of deferring projects when higher priorities arise or higher efficiency can be achieved (i.e., timing projects with other non-transportation activities such as sewer projects within a targeted transportation improvement area) in order to ensure the program remains balanced.

**Recommendation**

We recommend that the City include disclosure in the projections that at least a 5% contingency is included at the project level.

**3. Discrepancies were noted between Inflation Rates Presented in the 2007-2031 and 2008-2032 Programs of Projects and the Supporting Financial Models.**

Even though we noted that the inflation rates used in the financial models were reasonable, we also noted discrepancies between the rates presented in the Programs of Projects for fiscal years 2007-2031 (Table 6 pg B-12) and fiscal years 2008-2032 (Table 1 pg B-7) recommended by URS and the financial models as follows:

<b>Projection 2007-2031</b>				<b>Projection 2008-2032</b>			
Projected Year	Program of Projects Inflation		Difference	Projected Year	Program of Projects Inflation		Difference
	Rate	Financial Model Inflation Rate			Rate	Financial Model Inflation Rate	
FY 2012	3.25%	3.35%	0.10%	FY 2015	3.35%	3.45%	0.10%
FY 2013	3.20%	3.40%	0.20%	FY 2016	3.30%	3.50%	0.20%
FY 2014	3.15%	3.45%	0.30%	FY 2017	3.25%	3.55%	0.30%
FY 2015	3.20%	3.50%	0.30%	FY 2018	3.20%	3.60%	0.40%
FY 2016	3.15%	3.55%	0.40%	FY 2019	3.25%	3.65%	0.40%
FY 2017	3.20%	3.60%	0.40%	FY 2020	3.30%	3.70%	0.40%
FY 2018	3.25%	3.65%	0.40%	FY 2021	3.35%	3.75%	0.40%
FY 2019	3.30%	3.70%	0.40%	FY 2022	3.40%	3.80%	0.40%
FY 2020	3.35%	3.75%	0.40%	FY 2023	3.35%	3.85%	0.50%
FY 2021	3.30%	3.80%	0.50%	FY 2024	3.30%	3.90%	0.60%
FY 2022	3.30%	3.85%	0.55%	FY 2025	3.25%	3.95%	0.70%
FY 2023	3.25%	3.90%	0.65%	FY 2026	3.20%	4.00%	0.80%
FY 2024	3.20%	3.95%	0.75%	FY 2027	3.25%	4.05%	0.80%
FY 2025	3.15%	4.00%	0.85%	FY 2028	3.30%	4.10%	0.80%
FY 2026	3.10%	4.05%	0.95%	FY 2029	3.35%	4.15%	0.80%
FY 2027	3.15%	4.10%	0.95%	FY 2030	3.40%	4.20%	0.80%
FY 2028	3.20%	4.15%	0.95%	FY 2031	3.35%	4.25%	0.90%
FY 2029	3.25%	4.20%	0.95%	FY 2032	3.30%	4.30%	1.00%
FY 2030	3.30%	4.25%	0.95%				
FY 2031	3.30%	4.30%	1.00%				

According to the Senior Transportation Analyst, this was due to clerical errors in updating the financial models.

**Recommendation**

A secondary review of data input can help to minimize errors made.

## APPENDIX B

# MANAGEMENT RESPONSES

The following provide the formal responses received from the City's Transportation Department regarding the GO Program.

### **Is the Citizens' Transportation Oversight Commission (CTOC) Meeting Voter Commitments?**

#### **1. No Performance Indicators for Monitoring Progress.**

##### **Management Response**

Transportation is aware of performance reports and indicators used by large transportation departments at the state or regional level, but does not believe these apply to the Glendale Onboard (GO) Transportation Program. Performance indicators apply when the entire transportation system is accountable to one management body. In the case of Glendale, the funds for transportation are from several sources, including general obligation bonds, state highway user revenue fund, development impact fee, and GO ½-cent sales tax.

The GO Program includes projects that are partially or wholly funded with the ½-cent transportation sales tax. Several state departments of transportation publish annual performance reports. They do so because the entire state network is within the DOT's jurisdiction. DOTs are responsible for the maintenance of their infrastructure, whereas, in Glendale, the ½-cent sales tax is not applied for such functions.

The GO Program complements other city, federal, state, and regional funds, which does not cover the other sources of funding. The comprehensive transportation network is reviewed for performance every five years as part of the transportation plan update process. The creation of new performance measures in most instances duplicates and creates a new burden on the Program, both on finances and resources.

Management disagrees with this consultant recommendation. This recommendation is more applicable to the Glendale Transportation Plan.

## **Is The GO Program Being Addressed Fairly and Accurately in the City Financial Practices?**

- 1. The City's Tax System Automatically Writes Off Unreconciled Differences in Taxes Received.**

### **Management Response**

A new tax and license software system is being implemented during FY 2011 and should address this issue.

- 2. The Information Entered into the Tax System Is Not Reconciled to the Information Entered into the Cashiering System.**

### **Management Response**

The implementation of the new tax system and an upgrade to the current cashiering system will allow for easier reconciliation of the two systems. They will put any reconciling items in the electronic information exchange between the two systems into a suspense account. This account will be analyzed ensuring all transactions are being accounted for. The two systems will also be reconciled using balance sheet accounts that function as control accounts for all transactions. These accounts, A/R, deferred revenue etc. will be reconciled monthly and will ensure that all transactions that might create a difference would be research quickly after they happen.

- 3. The City Does Not Have Written Policies Detailing the Process for Allocating Interest Among the Participating Funds.**

### **Management Response**

Finance will look into the best interest allocation method to be used as well as documenting that method.

- 4. The City's Cost Allocation Plan Did Not Follow Common Practices for the Step-Down Allocation Method.**

### **Management Response**

We agreed with the recommendation. Budget staff will investigate the recommended method in more detail to determine if it is a suitable method for the City of Glendale's business practice. We will also analyze the cost benefit of using the recommended method.

- 5. The City's Cost Allocation Plan Worksheet Design Is Very Complex.**

### **Management Response**

Budget staff will cross-reference the "cost allocation plan worksheet" to support documentation and will include a narrative explanation and purpose for each

worksheet tab used in the model. The procedures manual will be updated to reflect any material changes.

It is important to note that the Budget director and staff had a meeting with staff from the GO program to review and explain the model. The annual charges are explained to GO program staff prior to the final budget adoption and a copy of the model is sent to the department for review.

## **6. Allocation Methods Were Based on Estimations.**

### **Management Response**

For marketing and engineering services, we agree with the recommendation. Currently the percentage of usage is determined based on the professional judgment. We will communicate this finding with these departments to explore methods of tracking usage for the indirect cost allocation.

However, the IT department has been tracking usage based on Total percentage of tickets/department – percentage usage is tracked based on RFCs/Incidents created for the fiscal year. From the incidents report, the percentage charged to each department is automatically calculated.

## **7. Allocation Methods Were Based on Budgets.**

### **Management Response**

We agree with the recommendation for the customer service cost allocation and we will change the process from using adopted budget to actual number of bills mailed to customers.

However, for areas such as Finance, Mayor and City Council, we have determined that using methods other than the budgeted amount is not an ideal method of allocating these departmental costs. The costs of gathering the bulleted information above outweighed the benefits we felt we would receive. For Facility Maintenance, the cost allocation is based on space information as this was determined to be the ideal way of allocating these departmental costs.

## **8. The City's Cost Allocation Workbook Contained Formula Errors.**

### **Management Response**

We concur with the recommendation to review the formulas. However, it is important to note that staff currently reviews and performs several formula checks and analysis to ensure that this complex model is materially accurate each year. These steps include spot-checking formulas, trend analysis, year-over-year comparisons and manual recalculations of hard-copy printouts.

**9. The City Does Not Have Written Procedures Detailing the Process for Determining the Amount of Short-Term Cash Needed.**

**Management Response**

Finance staff will look into the establishment of written procedures for determination of short-term cash needed.

**10. CIP Set-asides Are Not Always Based on the CIP Training Manuals.**

**Management Response**

Transportation agrees with this recommendation and will include multiple reviews in the process to ensure set-aside charges used in the CIP Request Forms are in accordance with the CIP Training Manuals. Budget concurs with this recommendation but would like to point out that the Finance allocation is not a requirement for all projects falling under the GO Transportation Capital Plan. Projects which are cash financed are exempt from the Finance allocation; this is communicated in the FY 2011 CIP Training Manual. Additionally the Engineering allocation only applies to projects which have design and/or construction costs. An automatic calculation is used in the online CIP request form to capture this cost. Projects with no design or construction costs are exempt from the Engineering allocation. Thus, a project lacking Finance and/or Engineering allocations could still be compliant with the CIP Training Manual.

**11. Certain Purchases Were Not Supported With Appropriate Documentation or Approval.**

**Management Response**

Finance will look at CMD#11 to make sure that the transaction types that qualify for payment are accurate and up to date and will suggest changes if they are necessary. They will also re-educate staff on how to follow and monitor the use of CMD#11

**12. Policies Regarding Over-Expenditure of Purchase Order Amounts Are Informal.**

**Management Response**

Material Management staff agrees with the recommendation and will address the development of a formal policy of using a change order form as the method for review and approval of expenditures exceeding the purchase order PeopleSoft tolerance levels.

## **Is the 25-Year Program Financially Balanced and Based on Reasonable Estimates?**

### **1. Discrepancies in the 2006-2030 Program of Projects Were Noted.**

#### **Management Response**

Transportation agrees with this recommendation and will perform multiple reviews of consultant work to ensure accuracy of information included in the report.

### **2. The Contingency Reserve in the 2008-2032 Program of Projects was Eliminated**

#### **Management Response**

Transportation agrees with this recommendation and will include the above stated disclosure in the report.

### **3. Discrepancies Were Noted Between Inflation Rates in the 2007-2031 and 2008-2032 Programs of Projects and the Supporting Financial Models.**

#### **Management Response**

Transportation agrees with this recommendation and will do multiple reviews of work to ensure that correct information is included in the report.