

# City of Glendale, Arizona



## Glendale Onboard Transportation Program

### Performance Audit

Fiscal Years 2011-12 through 2013-14

Presented to Citizens' Transportation Oversight Committee (CTOC)  
September 1, 2016



## Acknowledgments

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 this triennial Performance Audit. We appreciate the time and effort all have contributed to ensure a quality audit was performed.

Trevor Ebersole, Deputy Public Works Director – Transportation

### Audit Oversight Committee (AOC)

Purab Adabala, Public Works - Transportation  
Gerald Woodman, CTOC  
Vicki Rios, Budget and Finance Director  
David Beard, Public Works – Engineering  
Cathy Foland, Public Works - Transportation

### Citizens' Transportation Oversight Commission (CTOC)

Tom Schmitt, Chair  
John Geurs, Vice Chair  
Donald Brazier  
James Grose  
Michael Hart  
Jeff McAfee  
Marie Nesfield  
Jack Nylund  
Roberta Podzius  
CJ Williams  
Joan Young

### Glendale City Council

Honorable Mayor Jerry Weiers  
Vice Mayor Ian Hugh  
Councilmember Jamie Aldama  
Councilmember Lauren Tolmachoff  
Councilmember Sammy Chavira  
Councilmember Bart Turner  
Councilmember Ray Malnar

## Table of Contents

	<u>Page</u>
<b>Overview and Introduction .....</b>	<b>1</b>
<b>Are Commitments to Voters Being Met? .....</b>	<b>5</b>
<b>Is the Citizens' Transportation Oversight Commission (CTOC) Meeting Voter Commitments? .....</b>	<b>19</b>
<b>Summary of the City's Financial Audits .....</b>	<b>22</b>
<b>Is the GO Program Being Addressed Fairly and Accurately in the City's Financial Practices? .....</b>	<b>36</b>
<b>Is the 25-Year Program Financially Balanced and Based on Reasonable Estimates? .....</b>	<b>51</b>
<b>Summary of Findings, Recommendations, and Management Responses .....</b>	<b>62</b>

## Overview and Introduction

### 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

On 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 tax 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 2011-12 through 2013-14, with portions of the audit subcontracted to BCA Watson Rice, LLP.

## Objectives, Scope and Methodology

The purpose of the GO Program audit, as defined by City staff, is to evaluate performance, consistency with voter intent 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

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 management on May 11, 2015 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.

### **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.

### **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 on 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.

### **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 2011-12 through 2013-14, 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 2011-12 through 2013-14 for findings or recommendations related to the GO Program. Additionally, we reviewed the past GO Program Performance Audit. We have addressed each finding or recommendation within the specific task with which it relates.

### **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.
- Determined whether the GO Program was consistent with the City's adopted Capital Improvement Program.

### **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 2012-2036, 2013-2037 and 2014-2038, 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?

### 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.

#### 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 provided for the year ending June 30, 2014.
- We reviewed transit service schedules for Fiscal Year 2011 to identify services provided as of June 30, 2011.
- We compared 2014 Transit services to those services provided before the Ballot and those provided in 2011.
- We reviewed minutes and actions of the Citizens' Transportation Oversight Commission to identify discussions of changes in services and recommendations made by the Commission.
- We obtained and reviewed the Fiscal Years 2011-2035, 2012-2036, 2013-2037 and 2014-2038 Program Project reports prepared by the Transportation Department and noted any changes to transit services discussed therein.

#### Are Commitments To Voters for Street, Bicycle/Pedestrian, Transit And Airport Projects 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 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 the Fiscal Year 2011-2035, 2012-2036, 2013-2037 and 2014-2038 Program Project reports prepared by the Transportation Department and noted the status of projects as reported therein.
- We compared the list of projects on the Ballot and Publicity Pamphlet with the status of projects as shown in the Program Project reports.
- We identified differences between the Ballot projects and reported status. This included any new projects that were added during the three-year period ending June 30, 2014.
- We conducted interviews with Transportation and Engineering Department staff to determine the rationale for any differences identified, including why projects were deleted or modified as well as why other projects were added.

- We reviewed minutes and actions of the Citizens' Transportation Oversight Commission to identify discussions of changes in specific projects and recommendations made by the Commission.
- 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.

## Summary of Observations and Recommendations

### **Commitments To Voters To Increase The Frequency Of Bus Services And Expand Express Bus Service Have Been Met With Some Exceptions Noted.**

The 2008 performance audits found that the pledges to the voters to increase the frequency of bus service on existing fixed routes to every 30 minutes, to extend hours of service, to add Saturday and Sunday services and to expand express bus service along the Arizona Loop 101 had been met. The 2011 performance audit found that this commitment continued with minor exceptions as follows:

- In 2011, bus service on Route 186 on Union Hills from 51st Avenue to Arrowhead Towne Center was reduced from every 30 minutes to every 60 minutes (hourly). This reduction is inconsistent with the Ballot commitment to increase the frequency of bus service on existing fixed routes to every 30 minutes.
- Also, service on Bus Route 138 on Thunderbird Road was reduced. Service on this route initially extended from 51st Avenue to 67th Avenue. In 2011, this route was reduced to serving from 51st Avenue to 59th Avenue.

This performance audit found that the Department has made additional cuts in transit services during the FY 2012-FY 2014 period as follows:

- Reverse trips from Downtown Phoenix on express route 573 were eliminated.
- Route 122 was eliminated.
- Saturday service on Route 70 between Luke AFB and the 99th Avenue Park and Ride was reduced from every 30 minutes to every hour. Weekend service reduced from 30 minutes to hourly in Glendale.
- Saturday service on Route 106 was reduced from every 30 minutes to hourly.
- Saturday service on Route 170 was reduced from every 30 minutes to hourly.
- Express Route 581 was eliminated.

The schedule on the following page compares bus services by route for Weekdays as scheduled before the election (2001), at the end of Fiscal Year 2008, at the end of Fiscal Year 2011 and at the end of Fiscal Year 2014.

Bus Routes and Frequency - WEEKDAYS					
Route	2001	2008	2011	2014	Comments
43	30 m.	30 m.	30 m.	30 m.	
50	30 m.	30 m.	30 m.	30 m.	
51	No Service	35 m.	35 m.	35 m.	
59	30 m.	30 m.	30 m.	30 m.	
60	30 m.	30 m.	30 m.	30 m.	
67	1 hr.	30 m.	30 m.	30 m.	
24/70	1 hr.	30 m.	30 m.	30 m.	Reduced to hourly Luke AFB to 99th Ave.
80	30 m.	30 m.	30 m.	30 m.	
90	30 m.	30 m.	30 m.	30 m.	
106	45 m.	30 m.	30 m.	30 m.	
122	No Service	1 hr.	1 hr.		Glendale services terminated
138	1 hr.	30 m.	30 m.	30 m.	Service from 59th to 67th Ave. Dropped
170	30 m.	30 m.	30 m.	30 m.	
186	1 hr.	30 m.	1 hr.	1 hr.	51st to Arrowhead reduced to hourly
Expanded or Increased Frequency					
Reduced Service/Frequency					
Route Eliminated					

The schedule below compares bus services by route for Saturdays as scheduled before the election (2001), at the end of Fiscal Year 2008, at the end of Fiscal Year 2011 and at the end of Fiscal Year 2014.

Bus Routes and Frequency - SATURDAY					
Route	2001	2008	2011	2014	Comments
43	1 hr.	1 hr.	1 hr.	1 hr.	
50	30 m.	30 m.	30 m.	30 m.	
51	No Service	35 m.	35 m.	35 m.	
59	1 hr.	30 m.	30 m.	30 m.	
60	1 hr.	30 m.	30 m.	30 m.	
67	1 hr.	30 m.	30 m.	30 m.	
24/70	No Service	30 m.	30 m.	1 hr.	Reduced to hourly
80	1 hr.	30 m.	30 m.	30 m.	
90	1 hr.	30 m.	30 m.	30 m.	
106	No Service	30 m.	30 m.	1 hr.	Reduced to hourly
122	No Service	1 hr.	1 hr.		Glendale services terminated
138	No Service	1 hr.	1 hr.	1 hr.	Service from 59th to 67th Ave. Dropped
170	1 hr.	30 m.	30 m.	1 hr.	Reduced to hourly
186	No Service	1 hr.	1 hr.	1 hr.	
Expanded or Increased Frequency					
Reduced Service/Frequency					
Route Eliminated					

The schedule below compares bus services by route for Sundays as scheduled before the election (2001), at the end of Fiscal Year 2008, at the end of Fiscal Year 2011 and at the end of Fiscal Year 2014.

Bus Routes and Frequency - SUNDAY					
Route	2001	2008	2011	2014	Comments
43	1 hr.	1 hr.	1 hr.	1 hr.	
50	1 hr.	30 m.	30 m.	30 m.	
51	No Service	1 hr.	1 hr.	1 hr.	
59	No Service	1 hr.	1 hr.	1 hr.	
60	No Service	1 hr.	1 hr.	1 hr.	
67	No Service	1 hr.	1 hr.	1 hr.	
24/70	No Service	30 m.	30m	1 hr.	Reduced to hourly
80	No Service	1 hr.	1 hr.	1 hr.	
90	No Service	1 hr.	1 hr.	1 hr.	
106	No Service	1 hr.	1 hr.	1 hr.	
122	No Service	1 hr.	1 hr.		Glendale services terminated
138	No Service	1 hr.	1 hr.	1hr.	Service from 59th to 67th Ave. Dropped
170	No Service	1 hr.	1 hr.	1hr.	
186	No Service	1 hr.	1 hr.	1hr.	
Expanded or Increased Frequency					
Reduced Service/Frequency					
Route Eliminated					

As shown above, the adjustments to bus schedules that the Department made in order to balance the GO Program budget has had an impact on four of the seven Proposition 402 schedule commitments that had been achieved in regards to weekday bus services. Budget adjustments impacted five of twelve schedule commitments that had been achieved in regards to Saturday bus services, and three of twelve for Sunday bus services.

Express bus services have also been impacted by budget changes. Express Bus routes 573, 575 and 581 provided services that were promised by The Publicity Pamphlet for Proposition 402. Express Bus 573 provided services from Beardsley and 75th Avenue Park and Ride to Phoenix going South along the 101 Freeway. Express Bus 575 provided services from Arrow Town Center to Phoenix going North along the 101 Freeway. Express Bus 581 provided services from 59th Avenue and Thunderbird Phoenix going East along the Thunderbird Road. As of the end of FY 2014 Express Bus route 581 had been terminated; Express Bus routes 573 and 575 were in service except that reverse trips from downtown Phoenix on route 573 had been terminated.

## Status of Other Transit Services

According to the FY 2014 GO Program Annual report the status of other transit service programs funded through the GO Program at the end of FY 2014 was as follows:

- Dial-A-Ride for all residents and ADA Paratransit services for disabled individuals continue to be provided in Glendale.
- Glendale Urban Shuttle (GUS) continues to operate, offering three neighborhood circulator routes in downtown and north-central Glendale.
- A Taxi Voucher program, providing an alternative transportation program provides a capped medical transport funding for Glendale residents.

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

#### **Some Of The Commitments To Voters To Expand And Increase The Frequency Of Bus Services Have Been Retracted.**

The Publicity Pamphlet for Proposition 402 stated that the Transportation Sales Tax revenue would be used to expand and increase the frequency of bus services. The Publicity Pamphlet for Proposition 402 also stated that within five years the frequency of service on all existing bus routes would be increased to every 30 minutes.

The 2005 and 2008 performance audits found that these commitments had been met. The 2011 performance audit found that the commitments continued to be met with two exceptions. During this audit period we found that the Department had taken six additional actions to reduce or eliminate promised services. The reduced or terminated services since 2008 are as follows:

- Service on Bus Route 138 has been eliminated from 67th Avenue to 59th Avenue.
- The frequency of service on Bus Route 186 has been reduced from every 30 minutes to hourly.
- Reverse trips from Downtown Phoenix on express route 573 were eliminated.
- Route 122 was eliminated.
- Saturday service on Route 70 between Luke AFB and the 99th Avenue Park and Ride was reduced from every 30 minutes to every hour. Weekend service reduced from 30 minutes to hourly in Glendale.
- Saturday service on Route 106 was reduced from every 30 minutes to hourly.
- Saturday service on Route 170 was reduced from every 30 minutes to hourly.
- Express Route 581 was eliminated.

According to the FY 2014-2038 Program Projects report the elimination of one subset of Local Transportation Assistance Fund (LTAF) and a reduced projection of regional transportation sales tax (Public Transportation Fund - PTF) funds forced the City of Glendale to reduce the cost of its transit operations over the past four years to maintain a balanced budget.

### **Recommendation**

We recommend that GO Transportation Program Management consider restoring the reduced/terminated services to 2008 levels when the GO Program sales tax revenues rebound to previous expectations. We further recommend that any necessary future GO Program adjustments be made first to those projects or services not specifically identified in the 2001 Ballot to be completed within five years.

### **Management Response**

The 2001 Ballot included the creation of the Citizens Transportation Oversight Commission (CTOC) to monitor transportation fund expenditures and recommend adjustments to projects when warranted to serve the best interests of the public. Each year, a 25-year fiscally balanced program of projects and services is presented to CTOC for recommendation. The modifications in transit service, in keeping with the intent of the 2001 Ballot, were included in the proposed program for CTOC's consideration, which was reviewed and approved. This updated program will provide direction for modifying or restoring transit services.

### **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, 2014, 75 projects were completed (44 street, 15 bicycle/pedestrian, 3 transit and 13 airport), 2 projects were under construction (both were street projects) and 23 projects were in design (13 street, 8 bicycle/pedestrian, 1 transit and 1 airport). One project for pavement preservation was ongoing. A total of 11 projects (9 street and 2 bicycle/pedestrian) were in design; however, according to the Publicity Pamphlet, were targeted for completion within the first five years after the ballot measure passage. The delayed street projects are now scheduled for completion in FY 2026 and the bicycle/pedestrian are scheduled for construction in FY 2015.

The GO Program included a total of 101 projects as of June 30, 2014, an increase in the total of 93 projects as of June 30, 2011. All projects were found to be consistent with Ballot objectives.

### ***Street Projects***

Following is a list of 60 street projects included in the GO Program Fiscal Year 2014-2038 Program Project Report. All projects included in the Publicity Pamphlet for Proposition 402 are included in this list except for three projects that were deleted prior to this audit period. These deleted projects were discussed in the 2005 GO Program performance audit report.

STATUS OF STREET PROJECTS				
No.	PROJECT DESCRIPTION	Status as of June 30, 2011	1st Five Years?	Status as of June 30, 2014
<b>COMPLETED</b>				
1	75th Ave from Rose Garden Ln to Deer Valley Rd	Complete 2005	Yes	Complete
2	Bus Bay on Union Hills east of 59th	Complete 2006	No	Complete
3	Bridge crash barrier on Northbound 83rd Ave at Loop 101	Complete 2006	Yes	Complete
4	83rd Ave Scalloped Street north of Bell Road to Loop 101	Complete 2006	No	Complete
5	Bridge crash barrier on Westbound Thunderbird west of 59th Ave	Complete 2006	Yes	Complete
6	Safety improvements on Thunderbird between 56th Ave and 57th Dr	Complete 2007	No	Complete
7	Bridge crash barrier on Eastbound Cactus Rd west of 51st Ave	Complete 2006	Yes	Complete
8	Bridge crash barrier on Westbound Cactus Rd west of 51st Ave	Complete 2006	Yes	Complete
9	Intersection improvements at 67th Ave/Peoria Ave	Complete 2007	Yes	Complete
10	Traffic Control Center on 59th Ave between Olive Ave and Peroia Ave	Complete 2006	No	Complete
11	Bus Bay on 59th Ave north of Northern Ave	Complete 2006	No	Complete
12	Street and sidewalk improvements on Northern Ave west of 43rd Ave	Complete 2007	No	Complete
13	Street and sidewalk improvements on Bethany Home Rd between 47th Ave & 48th Ave	Complete 2007	No	Complete
14	Bethany Home Rd - 91st Ave to 99th Ave	Complete 2006	Yes	Complete
15	Maryland Ave. between 95th Ave & 99th Ave. and bridge over Loop 101	Complete 2006	No	Complete
16	95th Ave between Maryland Ave and Bethany Home Rd	Complete 2006	New	Complete
17	67th Ave intersection at Bell Rd	Complete 2009	Yes	Complete
18	67th Ave intersection at Glendale Ave	Complete 2009	Yes	Complete
19	67th Ave intersection at Camelback Rd	Complete 2009	Yes	Complete
20	75th Ave intersection at Glendale Ave	Complete 2009	Yes	Complete
21	75th Ave intersection at Bethany Home Rd	Complete 2009	Yes	Complete
22	75th Ave intersection at Camelback Rd	Complete 2009	Yes	Complete
23	Median improvements on Grand Ave from 43rd Ave to 57th Drive	Complete 2009	Yes	Complete
24	Scalloped street improvements on Glendale Ave from 67th Ave to 91st Ave	Complete 2009	No	Complete
25	Scalloped street improvements on 75th Ave from Glendale Ave to south of Bethany Home Rd	Complete 2009	No	Complete
26	Scalloped street improvements on 83rd Ave from Glendale Ave to Camelback Rd	Complete 2009	No	Complete
27	Street widening on Greenbrier St from 59th Ave to 64th Ave	Complete 2009	No	Complete
28	Street improvements on Glendale Ave from 43rd Ave to 67th Ave	Complete 2009	Yes	Complete

STATUS OF STREET PROJECTS				
No.	PROJECT DESCRIPTION	Status as of June 30, 2011	1st Five Years?	Status as of June 30, 2014
29	43rd Ave intersection at Peoria Ave	Complete 2009	Yes	Complete
30	43rd Ave intersection at Olive Ave	Complete 2009	Yes	Complete
31	43rd Ave intersection at Northern Ave	Complete 2009	Yes	Complete
32	43rd Ave intersection at Glendale Ave	Complete 2009	Yes	Complete
33	43rd Ave intersection at Bethany Home Rd	Complete 2009	Yes	Complete
34	51st Ave intersection at Peoria Ave	Complete 2009	Yes	Complete
35	51st Ave intersection at Glendale Ave	Complete 2009	Yes	Complete
36	Street widening on Myrtle Ave from 59th Ave to 62nd Ave	Complete 2009	Yes	Complete
37	67th Ave intersection at Thunderbird	Complete 2009	Yes	Complete
38	67th Ave intersection at Cactus Rd	Complete 2009	Yes	Complete
39	67th Ave intersection at Olive Ave	Complete 2009	Yes	Complete
40	57th Ave bridge at Skunk Creek	Complete 2009	Yes	Complete
41	51st Ave and Northern Ave intersection Improvements	Design 2011	Yes	Complete 2012
42	51st Ave and Camelback Rd. intersection Improvements	Design 2011	Yes	Complete 2012
43	Northern Parkway Sarival Ave to Dysart Rd. (Note 1)	Design 2011	No	Complete 2014
44	Loop 101 HOV ramps at Maryland	Added 2012	No	Complete 2014
UNDER CONSTRUCTION				
45	Grand Ave access control and beautification from 43rd Ave to 71st Ave	Design 2011	Yes	Construction
46	67th Ave safety Improvements at Missouri Ave	Added FY 2014	No	Construction
DESIGN				
47	Northern Parkway improvements from Dysart Rd. to Grand Ave. (Note 1)	Design 2011	No	Design
48	51st Ave intersection at Bell Rd	Design 2011	No	Design
49	Bethany Home Rd safety improvements from 59th to 67th	Design 2011	No	Design
50	59th Ave intersection at Bethany Home Rd	Design 2011	No	Design
51	59th Ave intersection at Camelback Rd	Design 2011	Yes	Design
52	59th Ave intersection at Bell Rd	Design 2011	Yes	Design
53	59th Ave intersection at Greenway	Design 2011	Yes	Design
54	59th Ave intersection at Thunderbird	Design 2011	Yes	Design
55	59th Ave intersection at Cactus Rd	Design 2011	Yes	Design
56	59th Ave intersection at Peoria Ave	Design 2011	Yes	Design
57	59th Ave intersection at Olive Ave	Design 2011	Yes	Design
58	59th Ave intersection at Northern Ave	Design 2011	Yes	Design
59	59th Ave, Medians and beautification from Grand Ave to Loop 101	Design 2011	Yes	Design
ONGOING				
60	Pavement Overlay	Ongoing 2011	No	Ongoing

As shown in the prior table, 4 projects were completed during the period extending from July 1, 2011 through June 30, 2014. During this same period 2 new projects were added to the Program and 2 were split out from the Northern Parkway Project Improvements from Loop 303 to Grand Avenue.

The 2 new projects, Loop 101 HOV ramps at Maryland Avenue and 67th Avenue and Safety Improvements at Missouri Avenue, involved safety issues and were primarily funded with federal monies. We found them to be consistent with the 2001 Sales Tax Ballot objectives.

***Finding and Recommendation:***

**Several Projects That Were To Be Completed Within The First Five Years Of The GO Program Were Not Complete As Of June 30, 2014.**

There were 39 Street projects that according to the Publicity Pamphlet for Proposition 402 were to be completed within the first five years of the GO Program's inception in 2001. As of June 30, 2014, 29 of those projects were complete, 1 project was under construction and the remaining 9 projects were scheduled for completion in FY 2026.

As reported in the 2005 Performance report those projects were first delayed until Fiscal Years 2021 and 2023, because of cost escalation and limits on funds available and later because of revenue shortfalls, which resulted in the inability to maintain the required revenue to debt service ratio of 2:1. As of the end of 2011, these projects had been further delayed and scheduled for completion in Fiscal Years 2026 (for 1) and 2027 (for 8). The sales tax revenue decline was the stated reason for the additional delays. Now the schedule delays have been shortened to FY 2026 for all.

**Recommendation**

GO Transportation Program Management should consider delaying those projects or services not specifically identified in the 2001 Ballot Measure to be completed within five years in order to move completion of the promised projects forward. We recognize that attainment of Federal, State or regional matching funds should be part of this consideration.

**Management Response**

The 2001 Ballot included the creation of the Citizens' Transportation Oversight Commission (CTOC) to monitor transportation fund expenditures and recommend adjustments to projects when warranted to serve the best interests of the public. Each year, a 25-year fiscally balanced program of projects and services is presented to CTOC for recommendation. Any proposed modification in the timing for project delivery is included in the proposed program for CTOC's consideration. City staff recognizes the need to complete these projects and is actively identifying alternative funding sources.

**Bicycle/Pedestrian Projects**

Following is a list of 23 bicycle/pedestrian projects included in the Fiscal Year 2014-2038 GO Program Project Report. All projects included in the Publicity Pamphlet for Proposition 402 are included in this list.

STATUS OF BICYCLE/PEDESTRIAN PROJECTS				
No.	PROJECT DESCRIPTION	Status as of June 30, 2011	1st Five Years?	Status as of June 30, 2014
<b>COMPLETED</b>				
1	Bike/pedestrian path on 67th Ave between Isabell lane and Pinnacle Peak Rd	Complete 2006	Yes	Complete
2	Bike/Pedestrian Bridge over 71st Ave. Channel at Skunk Creek)	Complete 2006	Yes	Complete
3	Bike lane on Cholla St. w/0 59th Ave	Complete 2005	Yes	Complete
4	Bicycle/Pedestrian Bridge over Grand Canal at Missouri Ave/79th Ave.	Complete 2005	Yes	Complete
5	Glendale Ave bridge widening at New River for Bike Pedestrian path.	Complete 2006	Yes	Complete
6	51st Ave. and Cactus Road bicycle underpass at Arizona Canal/Diversion Canal	Complete 2009	No	Complete
7	71st Ave. Channel Bike/Pedestrian Pathway from Camino San Xavier to Skunk Creek.	Complete 2009	Yes	Complete
8	Downtown pedestrian enhancements	Complete 2009	Yes	Complete
9	51st Ave sidewalk and landscape improvements from North Camelback Rd. to south of Grand Ave	Complete 2009	Yes	Complete
10	Catlin Court Alley Beautification	Complete 2009	Yes	Complete
11	63rd Ave bike lanes from Grand Ave to Olive Ave	Complete 2009	Yes	Complete
12	Old Roma Alley pedestrian enhancements.	Complete 2011	Yes	Complete
13	63rd Ave bicycle/pedestrian overpass at Loop 101	Complete 2011	Yes	Complete
14	Skunk Creek bicycle/pedestrian pathway under Union Hills Drive	Complete 2011	Yes	Complete
15	Skunk Creek bicycle/pedestrian pathway under Bell Road	Complete 2011	Yes	Complete
<b>PROJECT IN DESIGN</b>				
16	New River bicycle/pedestrian pathway from Northern Ave to Bethany Home Rd	Design	Yes	Design
17	Downtown Alley Pedestrian enhancements; to the alley West of 57th Ave between Glen Dr. and Glendale Ave)	Design	No	Design
18	Maryland Avenue spot improvements between 67th Avenue and 83rd Avenue	Design	No	Design
19	Grand Canal bicycle/pedestrian pathway from Loop 101 Ave to New River	Design	Yes	Design
20	Myrtle Ave. Improvements from 62nd Ave. to 65 Ave.	Added FY 2013	No	Design
21	New River north shared use pathway; along east bank of New River north of Hillcrest Blvd. To drainage Channel north of Paradise Dr.	Added FY 2013	No	Design
22	55th Ave. widening for bike lanes and sidewalk; south of Cactus Rd. to north of Riviera Dr.	Added FY 2014	No	Design

STATUS OF BICYCLE/PEDESTRIAN PROJECTS				
No.	PROJECT DESCRIPTION	Status as of June 30, 2011	1st Five Years?	Status as of June 30, 2014
23	Neighborhood connections to shared use pathways: connect multiuse pathway along Arizona Canal Diversion Channel to neighborhood bike routes at Sweetwater Ave, Hearn Rd and Sunset Vista Park; and connect multiuse pathway along Skunk Creek to neighborhood bike route at 71st Ave.	Added FY 2014	No	Design

As shown above, no projects were completed during the period extending from July 1, 2011 through June 30, 2014. During this same period 4 new projects were added to the program. The 4 new projects were:

- Myrtle Avenue Improvements from 62nd Avenue to 65th Avenue.
- New River north shared use pathway; along east bank of New River north of Hillcrest Blvd. to the drainage Channel north of Paradise Drive.
- 55th Avenue widening for bike lanes and sidewalk; south of Cactus Road to north of Riviera Drive.
- Neighborhood connections to shared use pathways: connect multiuse pathway along Arizona Canal Diversion Channel to neighborhood bike routes at Sweetwater Avenue, Hearn Road and Sunset Vista Park; and connect multiuse pathway along Skunk Creek to neighborhood bike route at 71st Avenue.

The new projects involved safety and system connectivity issues and were primarily funded with federal monies. We found them to be consistent with the 2001 Sales Tax Ballot objectives.

There were 16 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 14 of those projects were complete as of June 30, 2014. The remaining 2 were in various stages of design. Program management provided the following explanations for why these 2 projects were delayed and the expected completion dates:

- As stated in the 2011 performance audit report, the completion date for Grand Canal bicycle/pedestrian pathway was delayed until FY 2014 or 2015 first due to matching federal funding availability and subsequently due to a change in project administrator responsibility. As of June 30, 2014 this project was scheduled to go out to bid in FY 2015.
- As stated in the 2011 performance audit report, the New River bicycle/pedestrian pathway was delayed until FY 2014 due to matching federal funding availability. Federal funds are Congestion Mitigation and Air Quality Improvement (CMAQ) administered by ADOT. As of June 30, 2014 this project was scheduled for construction in FY 2015.

### Transit Projects

The Publicity Pamphlet for Proposition 402 stated that GO Program funds would be used for park-and-rides and transit centers without specifically identifying projects. As of June 30, 2014, the GO Program included 4 transit projects as listed below.

STATUS OF TRANSIT PROJECTS				
No.	PROJECT DESCRIPTION (Status 2014-38 Program Project Report)	Status as of June 30, 2011	Year Complete	Status as of June 30, 2014
<b>COMPLETED</b>				
1	Stadium overflow parking facility on 91st Avenue between Glendale Avenue and Northern Avenue	Complete	2007	Complete
2	New Transit Office at Myrtle Avenue and 63rd Avenue	Complete	2007	Complete
3	Arizona Loop 101/Glendale Avenue park-and-ride lot	Complete	2009	Complete
<b>DESIGN</b>				
4	Arrowhead transit center and park-and-ride		Design	Design

As shown above there were no changes in project status during the three-year period ending June 30, 2014. All projects were found to be consistent with GO Program objectives.

### Airport Projects

The Publicity Pamphlet for Proposition 402 included a reservation of funds for the Glendale Airport projects to enhance economic development without specifically identifying projects. As of June 30, 2014, the GO Program included 13 airport projects. As listed below, 12 have been completed and 1 is programmed.

STATUS OF AIRPORT PROJECTS				
No.	PROJECT DESCRIPTION	Status as of June 30, 2011	Year Completed	Status as of June 30, 2011
<b>COMPLETED</b>				
1	STARS air control system	Complete	2007	Complete
2	Pavement preservation-aviation easement	Complete	2007	Complete
3	Airport eastside access road	Complete	2007	Complete
4	Security fencing replacement	Complete	2009	Complete
5	Airport property (Rivera) acquisition	Complete	2009	Complete
6	Airport Master Plan update	Complete	2009	Complete
7	Eastside Parallel Taxiway Connector (FAA Design Project)	Complete	2005	Complete
8	Airport tower and radio upgrade	Complete	2010	Complete
9	Improved Runway Safety Area (Dust, weed and erosion control for runway and taxiway)	Complete	2009	Complete
10	Runway extension	Complete	2003	Complete
11	Airport Blast Pad and Blast Fence	Programmed	2013	Complete

12	Airport RPZ Environmental Assessment (EA)	Programmed	2014	Complete
<b>PROJECTS UNDERWAY</b>				
13	Airport Runway Protection Zone (RPZ) Land Acquisition	Underway		Underway

As shown above, 2 projects were completed during the period extending from July 1, 2011 through June 30, 2014.

Programs complete during the period involved significant non-GO Program funding. Land acquisition for the Runway Protection Zone at the Glendale Municipal Airport was underway in FY 2014. While the City had possession of the property, there were legal activities underway that were anticipated to continue in FY 2015. The Environmental Assessment (EA) of land for the Runway Protection Zone was completed in FY 2014.

All projects added were consistent with expressed Ballot objectives for airport projects.

**Other Programs and Projects**

Ongoing programs include Neighborhood Traffic Mitigation, Bicycle Coordination, Traffic Education, Smart Traffic Signal Operation, Travel Demand Management and administration of the GO Program including Program Education and Transit Marketing. According to the Fiscal Year 2014-2038 Program Projects Report, each of these programs has been established, and funds were committed to continue them over the next 25 years.

**Status of Prior Audit Findings**

The 2011 performance audit made two recommendations related to the 2001 election commitments to the voters.

- **Recommendation 1** - GO Transportation Program Management should consider restoring the reduced/terminated services to 2008 levels when the GO Program sales tax revenues rebound to previous expectations. We further recommend that any necessary future GO Program adjustments be made first to those projects or services not specifically identified in the 2001 Ballot to be completed within five years.

**Actions taken:** The Departments response to the recommendation indicated that CTOC was created to monitor transportation fund expenditures and recommend adjustments to projects when warranted to serve the best interest of the public and that each year a 25-year program of projects is presented to CTOC for recommendation. Any proposed modifications in transit service, in keeping with the intent of the 2001 Ballot are included in the proposed program. We note that the further reductions in Transit services noted during this audit period were explained in the program projects reports presented to CTOC.

- **Recommendation 2** - GO Transportation Program Management should consider delaying those projects or services not specifically identified in the 2001 Ballot Measure to be completed within five years in order to move completion of the promised projects forward. We recognize that attainment of Federal, State or regional matching funds should be part of this consideration.

**Actions taken:** The Departments response to the recommendation indicated that CTOC was created to monitor transportation fund expenditures and recommend adjustments to projects when warranted to serve the best interest of the public and that each year a 25-year program of projects is presented to CTOC for recommendation. Any proposed modification in the timing for project delivery is included in the proposed program for CTOC's consideration. The staff further stated that it recognizes the need to complete these projects and is actively identifying alternative funding sources. We note that during this performance audit period the completion dates for the delayed projects were moved forward from FY 2027 to FY 2026.

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

### 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.

#### 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.

#### 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 meetings 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. Using this information we determined the extent to which previous performance audit recommendations have been effectively implemented.

### Summary of Observations and Recommendations

#### 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 prior independent performance and fiscal accountability audit reports 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.

### **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.

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 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.

During the current audit period the CTOC voted to change the frequency of its regular meetings from monthly to every other month. In practice, the CTOC has continued to meet monthly as needed, and every other month at a minimum. This change and practice should provide the CTOC with additional flexibility to hold its meetings as needed, and at least every other month.

We also noted that the number of appointed CTOC members sometimes made reaching a quorum and holding meetings challenging. The ordinance creating CTOC provides for eleven (11) members. A quorum of six (6) CTOC members is required in order to conduct CTOC business. The CTOC had only seven (7) members during the time period we conducted this performance audit. This means that if more than one member is not able to attend the meeting there is no quorum. City Council members appoint CTOC members. GO Program Management is monitoring CTOC membership and taking what action they are able to.

There were no recommendations in this area.

### **Status of Prior Audit Findings**

There were no prior performance audit recommendations that were applicable to this section.

## Summary of the City's Financial Audits

### Methodology

The following compilation and analysis of the City's financial statements from fiscal years 2011-12 through 2013-14 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, fines and forfeitures, 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 and Streets Construction Fund as reported in the CAFR include multiple general ledger sub-funds for the various transportation and streets related funding sources. The GO Program is represented by the sub-funds 1660 – Transportation Sales Tax and 2210 – Transportation Capital Projects. Our analysis was limited to these two sub-funds. For presentation purposes, any intra-fund transfers between these two funds have been eliminated.

In addition, we reviewed all CAFRs, Management Letters and Single Audit Reporting Packages for fiscal years 2011-12, 2012-13 and 2013-14 for any findings or recommendations that related to the GO Program.

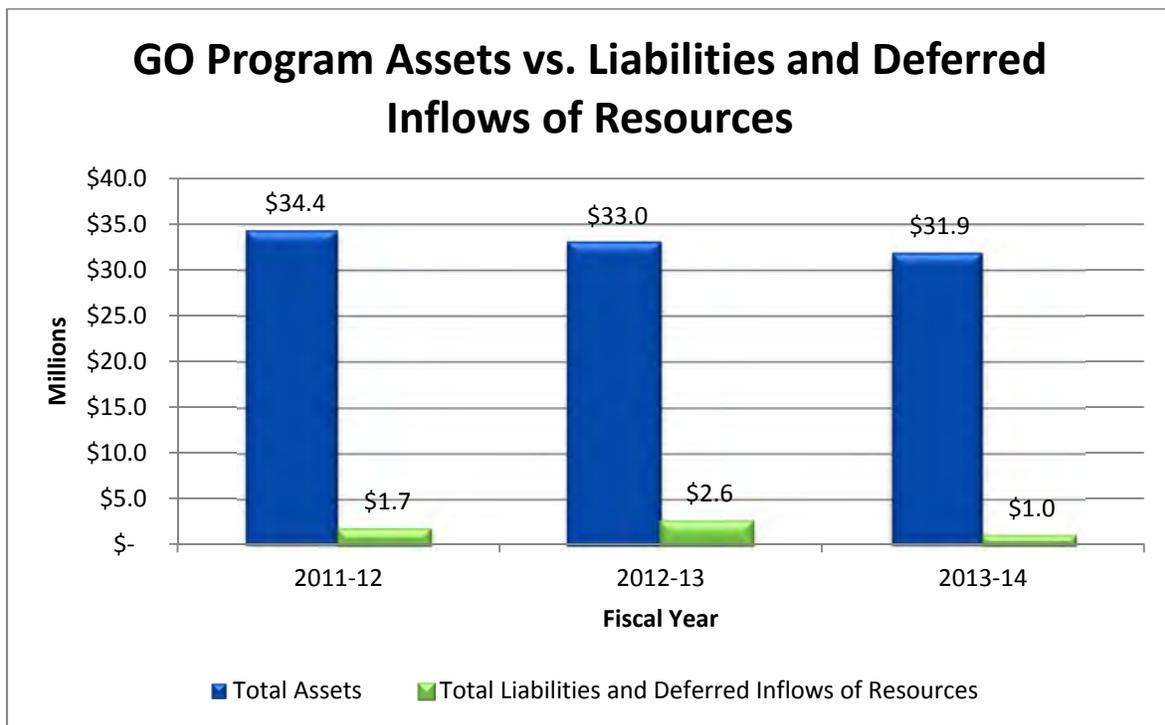
### Summary of Observations and Recommendations

For the GO Program Balance Sheet for fiscal years 2011-12 through 2013-14, see Schedule A on page 33.

For the GO Program Statement of Revenues, Expenditures and Changes in Fund Balances for fiscal years 2011-12 through 2013-14, see Schedule B on page 34.

**Current Assets and Liabilities**

The total assets of the GO Program primarily consisted of cash and investments, receivables, and restricted cash and investments. The restricted cash and investments balance represents outstanding bond proceeds. This balance decreased approximately \$1.9 million from fiscal year 2011-12 to fiscal year 2012-13, primarily due to the completion of several projects funded by the transportation excise tax bond proceeds issued in fiscal year 2007-08.



The City’s short-term liabilities have been minimal, consisting primarily of vouchers and accounts payable, as well as deferred/unearned revenues. The fund financial statements are presented on a modified accrual basis using the current financial resources measurement focus; therefore, long-term liabilities are not reported. The Transportation Excise Tax Revenue Bonds issued in fiscal year 2007-08 will be paid from GO Program revenues and are discussed on the following page.

The vouchers and retainage payable represent goods and services received prior to fiscal year-end, but the cash disbursements to vendors and employees were not made until the following fiscal year. The balance reported as deferred revenue for fiscal year 2011-12 was classified as either unearned revenues or deferred inflows of resources in fiscal years 2012-13 and 2013-14 due to the implementation of Governmental Accounting Standards Board (GASB) Statements 63 and 65. The City reported unavailable sales tax revenue as deferred inflows of resources in the amounts of \$855,358 and \$272,258 in fiscal years 2012-13 and 2013-14, respectively. Accounting standards define unavailable revenue as revenue which is not collected soon enough after year end to pay liabilities of the current period. The City has adopted a 30 day period of availability for recognizing current period revenue collected after year end.

**Long-Term Debt**

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. As of June 30, 2014, there was \$91.1 million outstanding with \$3.1 million in principal and \$4.2 million in interest due in fiscal year 2014-15. The following table details the principal and interest payments for fiscal years 2011-12 through 2013-14, as well as the outstanding balances owed (in millions).

**Long-Term Debt Payments and Balance Outstanding**

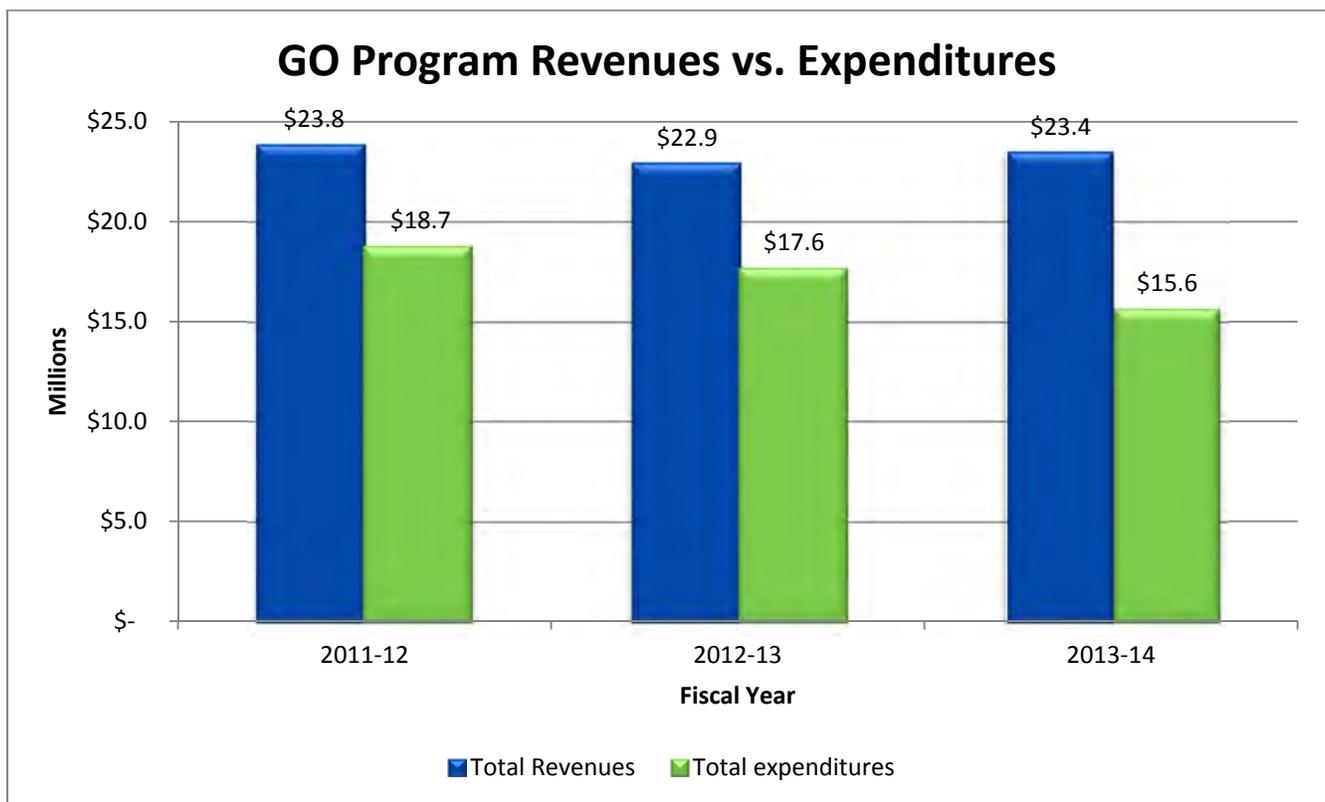
Fiscal Year	Beginning Balance	Principal Payments	Interest Payments	Ending Balance
2011-12	\$99.8	\$ 2.8	\$ 4.5	\$97.0
2012-13	97.0	2.9	4.4	94.1
2013-14	94.1	3.0	4.3	91.1

**Revenues and Expenditures**

Total revenues for the GO Program consisted mostly of those revenues received from the half-cent sales tax, which accounted for over 85 percent of the total revenue of each fiscal year. Tax revenues increased from \$20.7 million in fiscal year 2011-12 to \$23.1 million in fiscal year 2013-14, or 12 percent. The increase was primarily a result of the steady improvement in the economy since the recession as well as the construction and opening of the Tanger Factory Outlet Center. Since the inception of the GO Program, tax revenues reached their highest level in fiscal year 2006-07 of \$25.1 million. The fiscal year 2013-14 tax revenues represented an eight percent decrease from the high point. Subsequent to the audit period, tax revenues have increased to \$24.7 million in fiscal year 2014-15 as a result of continued improvements in the economy.

Other revenues include regional funding allocations from the Regional Public Transportation Authority (RPTA), farebox revenues, court fines, interest earned on investments, and miscellaneous revenues. Since the inception of the GO Program, farebox revenues reached their highest level in fiscal year 2006-07 of \$196,516. The fiscal year 2013-14 farebox revenues represented a 39 percent decrease from the high point. The decrease was a result of reductions in ridership and elimination of revenues for routes that were changed to regional services offered through RPTA.

Investment income increased \$26,845 or 31 percent primarily due to the increase in investment balances. Miscellaneous revenues primarily consisted of partial refunds of deposits made to ADOT for various construction projects. Some refunds were a result of project costs that were less than the original estimates. Other refunds were a result of federal funding obtained to cover a portion of the costs that were not known at the time of the original estimates. Miscellaneous revenues decreased \$2.2 million from fiscal years 2011-12 to 2013-14 due to the timing of those construction projects.



Expenditures have decreased by \$3.1 million, or 17 percent, from fiscal year 2011-12 to fiscal year 2013-14. Of this amount, the capital outlay costs decreased by \$2.8 million, or 30 percent. The decrease was primarily due to the completion of several projects funded by the transportation excise tax bond proceeds during fiscal years 2011-12 through 2013-14. In addition, project progress has slowed due to the expenditure of all remaining bond funds as of June 30, 2013.

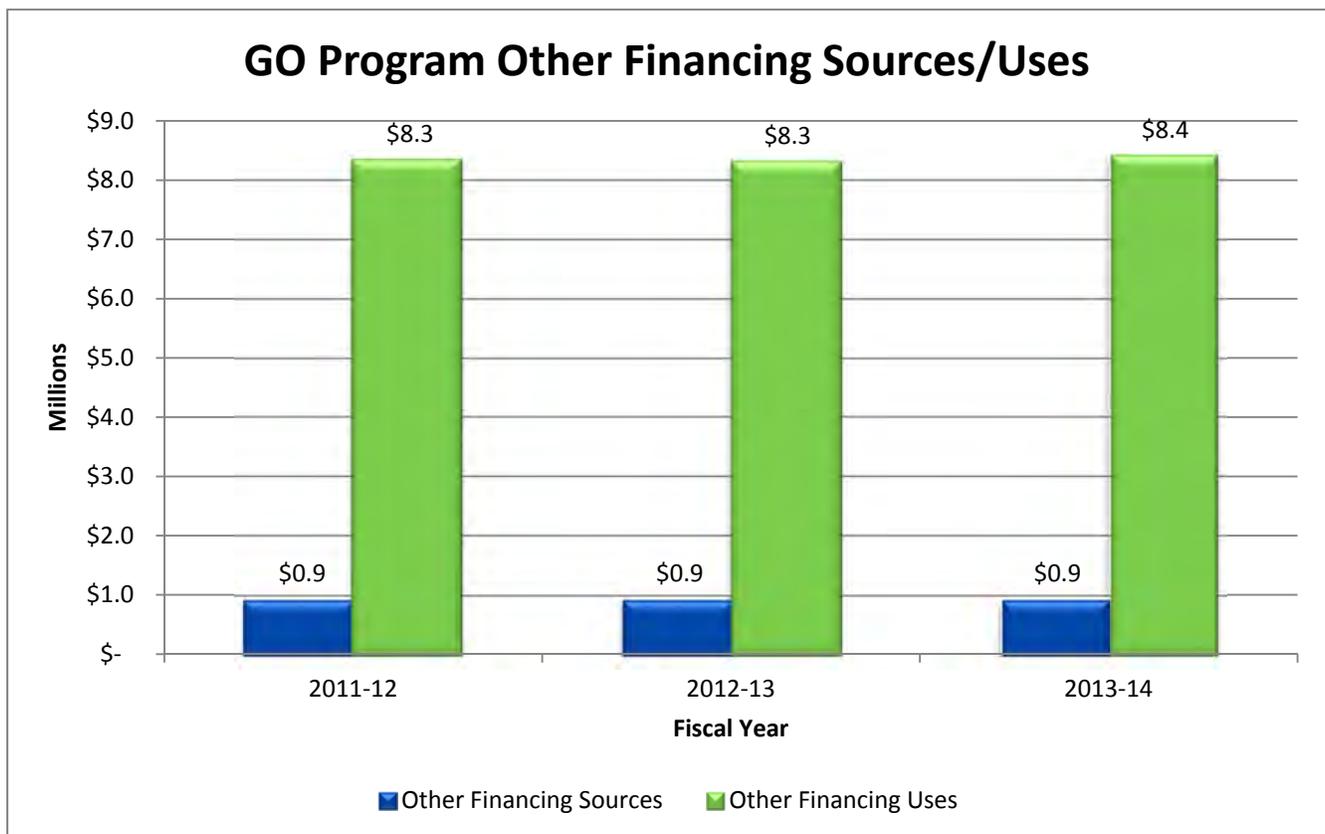
For fiscal year 2011-12, some of the significant project costs included the completion of the 51<sup>st</sup> and Northern Avenues intersection improvements, the 51<sup>st</sup> Avenue and Camelback Road intersection improvements, and the Light Rail Transit corridor study to identify the location of Glendale’s portion of the rail.

In fiscal year 2012-13, the more significant project costs included the first phase of construction on the Northern Parkway from Loop 303 to Grand Avenue, the Blast Pad and Blast Fence project at the Glendale Municipal Airport, the Glendale Intelligent Transportation Systems (ITS) Strategic Plan, and integration and completion of new signal system software.

In fiscal year 2013-14, the significant project costs included the completion of the New River bicycle/pedestrian pathway from Northern Avenue to Bethany Home Road, and the design of the Cactus/Thunderbird/Greenway roads ITS project.

**Other Financing Sources/Uses**

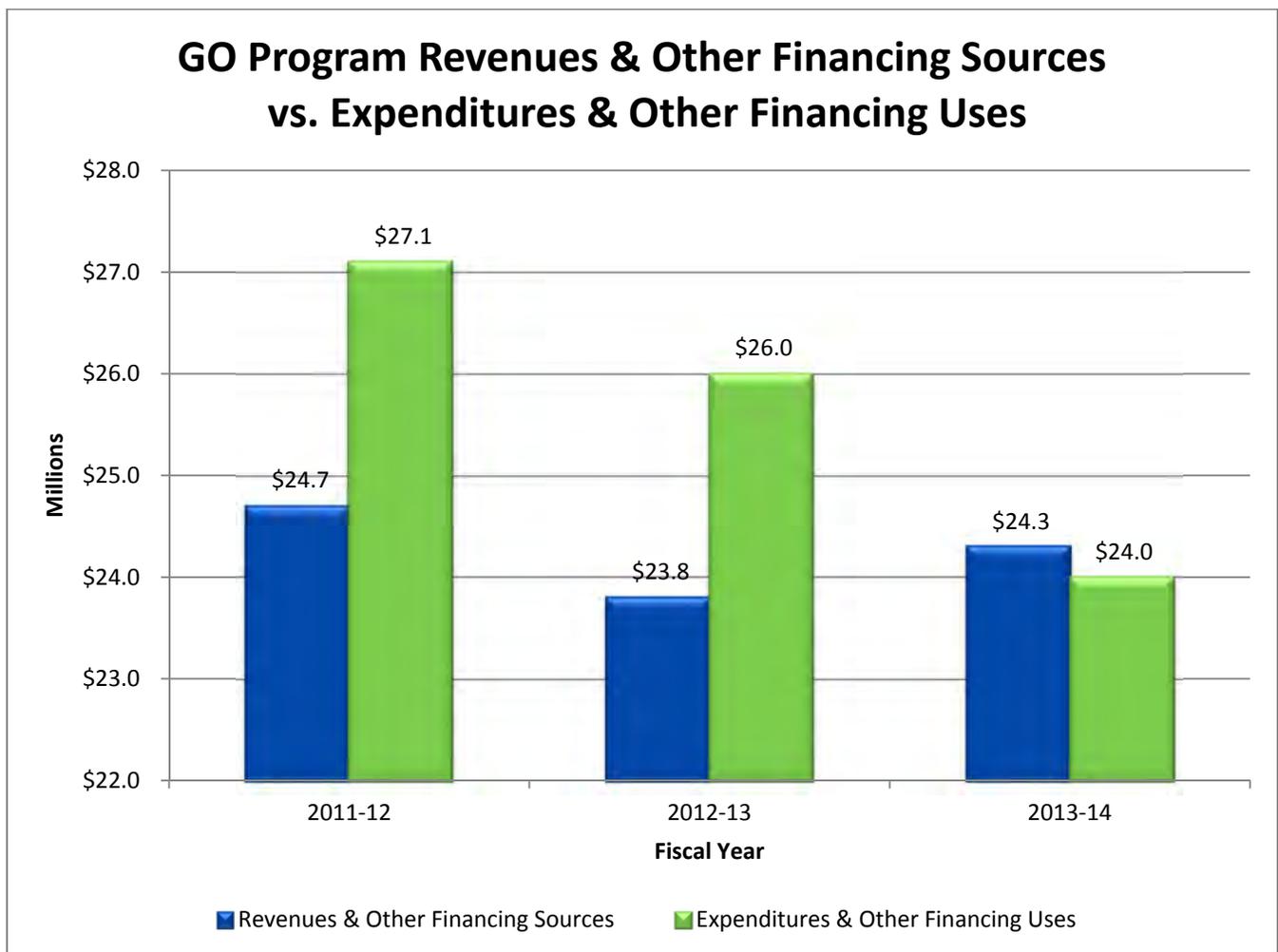
Other financing sources for the GO Program included proceeds from equipment disposal and transfers in. Each year, the City transferred \$900,000 of General Fund monies to support the GO Program.



Other financing uses, consisting solely of transfers out, remained steady over the audit period. The transfers to the Transportation Debt Service Fund were \$7.3 million each year. Additionally, transfers of \$1.0 million were made to the Highway User Revenue Fund (HURF) Debt Service Fund each year, as approved by the CTOC.

**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.



Expenditures and other financing uses exceeded revenues and other financing sources in fiscal years 2011-12 and 2012-13. Revenues and other financing sources exceeded expenditures and other financing uses in fiscal year 2013-14. 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 has been used to fund construction over the last several years. As of June 30, 2011, the remaining bond proceeds to be expended were \$5.9 million. As of June 30, 2013, all bond proceeds were expended.

At June 30, 2014, the total ending fund balance was \$30.8 million. Some of the more significant projects to be underway or completed in the upcoming years, which resulted in the large fund balance carryover, including the Loop 101/Bell Road transit center and park-and-ride (\$2.0 million), Grand Avenue access control and beautification project (\$1.7 million), Northern Parkway improvements (\$8.3 million), Grand Canal bicycle/pedestrian pathway (\$1.1 million), the Runway Protection Zone at the Glendale Municipal Airport (\$628,467), and the New River Multi-Use Pathway (\$2.2 million).

**Analysis**

The ratio of revenues and other financing sources to expenditures and other financing uses 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 and other financing sources for the year exactly equaled expenditures and other financing uses 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.

**Revenues and Other Financing Sources to Expenditures and Other Financing Uses**

Fiscal Year	Ratio
2011-12	0.9
2012-13	0.9
2013-14	1.0

During fiscal years 2011-12 and 2012-13, the expenditures and other financing uses exceeded revenues and other financing sources as the City was relying on the expenditure of the bond proceeds received during fiscal year 2007-08 and completing those projects commenced with bond proceed funding. During fiscal year 2013-14, the revenues and other financing sources were slightly higher than expenditures and other financing uses since the City had delayed certain projects until the various funding sources were obtained as all remaining transportation excise bond proceeds from the fiscal year 2007-08 issuance had been expended.

The fund balance to expenditures and other financing uses 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 and other financing uses for an entire fiscal year. With a ratio greater than 1.0 the program could continue for longer than a year if expenditures and other financing uses were to stay the same. A program could continue for less than a year with a ratio less than 1.0.

**Fund Balance to  
Expenditures and Other Financing Uses**

Fiscal Year	Ratio
2011-12	1.2
2012-13	1.2
2013-14	1.3

For all three fiscal years, the City has maintained ample fund balances to ensure the accumulation needed for certain large projects in accordance with the City’s Capital Improvement Plan.

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; therefore, the total current liabilities are unable to be met given total current assets.

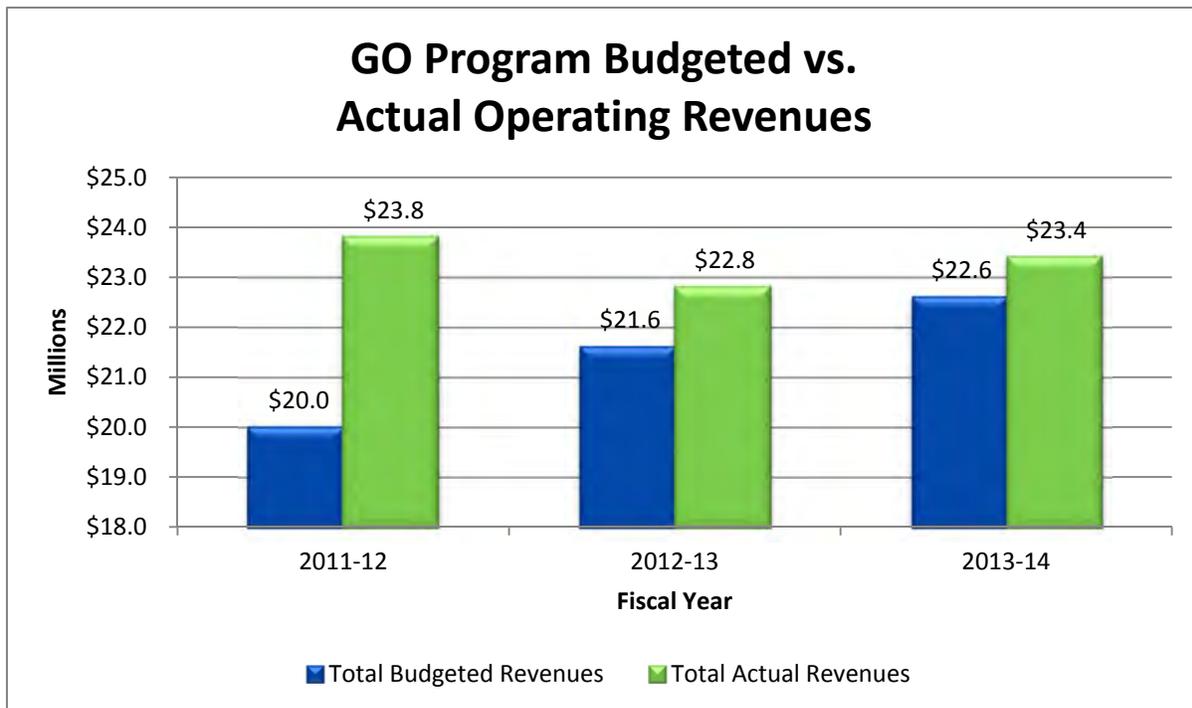
**Current Assets to  
Current Liabilities**

Fiscal Year	Ratio
2011-12	20.1
2012-13	19.3
2013-14	41.3

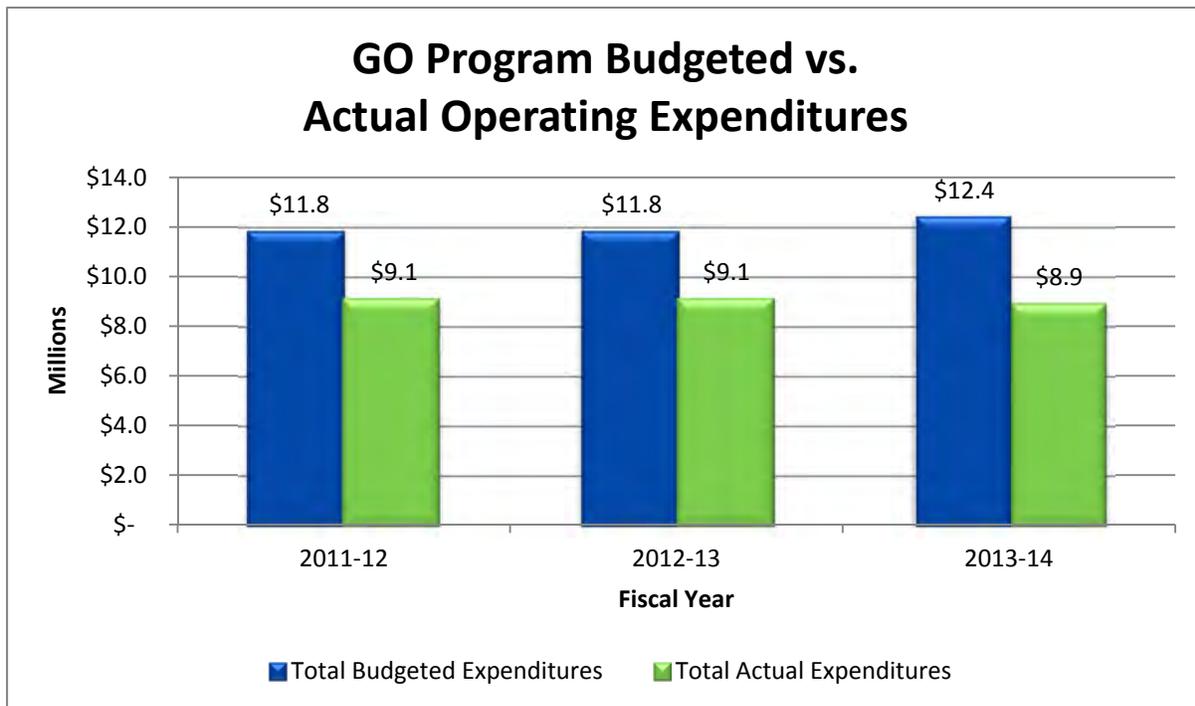
The GO Program has always been at or above a ratio of 1.0. The City has the ability to meet their short-term financing needs for the GO Program as the majority of the Program’s assets are cash and short-term investments.

**Operating Budget to Actual**

The following comparison of the GO 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 1660 for fiscal years 2011-12 through 2013-14. 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 2011-12 through 2013-14, see Schedule C on page 35.



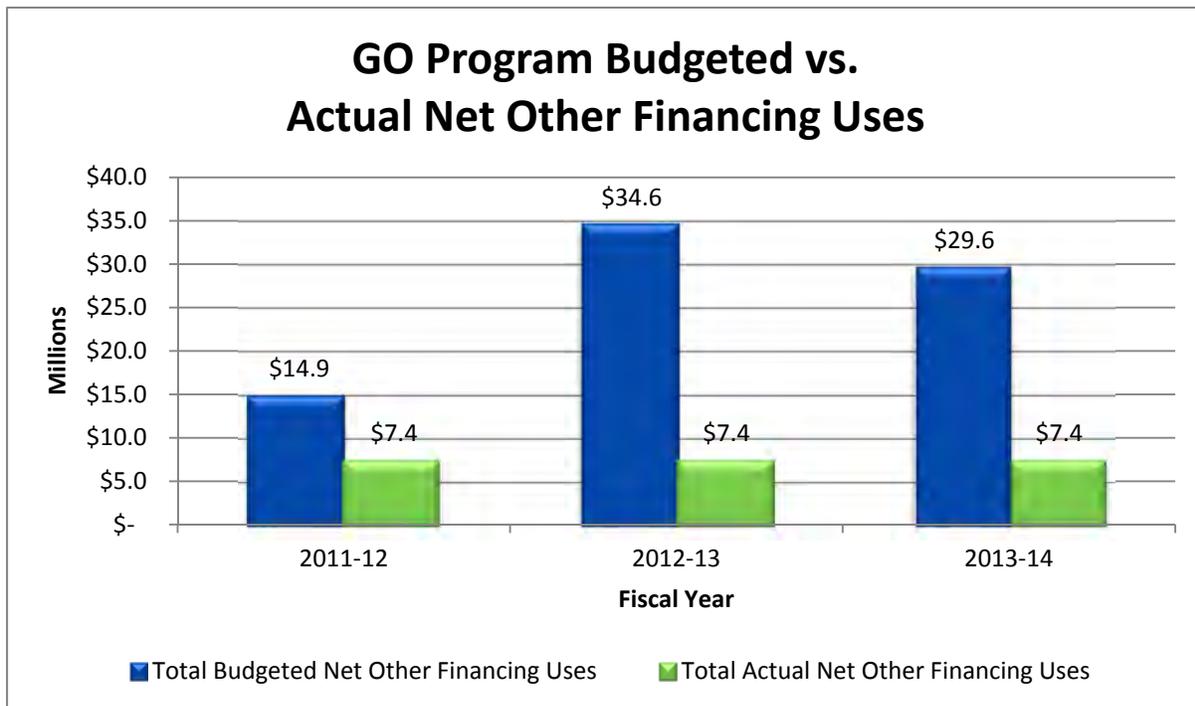
Tax revenue in fiscal years 2011-12 through 2013-14 were greater than budgeted as a result of a better than expected improvement in the local economy. Miscellaneous revenues were \$2.3 million and \$207,507 more than budgeted for in fiscal years 2011-12 and 2012-13, respectively as a result of refunds from Arizona Department of Transportation for construction projects completed in prior years. The refunds were not anticipated at the time of the budget preparation.



For fiscal year 2011-12, actual expenditures were \$2.7 million less than budgeted. The most significant variances were related to the fixed route services (\$2.4 million), traffic mitigation (\$411,959), and transit program management (\$521,938). The variance in fixed route services was primarily related to three operating grants and Lottery Assistance Funds totaling \$1.2 million and a fixed route service refund from fiscal year 2010-11, all of which paid for budgeted expenditures. The variance in transit program management was due to GO Program related streetlight contractual work, line supplies and electrical costs being greater than anticipated.

For fiscal year 2012-13, actual expenditures were \$2.7 million less than budgeted. The most significant variances were related to the fixed route services (\$2.6 million) and traffic mitigation (\$264,675). The variance in fixed route services was primarily related to four operating grants and Lottery Assistance Funds totaling \$1.0 million, a fuel tax credit, and a fixed route service refund from fiscal year 2011-12 of \$362,858, all of which paid for budgeted expenditures. The variance in traffic mitigation was primarily related to speed cushion contractual work expenditures being less than anticipated.

For fiscal year 2013-14, actual expenditures were \$3.5 million less than budgeted. The most significant variances were related to the fixed route services (\$1.3 million) and transit program management (\$763,852). The variance in fixed route services was primarily related to two operating grants and Lottery Assistance Funds totaling \$759,836, a fuel tax credit, and a fixed route service refund from fiscal year 2012-13 totaling \$279,807, all of which paid for budgeted expenditures. The variance in transit program management was primarily related to less than anticipated temporary staffing, GO Program related streetlight contractual work, and related line supplies costs.



The variances in net other financing uses for fiscal years 2011-12 through 2013-14 are related to budgeted transfers to the Transportation Capital Projects Fund to fund capital projects. However, the completion of those projects was slower than expected.

#### **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 2011-12, 2012-13 and 2013-14. During our review, we noted no findings which directly relate to the GO Program. Other findings related to internal controls with a potential impact to the GO Program were identified and evaluated. The findings were either deemed insignificant to the GO Program or were evaluated in relation to the testwork performed during this audit.

The City's past GO Program performance audit report did outline several specific recommendations. The City's response to those recommendations was included in the prior report. 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.

Schedule A

**GO Transportation Program  
 Balance Sheet**

	2011-12	2012-13	2013-14
<b>ASSETS</b>			
Cash and investments	\$ 29,114,777	\$ 29,626,604	\$ 29,469,402
Accounts receivable	2,665,629	2,689,359	2,334,081
Intergovernmental receivable	589,866	648,275	-
Inventories	79,678	60,880	60,785
Restricted cash and investments	1,911,878	-	-
<b>Total assets</b>	<b>\$ 34,361,828</b>	<b>\$ 33,025,118</b>	<b>\$ 31,864,268</b>
<b>LIABILITIES, DEFERRED INFLOWS OF      RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Vouchers payable	\$ 705,126	\$ 1,196,834	\$ 386,649
Retainage payable	-	55,336	-
Compensated absences - current	28,306	31,319	20,021
Intergovernmental payable	60,000	60,000	-
Deferred revenue *	914,569	-	-
Unearned revenue *	-	365,152	365,152
<b>Total liabilities</b>	<b>1,708,001</b>	<b>1,708,641</b>	<b>771,822</b>
Deferred inflows of resources *		\$ 855,358	\$ 272,258
Fund Balances			
Nonspendable	\$ 79,678	\$ 60,880	\$ 60,785
Restricted	32,574,149	30,400,239	30,759,403
<b>Total fund balances</b>	<b>32,653,827</b>	<b>30,461,119</b>	<b>30,820,188</b>
<b>Total liabilities, deferred inflows of          resources and fund balances</b>	<b>\$ 34,361,828</b>	<b>\$ 33,025,118</b>	<b>\$ 31,864,268</b>

Source: City of Glendale detailed reports for sub-funds 1660 and 2210.

Note: No assurance is provided on these financial statements.

\* The provisions of the Governmental Accounting Standards Board (GASB) Statements No. 63 and 65 were adopted in FY2012-13. The standard replaces the previously reported deferred revenues with unearned revenues and deferred inflows of resources.

Schedule B

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

	2011-12	2012-13	2013-14
<b>REVENUES</b>			
Taxes	\$ 20,664,532	\$ 21,690,933	\$ 23,111,901
Intergovernmental	604,365	648,275	-
Charges for services	107,893	127,540	118,897
Investment income	87,269	92,919	114,114
Miscellaneous	2,318,019	312,707	74,326
Total revenues	<u>23,782,078</u>	<u>22,872,374</u>	<u>23,419,238</u>
<b>EXPENDITURES</b>			
Current:			
Community services	9,342,115	9,236,189	9,011,344
Capital outlay	9,387,055	8,397,893	6,590,795
Total expenditures	<u>18,729,170</u>	<u>17,634,082</u>	<u>15,602,139</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>5,052,908</u>	<u>5,238,292</u>	<u>7,817,099</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from equipment disposal	10,641	-	14,160
Transfers in	900,000	900,000	900,000
Transfers out	(8,328,541)	(8,331,000)	(8,372,190)
Total other financing sources and uses	<u>(7,417,900)</u>	<u>(7,431,000)</u>	<u>(7,458,030)</u>
Net change in fund balances	<u>(2,364,992)</u>	<u>(2,192,708)</u>	<u>359,069</u>
Fund balances, July 1	<u>35,018,819</u>	<u>32,653,827</u>	<u>30,461,119</u>
Fund balances, June 30	<u>\$ 32,653,827</u>	<u>\$ 30,461,119</u>	<u>\$ 30,820,188</u>

Source: City of Glendale detailed reports for sub-funds 1660 and 2210.

Note: No assurance is provided on these financial statements.

Schedule C

**GO Transportation Program  
Operating Budget to Actual**

	2011-12			2012-13			2013-14		
	Budgeted	Actual	Difference	Budgeted	Actual	Difference	Budgeted	Actual	Difference
<b>REVENUES</b>									
Taxes	\$ 19,300,000	\$ 20,664,532	\$ 1,364,532	\$ 20,862,081	\$ 21,690,933	\$ 828,852	\$ 22,357,634	\$ 23,111,901	\$ 754,267
Intergovernmental	516,432	589,866	73,434	544,389	648,275	103,886	-	-	-
Charges for services	128,000	107,893	(20,107)	129,750	127,540	(2,210)	128,750	118,897	(9,853)
Investment income	98,137	80,718	(17,419)	95,000	92,919	(2,081)	80,000	114,114	34,114
Miscellaneous		2,318,019	2,318,019	15,000	222,507	207,507	-	59,013	59,013
Total operating revenues	\$ 20,042,569	\$ 23,761,028	\$ 3,718,459	\$ 21,646,220	\$ 22,782,174	\$ 1,135,954	\$ 22,566,384	\$ 23,403,925	\$ 837,541
<b>EXPENDITURES</b>									
Community services	\$ 11,840,560	\$ 9,157,321	\$ 2,683,239	\$ 11,822,518	\$ 9,067,309	\$ 2,755,209	\$ 12,380,915	\$ 8,891,098	\$ 3,489,817
Total operating expenditures	\$ 11,840,560	\$ 9,157,321	\$ 2,683,239	\$ 11,822,518	\$ 9,067,309	\$ 2,755,209	\$ 12,380,915	\$ 8,891,098	\$ 3,489,817
<b>OTHER FINANCING SOURCES (USES)</b>									
Proceeds from equipment disposal	\$ -	\$ 4,895	\$ 4,895	\$ -	\$ -	\$ -	\$ -	\$ 14,160	\$ 14,160
Transfers in	900,000	900,000	-	1,565,000	900,000	(665,000)	1,566,707	900,000	(666,707)
Transfers out	(15,794,000)	(8,328,541)	7,465,459	(36,194,000)	(8,331,000)	27,863,000	(31,141,268)	(8,372,190)	22,769,078
Total other financing sources and uses	\$ (14,894,000)	\$ (7,423,646)	\$ 7,470,354	\$ (34,629,000)	\$ (7,431,000)	\$ 27,198,000	\$ (29,574,561)	\$ (7,458,030)	\$ 22,116,531

Sources: City of Glendale Operating Budget for sub-fund 25/1660 for fiscal years 2011-12 through 2013-14. City of Glendale detailed reports for sub-fund 25/1660 for fiscal years 2011-12 through 2013-14.

Note 1: 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.

Note 2: No assurance is provided on these financial statements.

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

### Methodology

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

#### Are GO Funds Being Deposited In A Separate General Ledger Account?

- We reviewed the fund ledgers for fund 1660 in order to verify that the sales tax revenues are reported.
- We reviewed the transportation fund ledgers to ensure that fund 1660 was the only fund accounting for the transportation sales tax revenues.
- We reviewed the City's policies and procedures for the collection, recording and accrual 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 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.
- We performed a walk-through of a sales tax transaction from the sales tax return to the general ledger to corroborate our understanding of the City's policies and procedures.

#### Is Reasonable Interest Being Accrued On Surplus Funds?

- We reviewed the ledger for fund 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.

### **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 Senior Transportation Analyst to determine the basis of the annual \$900,000 General Fund transfer to GO Transportation Fund (1660).
- We compared the local funding levels in the GO Program to historical amounts.

### **Are Indirect Charges 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 Senior Transportation Analyst regarding his procedures for reviewing the City's indirect cost allocation plan and the impacts to the GO Program.

### **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.

### **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 1660 and 2210 for any maintenance allocations related to capital projects.

- We reviewed maintenance charges ensuring that the charges were for new projects and not for ones that existed prior to the transportation sales tax.

### **Are The Capital Improvement Plan (CIP) Set-Asides (Art, Maintenance, Engineering and Finance) Fair And Accurate?**

- We reviewed the set-aside amounts in the CIP for arts, engineering and finance costs.
- We recalculated the CIP set-aside amounts and verified if the amounts were calculated in accordance with the City's requirements for set-asides for the CIP projects.

### **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 24 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 tested a sample of five procurement card expenditures to ensure the expenditures were properly supported, allowable, and processed in accordance with City policies and procedures.
- 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 50 purchases reviewed in relation to the objectives of the GO Program.

### **Is The GO Program Consistent With The CIP?**

- We reviewed a sample of the projects in the GO Program and the City's adopted CIP to ensure consistency of projects reported and amounts budgeted.

## **Summary of Observations and Recommendations**

### **GO Funds Are Being Deposited In A Separate General Ledger Account.**

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.

We performed a walk-through of the City's sales tax collection process from receipt of the tax return to the posting of revenue to the general ledger. We reviewed the Revenue Distribution reports from the

City's sales tax system, which summarize reported sales, taxes due, taxes collected, and the revenue allocation to the various funds to ensure that the allocation of sales tax revenue is reasonable. The revenues recorded in the general ledger are based on cash basis collections, while the sales information we used to calculate estimated sales tax revenues for the year are based on the reported sales for the period, including any adjustments. The variances were minor and considered reasonable for any timing differences and other adjustments.

Sales tax returns and payments are not received and processed by the City until the subsequent month. As a result, the City records a journal entry to accrue sales tax revenue collected in July. We reviewed each year's accrual journal entry to ensure the GO Program received an appropriate share of sales tax revenue.

### **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 (101200) and the cash equity account (103400). The City allocated the GO Program portion of interest earned from the pooled accounts to fund 1660 on a monthly basis. The interest revenue for fund 2210 was direct interest earned on the unspent bond proceeds.

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

### **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 document their interest allocation process of choice and additionally, look to using an allocation method based on the actual interest earned in the

pooled account. Per review of 2015 documentation, the City has adopted an interest allocation policy.

**Management Response**

Concur. In fiscal year 2015, the City developed and implemented an interest allocation policy.

**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 support the GO Program with local funds. The City transfers \$900,000 from the General Fund to the GO Program Transportation Fund (Fund 1660) each year. This was the same level of General Fund support prior to the inception of the half-cent sales tax funding. The City chose to maintain the same level of General Fund support for the GO Program after the half-cent sales tax was passed.

**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 costs that will be charged to the Transportation Department, along with other benefitting funds. Each year, a journal entry is recorded to transfer funds from the GO Program to the General Fund to cover the indirect costs incurred by the GO Program. The transfer is made from fund 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 should not be 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, all common costs are allocated first, followed by general governmental services, then financial services, intergroup costs and the Motorola service agreement.

The following table provides detail as to how much indirect cost each department charged to the GO Program.

**Indirect Cost Allocation for Transportation Funds**

<b>Detailed Allocation</b>			
	<b>Fiscal Year 2011-12</b>	<b>Fiscal Year 2012-13</b>	<b>Fiscal Year 2013-14</b>
<b>Step One - Common Costs</b>			
Facilities Management	\$ 12,000	\$ 11,000	\$ 10,000
Custodial Services	4,000	4,000	3,000
Information Systems	87,000	78,000	103,000
Total Common Costs	103,000	93,000	116,000
<b>Step Two - Administrative</b>			
City Council & Mayor	44,000	48,000	55,000
City Clerk	13,000	13,000	16,000
City Manager	35,000	32,000	33,000
City Attorney	102,000	86,000	103,000
City Auditor	9,000	10,000	12,000
Marketing	174,000	154,000	164,000
Risk Management	6,000	4,000	4,000
Intergovernmental	17,000	16,000	17,000
Human Resources	43,000	46,000	43,000
Step One Allocation	50,000	56,000	58,000
Total Administrative	493,000	465,000	505,000
<b>Step Three - Financial</b>			
Finance	76,000	74,000	81,000
Budget	25,000	26,000	31,000
Purchasing	9,000	4,000	8,000
DCM Administrative Services	16,000	6,000	-
Step One Allocation	15,000	14,000	17,000
Step Two Allocation	9,000	9,000	10,000
Total Financial	150,000	133,000	147,000
<b>Intergroup Allocations:</b>			
<b>Public Works &amp; Field Ops Admin</b>			
Public Works Administration	21,000		
<b>Community Development</b>			
Engineering Administration	44,000	47,000	19,000
CIP Administration	44,000	37,000	-
Land Development	14,000	8,000	10,000
Construction Inspection	4,000	4,000	4,000
Materials Testing	11,000	14,000	14,000
Mapping & Records	6,000	6,000	6,000
Step Two Allocation	6,000	6,000	3,000
Step Three Allocation	2,000	1,000	1,000
Total Community Development	131,000	123,000	57,000
<b>Motorola</b>			
Service Agreement	7,000	7,000	7,000
Total Indirect Cost Allocation	\$ 905,000	\$ 821,000	\$ 832,000

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

***Findings and Recommendations:***

**1. The City's Cost Allocation Plan Did Not Follow Cost Allocation Methods As Recommended By The Government Finance Officers' Association's Cost Analysis And Activity Based Costing For Government.**

The following conditions were observed during the review:

- Indirect Cost Pools were based on budgeted amounts.
- Allocation methods were based on estimations.
- Allocation methods were based on budgets.
- Allocations for Information Systems and Marketing could not be verified to supporting documentation.
- No allocation was made for Public Works and Field Operations Administration.
- Allocations in FY12 and FY13 related to Risk Insurance Premiums could not be agreed to supporting documentation.
- The plans were susceptible to error as a result of using hard coded figures and direct links to cells rather than utilizing VLOOKUPS. Additionally, during our review, formula errors were detected throughout the spreadsheets.
- The City does not maintain an instructional manual to assist in completion of the cost allocation spreadsheet.

**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. Additionally, the City should ensure supporting documents are maintained and reconciled with the spreadsheet and clerical checks are performed to ensure propriety.

**Management Response**

Concur. In fiscal year 2015 the city evaluated cost allocation best practices. In FY16, the city contracted with a consultant to review the city’s current practice and to develop a methodology to allocate indirect costs and a cost allocation plan. The city plans to implement the revised methodology and cost allocation plan in the FY16-17 budget but no later than FY17-18 depending on the timing of the results of the review.

**2. For All Fiscal Years Reviewed, The Total Indirect Costs Charged To The GO Program Were Inconsistent With The Cost Allocation Plans.**

The following differences were noted:

	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
<b>Per General Ledger (533800)</b>	\$ 1,017,000	\$ 1,017,000	\$ 1,332,800
<b>Per Cost Allocation Plan</b>	905,000	821,000	832,000

**Recommendation**

The City should ensure monthly indirect cost billings are consistent with the adopted indirect cost allocation plan.

**Management Response**

Concur. In FY16, the city contracted with a consultant to review the city’s current practice and to develop a methodology to allocate indirect costs and a cost allocation plan. The city plans to implement the revised methodology and cost allocation plan in the FY16-17 budget but no later than FY17-18 depending on the timing of the results of the review. Finance Department staff will review and ensure monthly indirect billings are consistent with the adopted cost allocation plan.

### **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 April 2014) 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. 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's goal was to keep less than the maximum amount insured by the FDIC; however, all of the City's investments are backed and insured as they were 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:***

### **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 establish a written process for determining the amount of short-term cash needed prior to the issuance of additional bonded debt.

#### **Management Response**

Concur. In fiscal year 2015, the City developed and implemented a policy for determining short-term cash needs.

### **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.

### **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, and submit the forms to the Management and Budget Department. The set aside guidance in the CIP Training Manual is developed based on historical data and consultation with the engineering department. The Deputy Director and the budget department provide oversight ensuring the CIP Request Forms are reasonable and completed in accordance with the CIP Training Manual.

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

#### **CIP Set-Asides Are Fair And Accurate With Some Exceptions Noted.**

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

- For four of 30 projects reviewed in the CIP, the finance allocation was not made in accordance with the CIP Training Manual. The finance charge should be 1.5% for all projects paid from the Transportation Capital Fund (fund 2210), based on management's application of the CIP Training Manual guidance.

### **Recommendation**

The GO Program personnel should ensure that the set-aside charges used in the CIP are in accordance with the CIP Training Manuals and consistently applied to all projects. 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.

### **Management Response**

Concur. CIP set-asides identified during the CIP request process will be reviewed to ensure consistency with the CIP Training Manual. City Finance staff will review and evaluate every Transportation CIP project to ensure the proper project set asides are accurately calculated, eligible for funding, and included in the project accounting breakdown.

### **The GO 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. Documentation Of Some Procurements And Expenditures Were Not Available.**

Some records may have been destroyed at the time of the audit considering the required retention period had passed. Documentation was not provided for the following procurements and expenditures.

- The City was unable to provide procurement documentation for two vendors with fiscal year 2012, 2013 and 2014 expenditures totaling \$768,653.
- The City was unable to provide documentation of public notice related to the issuance of a Request for Proposal (RFP). The expenditures under the award totaled \$87,659 in fiscal year 2013. Additionally, the City did not maintain complete documentation of the scoring of the RFPs in conjunction with the criteria set forth in the proposal.

### **Recommendation**

The City should ensure procurements are performed in accordance with the procurement code. Additionally, documents should be maintained at a minimum in accordance with the City's record retention schedules, and it is recommended that records required for ongoing or foreseeable official proceedings, such as audits, lawsuits or investigations should be retained until released from such official proceedings.

### **Management Response**

Staff agrees with this recommendation. The General Records Retention Schedule for GO Program (1/2 Cent Sales Tax Revenue) has been revised by the City Clerk to avoid loss of records before audits are complete.

### **The GO Program Is Consistent With The CIP With Some Exceptions Noted.**

We reviewed a sample of the projects in the GO Program and the City's adopted CIP to ensure consistency of the projects reported and the amounts budgeted. Due to the timeline of when the CIP was adopted and the GO Program of Projects was prepared, updated information was available and used to prepare the GO Program of Projects.

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

### **The GO Program Of Projects And CIP Inaccurately Included Projects.**

The following projects in the GO Program of Projects should not have been included as the projects were no longer a part of the GO Program:

- Street and Road Projects – Intermodal and Parking Project Reserve-Parking (fiscal year 2013-14)
- Street and Road Projects – Loop 101 Parking Land Acquisition-Parking (fiscal year 2013-14)

The following project in the GO Program of Projects should not have been presented as a project occurring in the next ten years:

- Other Capital Projects – Transportation Plan Update (fiscal years 2012-13 and 2013-14)

The CIP underreported the amount of the following project:

- Bicycle and Pedestrian Projects – Maryland Avenue Spot Improvements (fiscal year 2011-12)

**Recommendation**

Staff should reconcile the GO Program of Projects with the CIP to ensure GO Program projects are accurately reported.

**Management Response**

Staff agrees with this recommendation. CIP inputs will be ensured for consistency with projects in the Program of Projects. However, this will not be possible when City priorities change between adoption of the 25 year Program of Projects and approval of the CIP.

## Status of Prior Audit Findings

The 2011 performance audit made several recommendations that were applicable to this section.

- **Recommendation 1** – The City does not have written policies detailing the process for allocating interest among the participating funds. 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.

**Actions taken:** This recommendation has not yet been implemented.

- **Recommendation 2** – The City's cost allocation plan did not follow cost allocation methods as recommended by the Government Finance Officers' Association's Cost Analysis and Activity Based Costing for Government. 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.

**Actions taken:** Additional findings noted during the current performance audit.

- **Recommendation 3** – The City's does not have written procedures detailing the process for determining the amount of short-term cash needed. We recommend that the City establish a written process for determining the amount of short-term cash needed.

**Actions taken:** This recommendation has not yet been implemented.

- **Recommendation 4** – CIP set-asides are not always based on the CIP Training Manuals. The GO Program personnel should 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.

**Actions taken:** Additional findings noted during the current performance audit.

- **Recommendation 5** – Documentation of some procurements and expenditures were not available. Documents should be maintained at a minimum in accordance with the City's record retention schedules, and it is recommended that records required for ongoing or foreseeable official proceedings, such as audits, lawsuits or investigations should be retained until released from such official proceedings.

**Actions taken:** Additional findings noted during the current performance audit.

- **Recommendation 6** – Contract award exceeded on-call list authorization. Contract awards to vendors on the On-Call List should be reviewed to ensure they are within the amount authorized.

**Actions taken:** This finding was cleared in the current performance audit.

- **Recommendation 7** – The CIP did not include all projects. Staff should review both the GO Program of Projects and the CIP to ensure all projects are included.

**Actions taken:** Additional findings noted during the current performance audit.

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

### Methodology

We analyzed the 25-year projections and the underlying assumptions used for the fiscal years 2012-2036, 2013-2037 and 2014-2038. There were six main areas of the forecast reviewed:

#### **Are The Financial Projections Reasonable, Including: Sales Tax, General Funds, Fare Box, Regional, State And Federal Sources?**

- 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.

#### **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.

#### **Are Financial Factors, Such As 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.

#### **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.

#### **What Is The Process Used To Adjust The Schedule? Is It In Keeping With The Intent Of Voters?**

- 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.

**Is The 25-year Program Consistent With Regional Programs, Including Maricopa Association of Governments (Transportation Improvement Program, Regional Transportation Plan, And Arterial Life Cycle Program), Regional Public Transportation Authority/Valley Metro Rail, Inc. (Transit Life Cycle Programs), Maricopa County Department Of Transportation (Capital Improvement Plan And Northern Parkway Life Cycle Program), And Arizona Department Of Transportation (Capital Improvement Plan)? Are Glendale Matching Funds Being Taken Into Account?**

- We reviewed the regional plans for the City’s participation in regional projects.
- We reviewed the appropriate projects for any matching requirements.
- We compared the City’s share of costs in the regional plans to the 25-year program to determine if costs included were appropriate and reasonable.

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

- Fiscal Years 2012-2036 Program of Projects and Financial Model
- Fiscal Years 2013-2037 Program of Projects and Financial Model
- Fiscal Years 2014-2038 Program of Projects and Financial Model

Interviews were conducted with various members of the Transportation Department and the Department of Management and Budget, as well as the 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 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.

---

<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.

## Summary of Observations and Recommendations

### The Revenue Financial Projections Are Reasonably Stated.

#### **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 taxes collected for the Transportation Fund. From our regression model, we projected sales taxes 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<sup>2</sup> ranging from 0.47 to 0.51 for the three financial models reviewed. The variance in the R-squared value was a result of the fluctuations in actual sales taxes collected during the recessionary period and the relatively short period of historical data.

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

Financial Model	Projection Years	
	City	URS
<b>2012-2036</b>	2012	<b>2013-2036</b>
<b>2013-2037</b>	2013	<b>2014-2037</b>
<b>2014-2038</b>	2014	<b>2015-2038</b>

Sales tax projections made by the Department of Management and Budget are typically based 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 of Management at the University of Arizona and the Bureau of Economic Analysis.

---

<sup>2</sup> The R-square value measures how well a regression line approximates a set of data points. A value of 1.0 indicates a perfect fit with each of the data points falling directly on the trend line.

The Consultant’s projections were based on the following factors:

- Population
- Employment (including retail employment)
- Real personal income per capita
- Inflation

While our regression model did not achieve a high R-squared value for all of the financial models in the analysis, there was a high degree of correlation between our regression model and the forecasted sales taxes in all three financial models.

The projections in the 2012-2036 financial model were lower than actual results for fiscal years 2011-12 through 2013-14. The projections in the 2013-2037 financial model were lower than actual results for fiscal years 2012-13 through 2013-14, but higher than the previous financial model. The projections in the 2014-2038 financial model were lower than actual results for fiscal years 2013-14.

A comparison of the historical sales taxes and the financial models follows (amounts in thousands):

Fiscal Year	Actual Sales Taxes	Financial Models		
		2012-2036	2013-2037	2014-2038
2002-03	\$16,788			
2003-04	19,024			
2004-05	19,827			
2005-06	23,215			
2006-07	25,051			
2007-08	23,672			
2008-09	20,875			
2009-10	19,488			
2010-11	19,486			
2011-12	20,665	\$19,700		
2012-13	21,691	20,114	\$20,862	
2013-14	23,112	20,657	21,655	<b>\$21,956</b>

While the actual results were not always comparable to the projected amounts, the methodology used for determining the projections was reasonable based on the available information at the time the projections were prepared.

## **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 was 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, Federal Transit Administration (FTA) operating grants and other federal, state and regional capital funding. The LTAF distributions ended in fiscal year 2009-10. The grant funding included in each of the financial models was based on anticipated grant awards for the individual projects and the timing of when construction would occur.

## **Fare Box Revenues**

We calculated the average 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 fare box revenues in the projection is minimal.

## **The Cost Estimates And Underlying Assumptions Are Reasonable.**

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 projections:

### **Transit**

- Approximately \$16.1 million cost increase for light rail capital project in 2014-2038 due to decreased federal CMAQ funding.
- Operating costs for transit operations were revised up and down due to revisions in the model to accommodate for regional service costs.

### **Streets**

- GO Capital Maintenance costs increased to \$19 million due to comprehensive maintenance cost revisions of capital projects built under the program.
- Northern Parkway Capital Maintenance increased to \$41 million in 2012-2036 and to \$49 million in 2013-2037 due to the refinement of the cost projections.
- An additional \$18 million for pavement overlay costs were added in 2012-2036.

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

- New River - Missouri to Northern - Multi-use Pathway increased to \$5.2 million due to increased cost estimates of the project.

### ***Other***

- Other costs increased in 2014-2038 due to an increase of nearly \$8 million in indirect costs. The revision of the indirect cost model was the reason for the change.

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

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

The bonding interest rates are based on URS discussions with the City's financial advisors for each of the financial models. These rates are influenced by the assumption that municipal interest rates at the time were at historically low levels and an expectation that Federal Reserve policy would continue to defer further increases.

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, as well as past GO Program issuances. 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 2014 was 4.96 percent, while the weighted average coupon rate for the three financial models ranged from 5.67 percent to 5.71 percent. The rates used in the financial models were consistently greater than other actual municipality levels, thus adding a conservative element in projecting the future debt service requirements.

#### ***Bonding Levels***

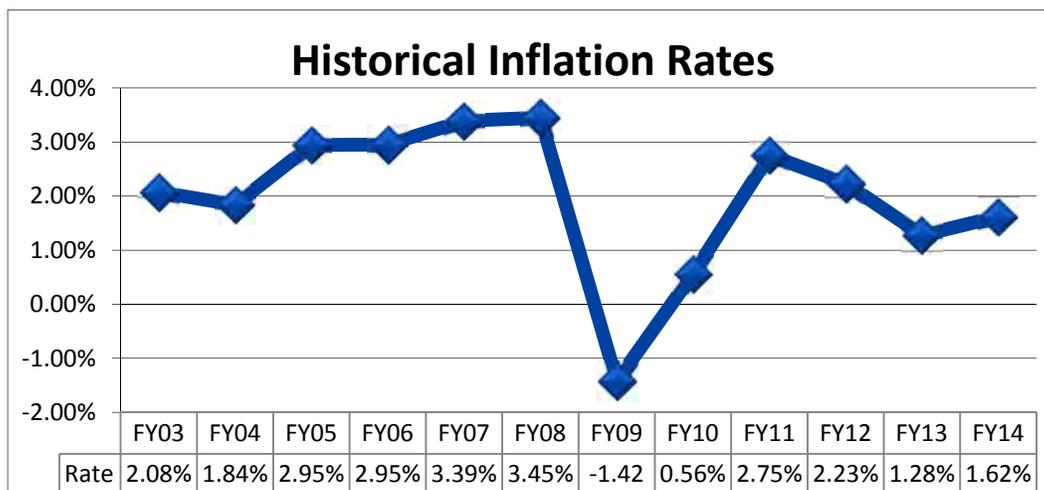
In each of the Programs of Projects, Appendix B describes the following three main reasons for bonding at the level prescribed for each projection:

1. Support construction of street and intersection improvement projects
2. Pavement Management
3. Complete a light rail transit connection to downtown Glendale
4. Complete the Northern Parkway

The bonding levels seem to correspond with the major milestones of the projects discussed above. We noted that with the bonding levels set forth in each of the financial models for those projection years resulted in positive ending fund balances in each year.

***Inflation Rates***

We compared historical consumer price indices of all urban consumers for the Phoenix-Mesa, Arizona area from years 2003 through 2014 against the inflation rates assumed in the financial models. The changes in the consumer price indices were as follows.



The average rate from 2003 to 2014 was 1.97 percent; however, prior to the recession, there was a steady increase in inflation rates. A comparison of the inflation rates used by URS in each of the financial models is presented below.

Financial Model	Inflation Rates		
	Low	Average	High
<b>2012-2036</b>	1.90%	2.79%	<b>3.05%</b>
<b>2013-2037</b>	1.85%	2.53%	<b>2.77%</b>
<b>2014-2038</b>	1.85%	2.52%	<b>2.72%</b>

**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 2013-2014 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 does not fall below 0.84 for any of the financial models), 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 financial models 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 financial models.

### ***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 historical amounts spent. Additionally, we compared the projected number of projects against the historical average number of projects. 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.

### **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 the CIP review committee.
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.

### **The 25-Year Program Is Consistent With Regional Programs.**

We reviewed the following regional programs to determine any projects requiring the City of Glendale's participation and any matching requirements:

- Maricopa Association of Governments
  - Transportation Improvement Program
  - Regional Transportation Plan
- Regional Public Transportation Authority/Valley Metro Rail, Inc.
  - Transit Life Cycle Programs
- Maricopa County Department of Transportation
  - Capital Improvement Plan
  - Northern Parkway Life Cycle Program
- Arizona Department of Transportation
  - Capital Improvement Plan

In most cases, the differences between the regional plans and the GO Program were insignificant; however, there were instances in which the City adjusted for additional factors not taken into consideration in the regional plans and updated information obtained subsequent to the preparation of the regional plans.

### **Status of Prior Audit Findings**

There were no prior performance audit recommendations that were applicable to this section.

## Appendix

## Summary of Findings, Recommendations, and Management Responses

### Are Commitments to Voters Being Met?

#### 1. Some Of The Commitments To Voters To Expand And Increase The Frequency Of Bus Services Have Been Retracted.

The Special Transportation Election Ballot language stated that the Transportation Sales Tax revenue would be used to expand and increase the frequency of bus services. The Publicity Pamphlet for the Special Transportation Election also stated that within five years the frequency of service on all existing bus routes would be increased to every 30 minutes.

The 2005 and 2008 performance audits found that these commitments had been met. The 2011 performance found that the commitments continued to be met with two exceptions. During this audit period we found that the Department had taken six additional actions to reduce or eliminate promised services. The reduced or terminated services during the last six years are as follows:

- Service on Bus Route 138 has been dropped from 67th Avenue to 59th Avenue.
- The frequency of service on Bus Route 186 has been reduced from every 30 minutes to hourly.
- Reverse trips from Downtown Phoenix on express route 573 were eliminated.
- Route 122 was eliminated.
- Saturday service on Route 70 between Luke AFB and the 99th Avenue Park and Ride was reduced from every 30 minutes to every hour. Weekend service reduced from 30 minutes to hourly in Glendale.
- Saturday service on Route 106 was reduced from every 30 minutes to hourly.
- Saturday service on Route 170 was reduced from every 30 minutes to hourly.
- Express Route 581 was eliminated.

According to the FY 2014-2038 Program Projects report the elimination of one subset of state lottery funds (LTAF) and a reduced projection of regional transportation sales tax (Public Transportation Fund - PTF) funds forced the City of Glendale to reduce the cost of its transit operations over the past four years to maintain a balanced budget.

### **Recommendation**

We recommend that GO Transportation Program Management consider restoring the reduced/terminated services to 2008 levels when the GO Program sales tax revenues rebound to previous expectations. We further recommend that any necessary future GO Program adjustments be made first to those projects or services not specifically identified in the 2001 Ballot to be completed within five years.

### **Management Response**

The 2001 Ballot included the creation of the Citizens Transportation Oversight Commission (CTOC) to monitor transportation fund expenditures and recommend adjustments to projects when warranted to serve the best interests of the public. Each year, a 25-year fiscally balanced program of projects and services is presented to CTOC for recommendation. The modifications in transit service, in keeping with the intent of the 2001 Ballot, were included in the proposed program for CTOC's consideration, which was reviewed and approved. This updated program will provide direction for modifying or restoring transit services.

## **2. Several Projects That Were To Be Completed Within The First Five Years Of The GO Program Were Not Complete As Of June 30, 2014.**

There were 39 Street projects that according to the Publicity Pamphlet for Proposition 402 were to be completed within the first five years of the GO Program. As of June 30, 2014, 29 of those projects were complete, 1 project was under construction and the remaining 9 projects were scheduled for completion in FY 2026.

As reported in the 2005 Performance report those projects were first delayed until Fiscal Years 2021 and 2023, because of cost escalation and limits on funds available and later because of revenue shortfalls, which resulted in the inability to maintain the required revenue to debt service ratio of 2:1. As of the end of 2011, these projects had been further delayed and scheduled for completion in Fiscal Years 2026 (for 1) and 2027 (for 8). The sales tax revenue decline was the stated reason for the additional delays. Now the schedule delays have been shortened to FY 2026 for all.

### **Recommendation**

GO Transportation Program Management should consider delaying those projects or services not specifically identified in the 2001 Ballot Measure to be completed within five years in order to move completion of the promised projects forward. We recognize that attainment of Federal, State or regional matching funds should be part of this consideration.

### **Management Response**

The 2001 Ballot included the creation of the Citizens' Transportation Oversight Commission (CTOC) to monitor transportation fund expenditures and recommend adjustments to projects when warranted to serve the best interests of the public. Each year, a 25-year fiscally balanced program of projects and services is presented to CTOC for recommendation. Any proposed modification in the timing for project delivery is included in the proposed program for CTOC's consideration. City staff recognizes the need to complete these projects and is actively identifying alternative funding sources.

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

### **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 document their interest allocation process of choice and additionally, look to using an allocation method based on the actual interest earned in the pooled account. Per review of 2015 documentation, the City has adopted an interest allocation policy.

### **Management Response**

Concur. In fiscal year 2015, the city developed and implemented an interest allocation policy.

**2. The City's Cost Allocation Plan Did Not Follow Cost Allocation Methods As Recommended By The Government Finance Officers' Association's Cost Analysis And Activity Based Costing For Government.**

The following conditions were observed during the review:

- Indirect Cost Pools Were Based on Budgeted Amounts.
- Allocation Methods Were Based on Estimations.
- Allocation Methods Were Based on Budgets.
- Allocations for Information Systems and Marketing could not be verified to supporting documentation.
- No Allocation was made for Public Works and Field Operations Administration.
- Allocations in FY12 and FY13 related to Risk Insurance Premiums could not be agreed to supporting documentation.
- The plans were susceptible to error as a result of using hard coded figures and direct links to cells rather than utilizing VLOOKUPS. Additionally, during our review formula errors were detected throughout the spreadsheets.
- The City does not maintain an instructional manual to assist in completion of the cost allocation spreadsheet.

**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. Additionally, the City should ensure supporting documents are maintained and reconciled with the spreadsheet and clerical checks are performed to ensure propriety.

**Management Response**

Concur. In fiscal year 2015 the city evaluated cost allocation best practices. In FY16, the city contracted with a consultant to review the city's current practice and to develop a methodology to allocate indirect costs and a cost allocation plan. The city plans to implement the revised methodology and cost allocation plan in the FY16-17 budget but no later than FY17-18 depending on the timing of the results of the review.

**3. For All Fiscal Years Reviewed, The Total Indirect Costs Charged To The GO Program Were Inconsistent With The Cost Allocation Plans.**

The following differences were noted:

	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Per General Ledger (533800)	\$ 1,017,000	\$ 1,017,000	\$ 1,332,800
Per Cost Allocation Plan	905,000	821,000	832,000

**Recommendation**

The City should ensure monthly indirect cost billings are consistent with the adopted indirect cost allocation plan.

**Management Response**

Concur. In FY16, the city contracted with a consultant to review the city’s current practice and to develop a methodology to allocate indirect costs and a cost allocation plan. The city plans to implement the revised methodology and cost allocation plan in the FY16-17 budget but no later than FY17-18 depending on the timing of the results of the review. Finance Department staff will review and ensure monthly indirect billings are consistent with the adopted cost allocation plan.

**4. 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 establish a written process for determining the amount of short-term cash needed prior to the issuance of bonded debt.

### **Management Response**

Concur. In fiscal year 2015, the city developed and implemented a policy for determining short-term cash needs.

### **5. CIP Set-Asides Are Fair And Accurate With Some Exceptions Noted.**

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

- For four of 30 projects reviewed in the CIP, the finance allocation was not made in accordance with the CIP Training Manual. The finance charge should be 1.5% for all projects paid from the Transportation Capital Fund (fund 2210), based on management's application of the CIP Training Manual guidance.

### **Recommendation**

The GO Program personnel should ensure that the set-aside charges used in the CIP are in accordance with the CIP Training Manuals and consistently applied to all projects. 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.

### **Management Response**

Concur. CIP set-asides identified during the CIP request process will be reviewed to ensure consistency with the CIP Training Manual. City Finance staff will review and evaluate every Transportation CIP project to ensure the proper project set asides are accurately calculated, eligible for funding, and included in the project accounting breakdown.

### **6. Documentation Of Some Procurements and Expenditures Were Not Available.**

Some records may have been destroyed at the time of the audit considering the required retention period had passed. Documentation was not provided for the following procurements and expenditures.

- The City was unable to provide procurement documentation for two vendors with fiscal year 2012, 2013 and 2014 expenditures totaling \$768,653.
- The City was unable to provide documentation of public notice related to the issuance of a Request for Proposal (RFP). The expenditures under the award totaled \$87,659 in fiscal year 2013. Additionally, the City did not maintain complete documentation of the scoring of the RFPs in conjunction with the criteria set forth in the proposal.

### **Recommendation**

The City should ensure procurements are performed in accordance with the procurement code. Additionally, documents should be maintained at a minimum in accordance with the City's record retention schedules, and it is recommended that records required for ongoing or foreseeable official proceedings, such as audits, lawsuits or investigations should be retained until released from such official proceedings.

### **Management Response**

Staff agrees with this recommendation. The General Records Retention Schedule for GO Program (1/2 Cent Sales Tax Revenue) has been revised by the City Clerk to avoid loss of records before audits are complete.

## **7. The GO Program Of Projects And CIP Inaccurately Included Projects.**

The following projects in the GO Program of Projects should not have been included as the projects were no longer a part of the GO Program:

- Street and Road Projects – Intermodal and Parking Project Reserve-Parking (fiscal year 2013-14)
- Street and Road Projects – Loop 101 Parking Land Acquisition-Parking (fiscal year 2013-14)

The following project in the GO Program of Projects should not have been presented as a project occurring in the next ten years:

- Other Capital Projects- Transportation Plan Update (fiscal years 2012-13 and 2013-14)

The CIP underreported the amount of the following project:

- Bicycle and Pedestrian Projects- Maryland Avenue Spot Improvements (fiscal year 2011-12)

### **Recommendation**

Staff should reconcile the GO Program of Projects with the CIP to ensure GO Program projects are accurately reported.

### **Management Response**

Staff agrees with this recommendation. CIP inputs will be ensured for consistency with projects in the Program of Projects. However, this will not be possible when City priorities change between adoption of the 25 year Program of Projects and approval of the CIP.