City of Glendale, Arizona

Glendale Onboard Transportation Program

Performance Audit

Fiscal Years 2008-09 through 2010-11

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CPAs and Business Consultants

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Certified Public Accountants and Advisors

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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 2008-09 through 2010-11, 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 the AOC on June 17, 2013 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 2008-09 through 2010-11, 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 2008-09 through 2010-11 for findings or recommendations related to the GO Program. Additionally, we reviewed the past GO Program Performance Audit and other internal and external audits that may have pertained to the GO Program. 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 2009-2033, 2010-2034 and 2011-2035, 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, 2011.
- We reviewed the 2008 performance audit report to identify services provided as of June 30, 2008.
- We compared 2011 services to those services provided before the Ballot and those provided in 2008.
- 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 reviewed minutes and actions of the City Council to identify discussions of any issues that warrant further review.

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 2008 and Fiscal Year 2011 GO Program annual status reports prepared by the Transportation Department.
- We compared the list of projects on the Ballot and Publicity Pamphlet with the status of projects as shown in the Fiscal Years 2008 and 2011 GO Program reports.
- We identified differences between the Ballot projects and status reports. This included new projects that were added during the three-year period ending June 30, 2011.
- 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 reviewed minutes and actions of the City Council to identify discussions of any issues that warrant further review.
- 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 previous two 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 have been met. This commitment has continued with minor exceptions.

- 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.

According to Transportation Department officials these reductions are due to lower transit revenues including lower GO sales tax collections, loss of Local Transportation Assistance Fund (LTAF and LTAF II) monies received from the State Lottery and a reduction in regional transit funding.

The bus schedules below for weekday, Saturday and Sunday services compare the bus routes and frequency before the election, at the end of Fiscal Year 2008 (according to the 2008 performance audit report), and at the end of Fiscal Year 2011.

Bus Routes and Frequency - WEEKDAYS

	Before Election			Per Performance Audit 2008			FY 2011		
Route	Frequency	Start Time	End Time	Frequency	Start Time	End Time	Frequency	Start Time	End Time
50	30 Minutes	4:24 AM	9:59 PM	30 Minutes	5:03 AM	10:47 PM	30 Minutes	5:03 AM	10:47 PM
60	30 Minutes	4:44 AM	7:40 PM	30 Minutes	5:04 AM	9:39 PM	30 Minutes	5:04 AM	9:39 PM
24/70	Hourly	6:10 AM	6:18 PM	30 Minutes	4:40 AM	11:13 PM	30 minutes	4:40 AM	11:13 PM
80	30 Minutes	5:03 AM	6:45 PM	30 Minutes	5:03 AM	9:43 PM	30 Minutes	5:03 AM	9:43 PM
90	30 Minutes	5:41 AM	7:04 PM	30 Minutes	5:12 AM	10:15 PM	30 Minutes	5:12 AM	10:15 PM
106	45 Minutes	3:47 AM	8:33 PM	30 Minutes	4:51 AM	9:05 PM	30 Minutes	4:51 AM	9:05 PM
122	Only in Phoenix			Hourly	5:29 AM	9:42 PM	Hourly	5:29 AM	9:42 PM
138	Hourly	5:00 AM	7:45 PM	30 Minutes	5:00 AM	9:55 PM	30 Minutes	5:00 AM	9:55 PM
170	30 Minutes	5:00 AM	7:46 PM	30 Minutes	4:57 AM	10:30 PM	30 Minutes	4:57 AM	10:30 PM
186	Hourly	5:21 AM	6:36 PM	30 Minutes	4:47 AM	10:08 PM	30 Minutes	4:47 AM	10:08 PM
43	30 Minutes	5:11 AM	10:04 PM	30 Minutes	5:30 AM	10:25 PM	30 Minutes	5:30 AM	10:25 PM
51	Did not exist			30 Minutes	4:36 AM	9:10 PM	35 Minutes	4:31 AM	9:14 PM
59	30 Minutes	5:00 AM	6:00 PM	30 Minutes	4:49 AM	10:39 PM	30 Minutes	4:42 AM	10:46 PM
67	Hourly	5:55 AM	7:53 PM	30 Minutes	5:46 AM	10:00 PM	30 Minutes	5:45 AM	10:03 PM

Bus Routes and Frequency - SATURDAYS

	Before Election			Per Performance Audit 2008			FY 2011		
Route	Frequency	Start Time	End Time	Frequency	Start Time	End Time	Frequency	Start Time	End Time
50	30 Minutes	5:07 AM	7:57 PM	30 Minutes	6:04 AM	9:12 PM	30 Minutes	6:04 AM	9:12 PM
60	Hourly	5:43 AM	8:01 PM	Hourly	5:56 AM	8:39 PM	Hourly	5:56 AM	8:39 PM
24/70	No Service			30 Minutes	4:37 AM	10:01 PM	30 Minutes	4:37 AM	10:01 PM
80	Hourly	6:05 AM	6:02 PM	Hourly	6:31 AM	9:35 PM	Hourly	6:31 AM	9:35 PM
90	Hourly	5:36 AM	7:28 PM	30 Minutes	5:51 AM	9:28 PM	30 Minutes	5:51 AM	9:28 PM
106	No Service			30 Minutes	5:57 AM	9:32 PM	30 Minutes	5:57 AM	9:32 PM
122	Only in Phoenix			Hourly	6:18 AM	8:15 PM	Hourly	6:18 AM	8:15 PM
138	Only in Phoenix			Hourly	6:00 AM	8:54 PM	Hourly	6:00 AM	8:54 PM
170	Hourly	5:23 AM	8:07 PM	30 Minutes	5:29 AM	9:13 PM	30 Minutes	5:29 AM	9:13 PM
186	Only in Phoenix			Hourly	5:50 AM	8:51 PM	Hourly	5:50 AM	8:51 PM
43	30 Minutes	5:45 AM	10:20 PM	Hourly	6:10 AM	9:35 PM	Hourly	6:10 AM	9:35 PM
51	Did not exist			Hourly	5:21 AM	7:55 PM	Hourly	5:45 AM	7:59 PM
59	Hourly	6:10 AM	7:40 PM	Hourly	5:13 AM	9:48 PM	Hourly	5:13 AM	9:48 PM
67	Hourly	5:59 AM	7:49 PM	Hourly	6:15 AM	9:15 PM	Hourly	6:15 AM	9:15 PM

Bus Routes and Frequency - SUNDAYS

	Before Election			Per Performance Audit 2008			FY 2011		
Route	Frequency	Start Time	End Time	Frequency	Start Time	End Time	Frequency	Start Time	End Time
50	Hourly	6:13 AM	7:57 PM	30 Minutes	6:04 AM	9:12 PM	30 Minutes	6:04 AM	9:12 PM
60	Only in Phoenix			Hourly	5:56 AM	8:39 PM	Hourly	5:56 AM	8:39 PM
24/70	No Service			30 minutes	5:37 AM	9:31 PM	30 minutes	5:37 AM	9:31 PM
80	No Service			Hourly	6:31 AM	9:35 PM	Hourly	6:31 AM	9:35 PM
90	No Service			30 Minutes	5:51 AM	9:28 PM	30 Minutes	5:51 AM	9:28 PM
106	No Service			Hourly	6:27 AM	8:55 PM	Hourly	6:27 AM	8:55 PM
122	No Service			Hourly	6:18 AM	8:15 PM	Hourly	6:18 AM	8:15 PM
138	Only in Phoenix			Hourly	6:00 AM	8:54 PM	Hourly	6:00 AM	8:54 PM
170	Only in Phoenix			Hourly	5:43 AM	8:58 PM	Hourly	5:43 AM	8:58 PM
186	Only in Phoenix			Hourly	5:50 AM	8:51 PM	Hourly	5:50 AM	8:51 PM
43	Hourly	6:18 AM	7:46 PM	Hourly	6:10 AM	9:02 PM	Hourly	6:10 AM	9:35 PM
51	Did not exist			Hourly	5:21 AM	7:55 PM	Hourly	5:45 AM	7:59 PM
59	Only in Phoenix			Hourly	5:13 AM	9:48 PM	Hourly	5:13 AM	9:48 PM
67	Only in Phoenix			Hourly	6:15 AM	9:15 PM	Hourly	6:15 AM	9:15 PM

The Publicity Pamphlet for Proposition 402 also promised new express bus service along Arizona Loop 101. That express bus service was added and has continued through 2011. However, reductions have been made to other express bus service*. The schedule below compares the express bus services before the election, at the end of Fiscal Year 2008 (according to the 2008 performance audit report), and at the end of Fiscal Year 2011. Express bus service is provided on weekday mornings and evenings only.

Express Bus Routes - WEEKDAYS ONLY

	Before Election			(Per Performance Audit 2008			FY 2011		
Route	Frequency	Start Time	End Time	Frequency	Start Time	End Time	Frequency	Start Time	End Time
Ex 570	30 Minutes	5:48 AM	6:16 PM	30 Minutes	5:56 AM	6:16 PM	Discontinued in 2011		
Ex 571	30 Minutes	5:40 AM	7:48 PM	30 Minutes	5:35 AM	6:40 PM	20/30 Minutes	5:34 AM	6:28 PM
Ex 581	30 Minutes	5:46 AM	6:27 PM	30 Minutes	5:46 AM	6:32 PM	30/45 Minutes	6:01 AM	6:22 PM
Ex 572	Did not exist			30 Minutes	5:16 AM	6:10 PM	Discontinued in 2011		
Ex 573	Did not exist			30 Minutes	5:11 AM	6:52 PM	30 Minutes	5:11 AM	6:52 PM
Ex 575	Did not exist			30 Minutes	5:55 AM	6:20 PM	30/40 Minutes	5:55 AM	6:20 PM
Ex 576	Did not exist			Hourly	5:45 AM	7:30 PM	Discontinued in 2011		

*due to regional express restructuring

Finding and Recommendation:

1. **Transit Service on Bus Routes 138 and 186 Are Not Consistent with Voter Commitments.**

   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. Those commitments continue to be met with two exceptions:

   - 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.

   According to Transportation Department officials, lower than expected GO Program sales tax revenue made it prohibitive to fill gaps in funding created by the loss of LTAF and reduced regional transit funding. They further stated that cuts in fixed route services were structured to cause the least amount of rider impact by selecting routes and route segments with the least amount of ridership.

   Recommendation

   We recommend that GO Transportation Program Management consider restoring services on Bus Routes 138 and 186 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.

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, 2011, 66 projects were completed (40 street, 14 bicycle/pedestrian, 3 transit and 9 airport), and 26 projects were in design (16 street, 4 bicycle/pedestrian, 1 transit and 5 airport). One project for pavement preservation was ongoing.

A total of 14 projects (12 street and 2 bicycle/pedestrian) were in design that, according to the Publicity Pamphlet, were targeted for completion within the first five years after the ballot measure passage. These projects have been delayed in order to obtain matching federal/state funds or because of GO Program funding availability limitations.

The GO Program included a total of 93 projects as of June 30, 2011, an increase in the total of 81 projects as of June 30, 2008. All projects were consistent with Ballot objectives.

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

Street Projects

Following is a list of 57 street projects included in the GO Program Fiscal Year 2011 annual status 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 our audit period. These projects were discussed in the 2005 GO Program performance audit report.

No.	PROJECT DESCRIPTION/STATUS	1st Five Years?	Year Completed	Status as of June 30, 2011
	COMPLETED			
1	75th Ave from Rose Garden Ln to Deer Valley Rd	Yes	2005	Completed
2	Bus Bay on Union Hills east of 59th Ave	No	2006	Completed
3	Bridge crash barrier on Northbound 83rd Ave at Loop 101	Yes	2006	Completed
4	83rd Ave Scalloped Street north of Bell Road to Loop 101	No	2006	Completed
5	Bridge crash barrier on Westbound Thunderbird west of 59th Ave	Yes	2006	Completed
6	Safety improvements on Thunderbird between 56th Ave and 57th Dr	No	2007	Completed
7	Bridge crash barrier on Eastbound Cactus Rd west of 51st Ave	Yes	2006	Completed
8	Bridge crash barrier on Westbound Cactus Rd west of 51st Ave	Yes	2006	Completed
9	Intersection improvements at 67th Ave/Peoria Ave	Yes	2007	Completed
10	Traffic Control Center on 59th Ave between Olive Ave and Peoria Ave	No	2006	Completed
11	Bus Bay on 59th Ave north of Northern Ave	No	2006	Completed
12	Street and sidewalk improvements on Northern Ave west of 43rd Ave	No	2007	Completed
13	Street and sidewalk improvements on Bethany Home Rd between 47th Ave & 48th Ave	No	2007	Completed
14	Bethany Home Rd – 91st Ave to 99th Ave	Yes	2006	Completed
15	Maryland Ave between 95th Ave & 99th Ave, including bridge over Loop 101	No	2006	Completed
16	95th Ave between Maryland Ave and Bethany Home Rd	New	2006	Completed
17	67th Ave intersection at Bell Rd	Yes	2008	Completed
18	67th Ave intersection at Glendale Ave	Yes	2008	Completed
19	67th Ave intersection at Camelback Rd	Yes	2008	Completed
20	75th Ave intersection at Glendale Ave	Yes	2008	Completed
21	75th Ave intersection at Bethany Home Rd	Yes	2008	Completed
22	75th Ave intersection at Camelback Rd	Yes	2008	Completed
23	Median improvements on Grand Ave from 43rd Ave to 57th Drive	Yes	2008	Completed
24	Scalloped street improvements on Glendale Ave from 67th Ave to 91st Ave	No	2008	Completed
25	Scalloped street improvements on 75th Ave from Glendale Ave to south of Bethany Home Rd	No	2008	Completed
26	Scalloped street improvements on 83rd Ave from Glendale Ave to Camelback Rd	No	2008	Completed
27	Street widening on Greenbrier St from 59th Ave to 64th Ave	No	2008	Completed
28	Street improvements on Glendale Ave from 43rd Ave to 67th Ave	Yes	2008	Completed
29	43rd Ave intersection at Peoria Ave	Yes	2009	Completed
30	43rd Ave intersection at Olive Ave	Yes	2009	Completed
31	43rd Ave intersection at Northern Ave	Yes	2009	Completed

No.	PROJECT DESCRIPTION/STATUS	1st Five Years?	Year Completed	Status as of June 30, 2011
32	43rd Ave intersection at Glendale Ave	Yes	2009	Completed
33	43rd Ave intersection at Bethany Home Rd	Yes	2009	Completed
34	51st Ave intersection at Peoria Ave	Yes	2009	Completed
35	51st Ave intersection at Glendale Ave	Yes	2009	Completed
36	Street widening on Myrtle Ave from 59th Ave to 62nd Ave	Yes	2009	Completed
37	67th Ave intersection at Thunderbird	Yes	2009	Completed
38	67th Ave intersection at Cactus Rd	Yes	2009	Completed
39	67th Ave intersection at Olive Ave	Yes	2009	Completed
40	57th Ave bridge at Skunk Creek	Yes	2009	Completed
	DESIGN			
41	51st Ave intersection at Bell Rd	No		Design
42	51st Ave intersection at Northern Ave	Yes		Design
43	51st Ave intersection at Camelback Rd	Yes		Design
44	Grand Ave access control and beautification from 43rd Ave to 71st Ave	Yes		Design
45	Bethany Home Rd safety improvements from 59th Ave to 67th Ave	No		Design
46	59th Ave intersection at Bethany Home Rd	No		Design
47	59th Ave intersection at Camelback Rd	Yes		Design
48	59th Ave intersection at Bell Rd	Yes		Design
49	59th Ave intersection at Greenway	Yes		Design
50	59th Ave intersection at Thunderbird	Yes		Design
51	59th Ave intersection at Cactus Rd	Yes		Design
52	59th Ave intersection at Peoria Ave	Yes		Design
53	59th Ave intersection at Olive Ave	Yes		Design
54	59th Ave intersection at Northern Ave	Yes		Design
55	Medians and beautification from Grand Ave to Loop 101	Yes		Design
56	Northern Parkway improvements from Loop 303 to Grand Ave	No		Design
	ONGOING			
57	Pavement Overlay	No	Ongoing	Ongoing

The status of the 57 projects showed 40 that were completed as of June 30, 2011, and 16 were in various stages of design. One project, Pavement Overlay, is an ongoing multi-year project.

There were 39 projects that according to the Publicity Pamphlet for Proposition 402 were to be completed within the first five years of the GO Program. We found that 27 of those projects were complete as of June 30, 2011. The remaining 12 were in various stages of design. Program officials provided the following explanations for why these 12 projects were delayed and the expected completion dates as follows:

1. Intersections at 59th Avenue and Bell Road, at 59th Avenue and Greenway Road, at 59th Avenue and Thunderbird Street, at 59th Avenue and Cactus Road, at 59th Avenue and Peoria Avenue, at 59th Avenue and Olive Avenue, at 59th Avenue and Northern Avenue; and medians and beautification from Grand Avenue to Arizona Loop 101 (a total of 8 projects): As reported in the last performance audit report, these projects were delayed until 2023, first 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 2011, these projects were scheduled for completion in Fiscal Year 2027. The sales tax revenue decline is the reason for additional delays in the projected completion.
2. The intersection at 59th Avenue and Camelback Road was delayed for the same reasons as discussed above for the other 59th Avenue projects. As reported in the last performance audit, this project was delayed until 2021. As of 2011, this project was scheduled for completion in Fiscal Year 2026. The sales tax revenue decline is the reason for additional delays in the projected completion.
3. The intersections at 51st Avenue and Northern Avenue and 51st Avenue and Camelback Road, (2 projects): As reported in the last performance audit, these projects were delayed to achieve matching of federal funds availability and the additional time required for the federal approval process. These projects have been completed in Fiscal Year 2012, which is subsequent to our audit period. The delay in completion from the prior report's scheduled dates was due to a legal issue regarding citywide utility prior rights that was ultimately resolved.
4. The Median and Beautification Work on Grand Avenue from 43rd Avenue to 71st Avenue project: As reported in the last performance audit report, this project was delayed due to matching federal funding availability. The City portion of this project was complete in Fiscal Year 2011; however, the Arizona Department of Transportation (ADOT) portion competed in early Fiscal Year 2015.

Finding and Recommendation:

1. **Several Projects That Were to be Completed Within the First Five Years of the GO Program Were Not Complete as of June 30, 2011.**

   There were 13 projects that according to the Publicity Pamphlet for Proposition 402 were to be completed within the first five years of the GO Program that were not completed as of June 30, 2011. Two of these 13 were completed in 2012 as well as the City portion of another. The ADOT portion of the other was completed in early Fiscal Year 2015. The remaining 10 projects, as reported in the last performance audit report, were delayed until 2021 and 2023, first 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 2011, these projects were further delayed and scheduled for completion in Fiscal Years 2026 and 2027. The sales tax revenue decline was the stated reason for additional delays.

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.

Bicycle/Pedestrian Projects

Following is a list of 18 bicycle/pedestrian projects included in the GO Program Fiscal Year 2011 annual report and the status of those projects. All projects included in the Publicity Pamphlet for Proposition 402 are included in this list.

No.	PROJECT DESCRIPTION/STATUS	1st Five Years?	Year Completed	Status as of June 30, 2011
	COMPLETED PROJECTS			
1	Bike/pedestrian bridge over 71st Ave channel at Skunk Creek	Yes	2006	Completed
2	Bike lane on Cholla St west of 59th Ave	Yes	2005	Completed
3	Bicycle/pedestrian bridge over Grand Canal at Missouri Ave/79th Ave	Yes	2005	Completed
4	Glendale Ave bridge widening at New River for bike pedestrian path	Yes	2006	Completed
5	51st Ave and Cactus Road bicycle underpass at Arizona Canal/Diversion Canal	No	2008	Completed
6	71st Ave channel bike/pedestrian pathway from Camino San Xavier to Skunk Creek	Yes	2008	Completed
7	Downtown pedestrian enhancements	Yes	2008	Completed
8	51st Ave sidewalk and landscape improvements from North Camelback Rd to south of Grand Ave	Yes	2008	Completed
9	Catlin Court Alley Beautification	Yes	2009	Completed
10	63rd Ave bike lanes from Grand Ave to Olive Ave	Yes	2009	Completed
11	Old Roma Alley pedestrian enhancements	Yes	2011	Completed
12	63rd Ave bicycle/pedestrian overpass at Loop 101	Yes	2011	Completed
13	Skunk Creek bicycle/pedestrian pathway under Union Hills Dr	Yes	2011	Completed
14	Skunk Creek bicycle/pedestrian pathway under Bell Rd	Yes	2011	Completed
	PROJECTS IN DESIGN			
15	Grand Canal bicycle/pedestrian pathway from 91st Ave to New River	Yes		Design
16	New River bicycle/pedestrian pathway from Northern Ave to Bethany Home Rd	Yes		Design
17	Maryland Ave spot improvements between 67th Ave and 83rd Ave	New		Design
18	Downtown Alley (alley between Glendale Ave and Glenn Dr) pedestrian enhancements between 57th Ave and 57th Dr	New		Design

The status of the 18 projects showed 14 that were completed as of June 30, 2011 and 4 that were in various stages of design.

There were 15 projects that according to the Publicity Pamphlet for Proposition 402 were to be completed within the first five years of the GO Program. We found that 13 of those projects were complete as of June 30, 2011. The remaining 2 were in various stages of design. Program officials provided the following explanations for why these 2 projects were delayed and the expected completion dates as follows:

1. As stated in the 2008 performance audit report, the Grand Canal Multi-Use Path project was delayed due to matching federal funding availability. Federal funds are Congestion Mitigation and Air Quality Improvement Program (CMAQ) and Transportation Enhancement administered by ADOT. Construction was scheduled for 2012 with completion in 2013. The completion date has now been delayed to 2014 or 2015. The City was originally identified as the administrator of the construction project per a Joint Project Agreement (JPA) with ADOT. ADOT subsequently changed its position and decided that ADOT will now administer the construction project. This will mean revising design plans to ADOT specifications and revisiting some of the environmental reviews, and amending the previously approved JPA by both ADOT and the City. This new development means the project could now be complete in Fiscal Year 2014 or even Fiscal Year 2015 depending on the environmental process.
2. As stated in the 2008 performance audit report, the New River Bike/Pedestrian Pathway from Northern Avenue to Bethany Home Road was delayed due to matching federal funding availability. Federal funds are CMAQ administered by ADOT. According to GO Program officials this project should be under construction in Fiscal Year 2014.

Transit Projects

The election package stated that GO Program funds would be used for park-and-rides and transit centers without specifically identifying projects. As of June 30, 2011, the GO Program included 4 transit projects as listed below.

No.	PROJECT DESCRIPTION/STATUS	Year Completed	Status as of June 30, 2011
	COMPLETED		
1	Stadium overflow parking facility on 91st Ave between Glendale Ave and Northern Ave	2007	Completed
2	New Transit Office at Myrtle Ave and 63rd Ave	2007	Completed
3	Arizona Loop 101/Glendale Ave park-and-ride lot	2009	Completed
	DESIGN		
4	Arrowhead transit center and park-and-ride		Design

The Arrowhead transit center and park-and-ride was added since the last performance audit. According to GO Program officials, the Regional Transportation Plan identified the need for this center and park-and-ride, and the project was in design as of June 30, 2011.

Airport Projects

The election package included a reservation of funds for the Glendale Airport projects to enhance economic development without specifically identifying projects. As of June 30, 2011, the GO Program included 14 airport projects. As listed below, 9 have been completed and an additional 5 are programmed.

No.	PROJECT DESCRIPTION/STATUS	Year Completed	Status as of June 30, 2011
	COMPLETED		
1	STARS air traffic control system installation	2007	Completed
2	Pavement preservation-aviation easement	2007	Completed
3	Airport eastside access road	2007	Completed
4	Security fencing replacement	2007	Completed
5	Airport property (Rivera) acquisition	2008	Completed
6	Airport Master Plan update	2009	Completed
7	Airport tower and radio upgrade	2010	Completed
8	Improved Runway Safety Area (Dust, weed and erosion control for runway and taxiway)	2009	Completed
9	Airport security upgrade	2009	Completed
	PROGRAMMED		
10	Airport Master Plan update		Programmed
11	Airport runway and taxiway asphalt edging		Programmed
12	Airport runway protection zone land purchase		Programmed
13	Relocation of the Blast Runway Fence and Markings		Programmed
14	Pavement Maintenance		Programmed

Ten of the above 14 projects were added since 2008. All projects added were consistent with expressed Ballot objectives for airport projects.

Information provided by GO officials shows that the projects added since 2008 have been primarily Federal and State funded. For example, five of the added projects were complete as of June 30, 2011, and Federal and State monies were used to cover over 92 percent of those costs.

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 2011 annual status report, each of these programs has been established, and funds were committed to continue them over the next 25 years.

For example, following is a listing of the Intelligent Transportation System (ITS) projects that were completed/worked on during the performance audit timeframe:

- Replacement of the Central Signal System Software: This project included the purchase, installation and integration of a new computer system (software and hardware) to monitor and manage the City's traffic signal network as well as remote programming and scheduling of dynamic message signs.
- Sports Facilities ITS: This project included installation of 2.5 miles of fiber optic cable and installation of seven dynamic message signs. This infrastructure will allow for remote monitoring and management of traffic day-to-day as well as during special events.
- Olive Ave ITS: This was a joint project with the City of Peoria to install two miles of fiber optic cable and three closed-circuit television (CCTV) cameras on Olive Avenue. This project completed a portion of the Regional Community Network, which is a publicly owned communications network that connects various Valley agencies together to allow for sharing of information such as traffic signal data and CCTV camera images and control.
- North Area Fiber: This project installed fiber optic cable and communications equipment in the northern part of Glendale along Union Hills Drive and on all arterial streets. A total of nine miles of fiber were installed to add remote communications to 21 intersections.

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.

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.

There were no recommendations in this area.

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

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

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

Finally, the CTOC serves the public interest by providing a mechanism for providing public input and oversight into ongoing transportation decisions. Much has changed in the City 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.

There are no recommendations in this area.

Status of Prior Audit Findings

The 2008 performance audit report made one recommendation related to the CTOC.

- **Recommendation 1** – The CTOC, working with GO Program management, should consider developing specific performance indicators to measure progress made, to the extent practical, over time in each of the improvement areas described in the Publicity Pamphlet.

  Actions taken: As identified in the previous audit report, staff believes Transportation level technical performance measures are to be a part of the greater Transportation Plan for Glendale. Staff has recently developed performance measures that draw from the Ordinance that instituted the GO Program. Staff plans to present this set of performance measures for input from CTOC and for further development of measures/standards.

Summary of the City's Financial Audits

Methodology

The following compilation and analysis of the City's financial statements from fiscal years 2008-09 through 2010-11 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 2008-09, 2009-10 and 2010-11 for any findings or recommendations that related to the GO Program. Additionally, we reviewed other internal and external audits that may have pertained to the GO Program including the prior performance audit for fiscal years 2005-06 through 2007-08.

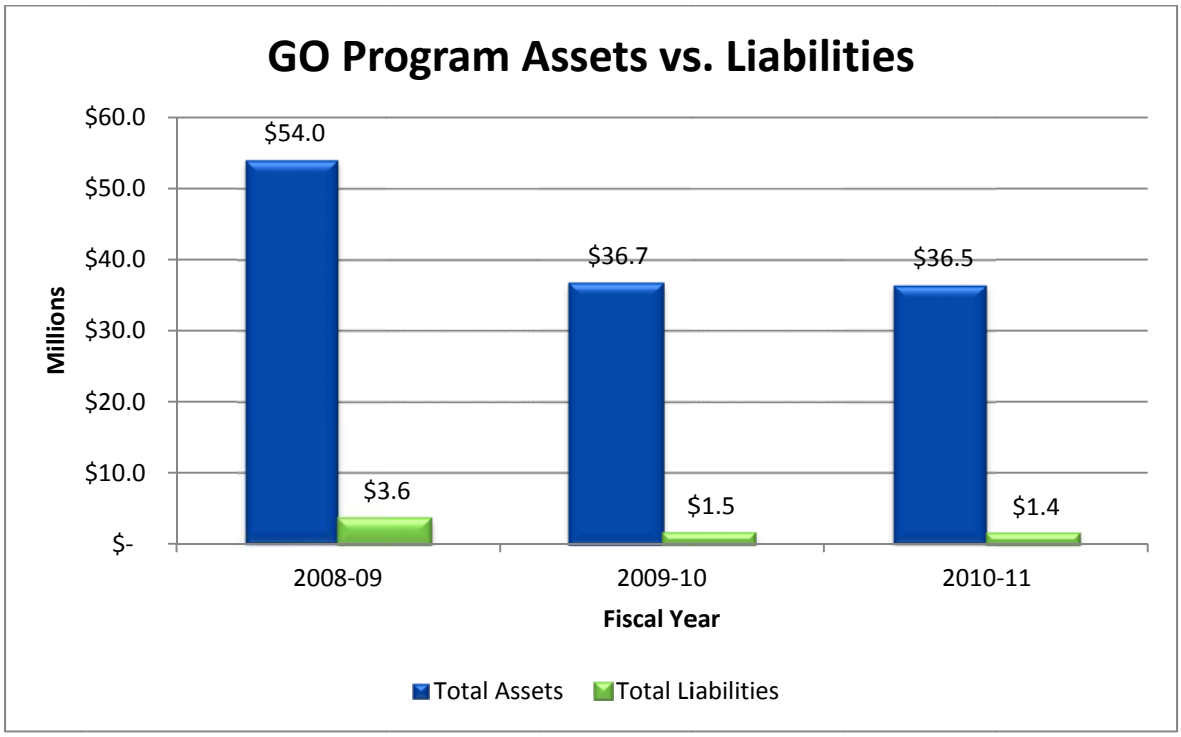
Summary of Observations and Recommendations

For the GO Program Balance Sheet for fiscal years 2008-09 through 2010-11, see Schedule A on page 31.

For the GO Program Statement of Revenues, Expenditures and Changes in Fund Balances for fiscal years 2008-09 through 2010-11, see Schedule B on page 32.

Current Assets and Liabilities

The total assets of the GO Program primarily consisted of cash, short-term investments and receivables. The cash and short-term investments balance decreased approximately $17.5 million, or 34 percent, from fiscal year 2008-09 to fiscal year 2009-10, 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 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 bonds issued in fiscal year 2007-08 from GO Program revenues will be paid from GO Program revenues and are discussed on the following page.

The vouchers and accounts payable represent goods and services received prior to fiscal year-end, but the cash disbursements to the vendors were not made until the following fiscal year. The deferred revenue balance for fiscal year 2010-11 increased by $677,794 due to additional sales tax receivables identified during the conversion of the City's sales tax software system. Since these receivables were not collected within the period of availability (defined by the City as 30 days after year end), the related revenues were deferred.

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 which accounts for the significant increase in cash in fiscal year 2007-08. As of June 30, 2011, there was $99.8 million outstanding with $2.8 million in principal and $4.5 million in interest due in fiscal year 2011-12. The following table details the principal and interest payments for fiscal years 2008-09 through 2010-11, as well as the outstanding balances owed (in millions).

Long-Term Debt Payments and Balance Outstanding

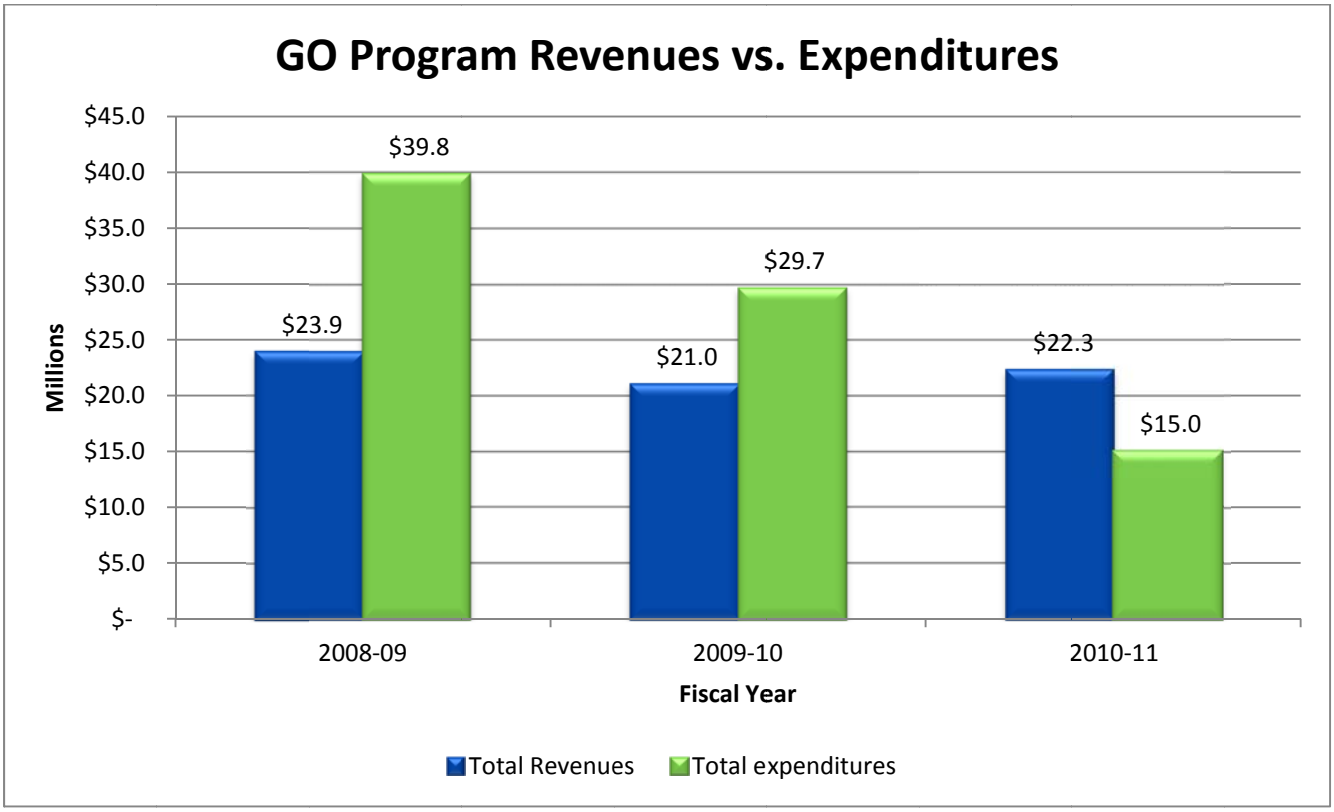
Fiscal Year	Beginning Balance	Principal Payments	Interest Payments	Ending Balance
2008-09	$109.1	$ 4.1	$ 5.6	$105.0
2009-10	105.0	2.5	4.7	102.5
2010-11	102.5	2.7	4.6	99.8

Revenues and Expenditures

Total revenues for the GO Program consisted mostly of those revenues received from the half-cent sales tax, which accounted for nearly 90 percent of the total revenue of each fiscal year. Tax revenues decreased gradually from $20.9 million in fiscal year 2008-09 to $19.5 million in fiscal year 2010-11, or seven percent. The decrease was primarily a result of the continuing decline in the economy due to the recession. Since the inception of the GO Program, the tax revenues had reached their highest level in fiscal year 2006-07 of $25.1 million. The fiscal year 2010-11 tax revenues represented a 22 percent decrease from the high point. Subsequent to the audit period, the tax revenues have increased to $20.7 million in fiscal year 2011-12 and $21.7 million in fiscal year 2012-13 as a result of improvements in the economy, as well as the construction and opening of the Tanger Factory Outlet Center.

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 2010-11 farebox revenues represented a 35 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 decreased $1.1 million or 88 percent primarily due to the reduction in cash and investment balances related to the completion of several projects funded by the transportation excise tax bond proceeds issued in fiscal year 2007-08, as well as a significant decrease in interest rates. 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.



Expenditures have decreased by $24.8 million, or 62 percent, from fiscal year 2008-09 to fiscal year 2010-11. Operation and maintenance costs decreased by $2.8 million, or 24 percent. The largest part of this decrease is related to fixed route costs. The Glendale Avenue route/Luke Link was changed to a regional service route offered by RPTA. In addition, there were some reductions in transit services (see Are Commitments to Voters Being Met? section).

The capital outlay costs decreased by $22.0 million, or 78 percent. The decrease was primarily due to the completion of several projects funded by the transportation excise tax bond proceeds during fiscal year 2008-09. In addition, project progress has slowed due to revenue shortfalls over the past three years related to the recession, as well as delays in receipt of other funding sources.

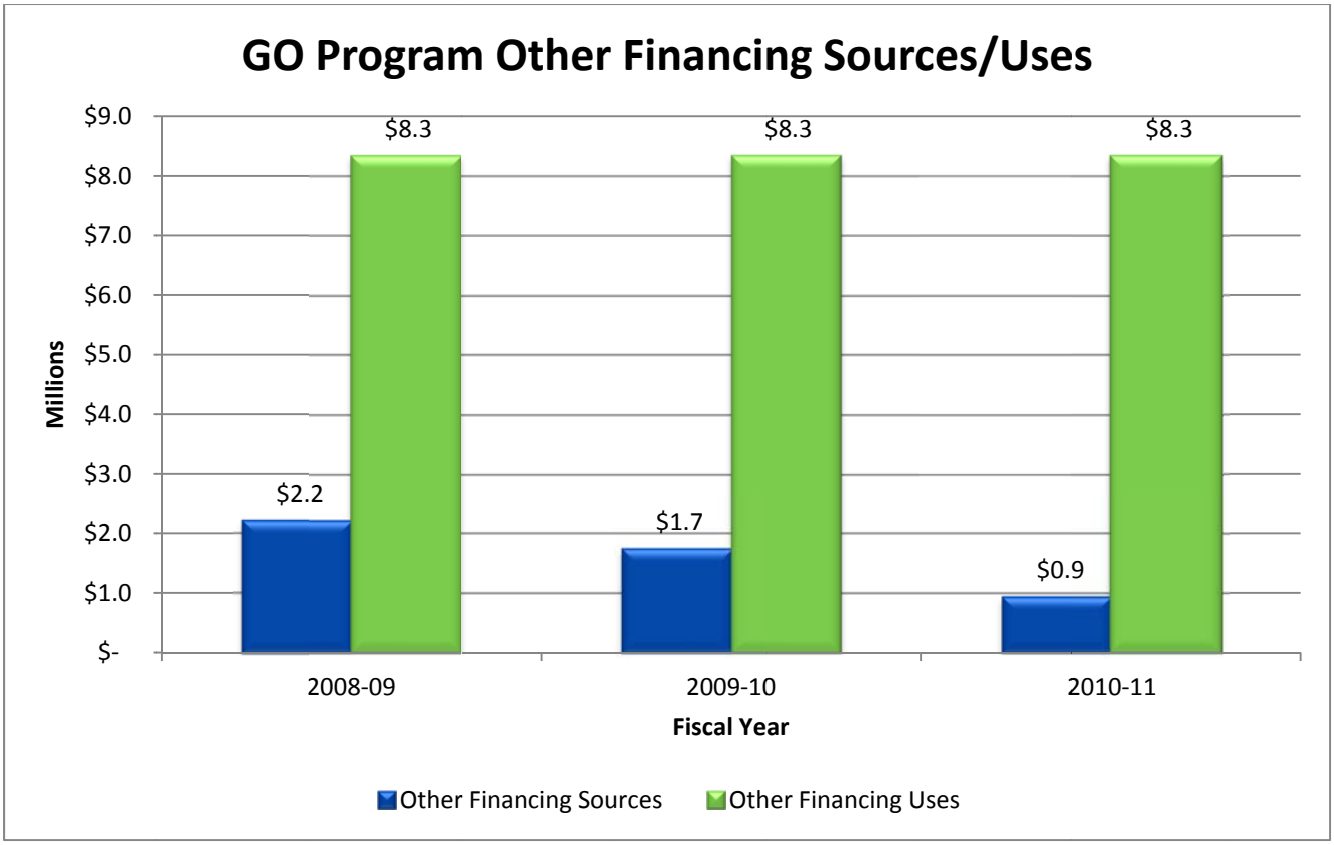
For fiscal year 2008-09, some of the significant project costs included $2.7 million for the Grand Avenue access enhancements, $1.9 million for the Northern Avenue super street (Northern Parkway) project, $2.3 million for the 57th Avenue bridge at Skunk Creek, $5.8 million for 67th Avenue improvements from Olive Avenue to Bell Road, $2.4 million for 95th Avenue improvements from Glendale Avenue to Cabela's, and $5.9 million for the ongoing pavement overlay program.

In fiscal year 2009-10, the more significant project costs included $3.0 million for the Grand Avenue access enhancements, $4.3 million for the Northern Avenue super street project, and $7.6 million for the ongoing pavement overlay program.

In fiscal year 2010-11, the only significant project cost was $4.2 million for the Northern Avenue super street project.

Other Financing Sources/Uses

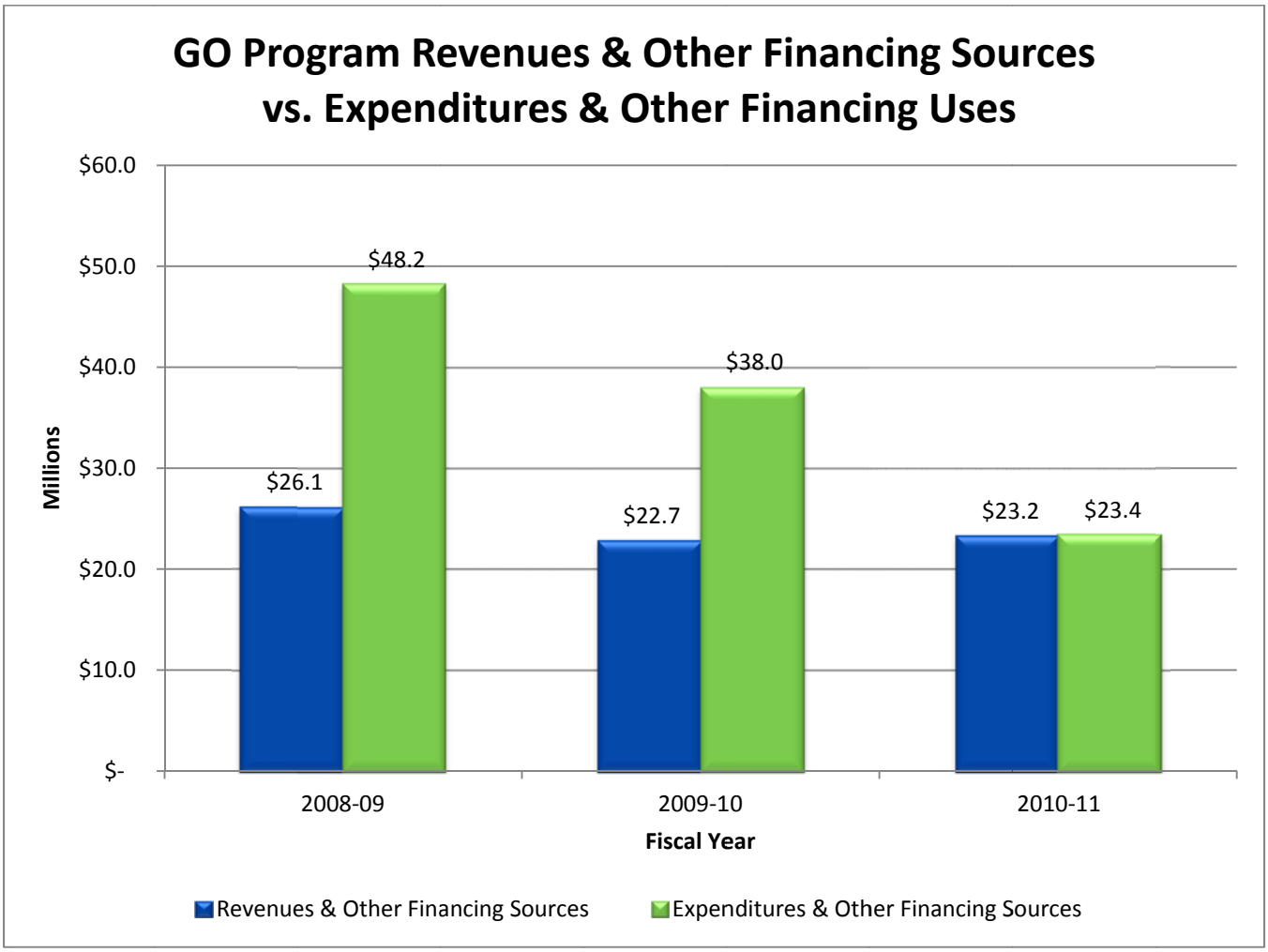
Other financing sources for the GO Program included proceeds from equipment disposal and transfers in. Each year, the City transferred $900,000 of General Fund monies to support the GO Program as consistent with the Election Public Information. In addition, transfers during fiscal year 2008-09 included $1.0 million from the Local Transportation Assistance Fund and $247,500 from the Airport Capital Projects Fund. Transfers during fiscal year 2009-10 also included $599,909 from the Local Transportation Assistance Fund and $215,550 from the Risk Management Self Insurance Fund.



Other financing uses, consisting solely of transfers out, remained steady at $8.3 million each year. The transfers to the Transportation Debt Service Fund were $7.3 million each year, while 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 sources exceeded revenues and other financing uses in fiscal year 2008-09 through 2010-11. 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 few years. As of June 30, 2008, the remaining bond proceeds to be spent were $46.0 million. As of June 30, 2011, the remaining bond proceeds to be spent were $5.9 million.

On June 30, 2011, the total ending fund balance was $35.0 million. Some of the more significant projects programmed for fiscal year 2010-11 that were delayed, which resulted in the large fund balance carryover, included Arizona Loop 303/Northern Parkway improvements ($10.0 million), Northern Parkway project ($6.0 million), New River multi-use bike/pedestrian pathway from Missouri Avenue to Northern Avenue ($4.8 million). In addition, the City planned for a carryover of $15.0 million to fund necessary capital projects in subsequent years.

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
2008-09	0.5
2009-10	0.6
2010-11	1.0

During fiscal years 2008-09 and 2009-10, 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. During fiscal year 2010-11, the revenues and other financing sources were approximately the same level as expenditures and other financing uses since the City had delayed certain projects until the various funding sources were obtained.

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
2008-09	1.0
2009-10	0.9
2010-11	1.5

For all three fiscal years, the City has maintained ample fund balances to ensure the accumulation needed for certain large projects once the other funding sources are obtained.

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.

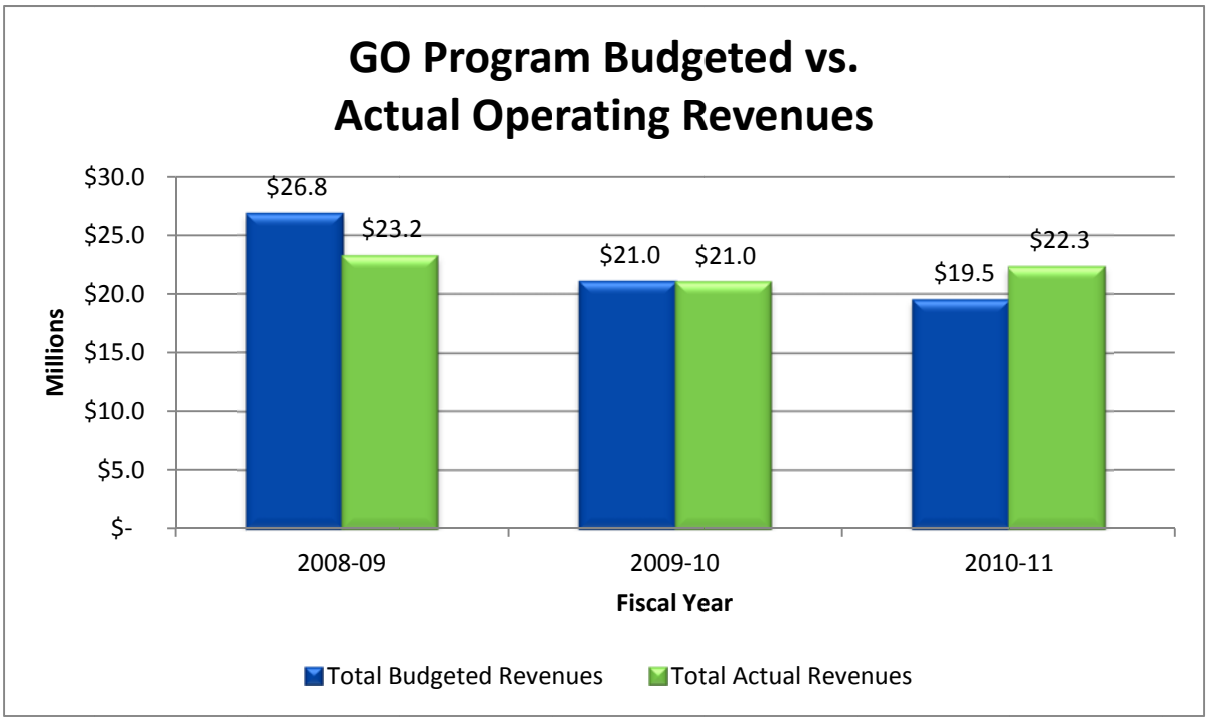
Current Assets to Current Liabilities

Fiscal Year	Ratio
2008-09	15.1
2009-10	24.3
2010-11	25.2

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.

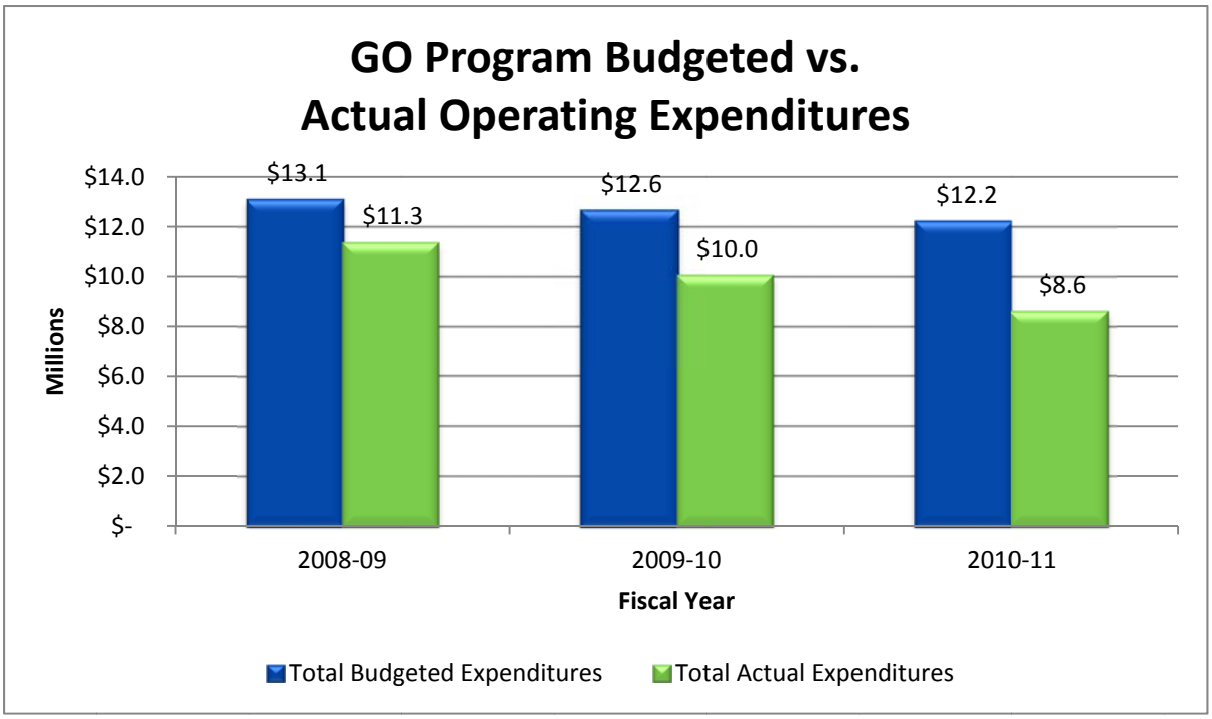
Operating Budget to Actual

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 2008-09 through 2010-11. 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 2008-09 through 2010-11, see Schedule C on page 33.



Due to the budget cycle, estimated revenues are determined in December and the extent of the decline in tax revenues was not anticipated at the time. For fiscal year 2008-09, the tax revenues were $4.0 million less than budgeted as a result of the overall decline in the state of the economy. The fiscal year 2009-10 tax revenues were $511,733 less than budgeted as a result of the continued decline in the economy. For fiscal year 2010-11, the City had projected additional declines in tax revenues; however, the tax revenues had remained relatively flat creating a positive variance of $835,621.

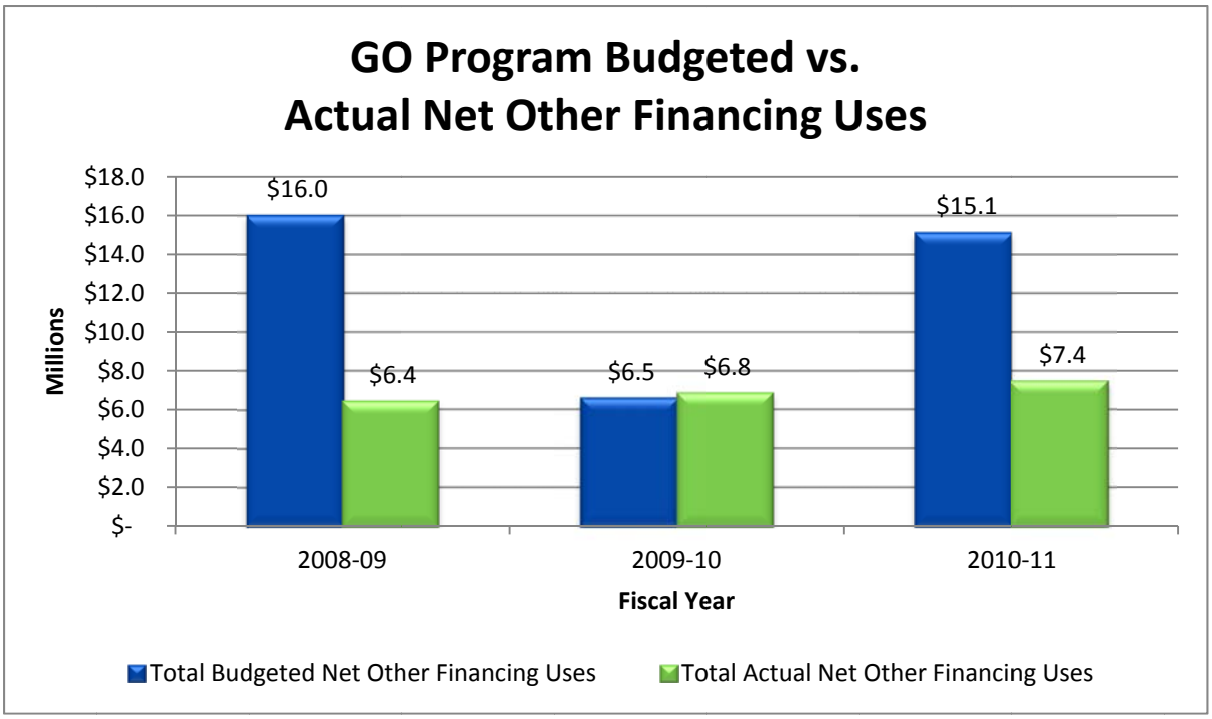
Intergovernmental revenue budgets are based on the information provided in the RPTA Transit Life Cycle Program model, which have resulted in variances of 20 to 34 percent. Investment income was $542,720 less than budgeted in fiscal year 2008-09 largely due to the unanticipated decline in interest rates. Miscellaneous revenues primarily consisted of partial refunds of deposits made to ADOT for various construction projects and were not anticipated at the time of the budget preparation.



For fiscal year 2008-09, actual expenditures were $1.7 million less than budgeted. The most significant variances were related to the fixed route services ($568,163) and transportation program management ($406,565). The variance in fixed route services was primarily related to the Glendale Avenue route/Luke Link which was changed to a regional service route offered by RPTA and other reductions in transit services (see Are Commitments to Voters Being Met? section). The variance in transportation program management was primarily related to conservative efforts to stay within the actual revenues received during the year.

For fiscal year 2009-10, actual expenditures were $2.6 million less than budgeted. The most significant variances were related to the fixed route services ($1.2 million) and traffic mitigation ($428,116). The variance in fixed route services was primarily related to conversion of some local fixed route bus expenses to regional RPTA expenses and other reductions in transit services (see Are Commitments to Voters Being Met? section). The variance in traffic mitigation was primarily related to delays in expenditures to be addressed in future years.

For fiscal year 2010-11, actual expenditures were $3.6 million less than budgeted. The most significant variances were related to the fixed route services ($2.8 million) and traffic mitigation ($492,265). The variance in fixed route services was primarily related to conversion of some local fixed route bus expenses to regional RPTA expenses other reductions in transit services (see Are Commitments to Voters Being Met? section). The variance in traffic mitigation was primarily related to delays in expenditures to be addressed in future years.



The variances in net other financing uses for fiscal years 2008-09 and 2010-11 are related to budgeted transfers to the Transportation Capital Projects Fund of $9.5 million and $7.7 million, respectively, that did not occur. The City makes every effort to spend bond proceeds first. The budgeted transfers were not necessary due to delays in the programmed projects.

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 2008-09, 2009-10 and 2010-11. Other internal and external audits were also identified and reviewed for impacts on the GO Program. During our review, we noted no findings which directly related 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

	2008-09	2009-10	2010-11
ASSETS			
Cash and short-term investments	$ 51,822,730	$ 34,330,849	$ 34,003,050
Accounts receivable	1,626,450	1,566,149	2,389,863
Accrued interest receivable	-	1,330	-
Intergovernmental receivable	566,106	708,238	-
Inventories and prepaid items	166	75,279	74,145
Total assets	$ 54,015,452	$ 36,681,845	$ 36,467,058
LIABILITIES AND FUND BALANCE			
Liabilities:			
Vouchers payable	$ 1,297,666	$ 1,458,805	$ 733,681
Accounts payable	2,119,214	-	-
Retainage payable	100,337	10,000	-
Compensated absences - current	56,728	23,226	21,764
Deferred revenue	15,000	15,000	692,794
Total liabilities	3,588,945	1,507,031	1,448,239
Fund Balance	50,426,507	35,174,814	35,018,819
Total liabilities and fund balances	$ 54,015,452	$ 36,681,845	$ 36,467,058

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

Schedule B

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

	2008-09	2009-10	2010-2011
REVENUES			
Taxes	$ 20,874,855	$ 19,488,267	$ 19,485,621
Intergovernmental	566,106	708,238	375,465
Charges for services	130,635	129,626	126,944
Fines and forfeitures	32,550	2,239	92
Investment income	1,282,765	203,845	150,049
Miscellaneous	1,000,199	471,401	2,145,186
Total revenues	23,887,110	21,003,616	22,283,357
EXPENDITURES			
Current:			
Community services	11,651,951	10,588,172	8,853,559
Capital outlay	28,177,118	19,062,649	6,181,801
Total expenditures	39,829,069	29,650,821	15,035,360
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,941,959)	(8,647,205)	7,247,997
OTHER FINANCING SOURCES (USES)			
Proceeds from equipment disposal	11,807	12,834	26,989
Transfers in	2,188,068	1,715,459	900,000
Transfers out	(8,329,396)	(8,332,781)	(8,330,981)
Total other financing sources and uses	(6,129,521)	(6,604,488)	(7,403,992)
Net change in fund balances	(22,071,480)	(15,251,693)	(155,995)
Fund balances, July 1	72,497,987	50,426,507	35,174,814
Fund balances, June 30	$ 50,426,507	$ 35,174,814	$ 35,018,819

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

Schedule C

GO Transportation Program
Operating Budget to Actual

	2008-09			2009-10			2010-11		
	Budgeted	Actual	Difference	Budgeted	Actual	Difference	Budgeted	Actual	Difference
REVENUES									
Taxes and special assessments	$ 24,851,700	$ 20,874,855	$ (3,976,845)	$ 20,000,000	$ 19,488,267	$ (511,733)	$ 18,650,000	$ 19,485,621	$ 835,621
Intergovernmental	709,338	566,106	(143,232)	580,000	708,238	128,238	565,566	375,465	(190,101)
Charges for services	107,180	130,635	23,455	131,500	129,626	(1,874)	128,000	126,944	(1,056)
Fines and forfeitures	-	32,550	32,550	4,000	2,239	(1,761)	-	92	92
Investment income	1,137,140	594,420	(542,720)	299,002	203,845	(95,157)	150,000	131,558	(18,442)
Miscellaneous	-	1,000,199	1,000,199	-	433,135	433,135	-	2,145,186	2,145,186
Total operating revenues	$ 26,805,358	$ 23,198,765	$ (3,606,593)	$ 21,014,502	$ 20,965,350	$ (49,152)	$ 19,493,566	$ 22,264,866	$ 2,771,300
EXPENDITURES									
Community Services	$ 13,066,524	$ 11,336,363	$ 1,730,161	$ 12,639,143	$ 10,028,441	$ 2,610,702	$ 12,203,469	$ 8,573,919	$ 3,629,550
Total operating expenditures	$ 13,066,524	$ 11,336,363	$ 1,730,161	$ 12,639,143	$ 10,028,441	$ 2,610,702	$ 12,203,469	$ 8,573,919	$ 3,629,550
OTHER FINANCING SOURCES/USES									
Proceeds from disposal of equipment	$ -	$ 11,807	$ 11,807	$ -	$ 12,834	$ 12,834	$ -	$ 26,989	$ 26,989
Transfers in	1,900,000	1,940,568	40,568	1,980,000	1,715,459	(264,541)	900,000	900,000	-
Transfers out	(17,874,000)	(8,329,396)	9,544,604	(8,519,000)	(8,521,781)	(2,781)	(15,981,000)	(8,330,981)	7,650,019
Total other financing sources/uses	$ (15,974,000)	$ (6,377,021)	$ 9,596,979	$ (6,539,000)	$ (6,793,488)	$ (254,488)	$ (15,081,000)	$ (7,403,992)	$ 7,677,008

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

Sources: City of Glendale Operating Budget for sub-fund 1660 for fiscal years 2008-09 through 2010-11. City of Glendale detailed reports for sub-fund 1660 for fiscal years 2008-09 through 2010-11.

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 and recording of sales tax revenues.
- We reviewed the allocation process of the sales tax revenues to the appropriate funds.
- We compared financial records from the Accounting Department to those of the Sales Tax Department for four months and in total for each fiscal year audited to ensure that the allocation of tax revenues is reasonable in relation to the total amount collected.
- We confirmed the sales tax table used in the City's sales tax system was using the one-half cent transportation tax as committed to voters.

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 Transportation Planner to determine the basis of the annual $900,000 General Fund transfer to 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 Transportation Planner 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 analyzed whether the 25-year plan accounted for maintenance charges and determined how it affected the maintenance charge allocation.
- We reviewed maintenance charges ensuring that the charges were for new projects and not for ones that existed prior to the transportation sales tax.

Are the Capital Improvement Plan (CIP) set-asides (art, maintenance, engineering and finance) fair and accurate?

- We reviewed the CIP Project Request Forms which were submitted to the Management and Budget Department each year for use in the City's Annual Budget.
- We reviewed the set-aside amounts on the CIP Project Request Forms for arts, engineering and finance costs.
- We recalculated the CIP set-aside amounts and verified if the amounts were 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 25 purchases above and below the formal procurement threshold and reviewed them to ensure the method of procurement was in keeping with the City's procurement practices.
- We reviewed a sample of 25 disbursements to determine that the Transportation Department had followed the appropriate purchase order/check request process and that supporting documentation for each purchase had been retained and was properly approved.
- We discussed with the Transportation Director the validity of the 25 purchases reviewed in relation to the objectives of the GO Program.

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 calculated estimated sales tax revenues for the Transportation Fund based on the Transaction Summary by Business Class reports generated by the Sales Tax Division and compared to the sales tax revenues recorded in the general ledger by the Finance Department for four months of each fiscal year audited and in total for each fiscal year to ensure that the allocation of sales tax revenues is reasonable. The revenues recorded on the general ledger are based on cash basis collections, while the sales information we used to calculate estimated sales tax revenues for the month 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.

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.

Findings and Recommendations:

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

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

   Recommendation

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

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.

Detailed Indirect Cost Allocations – Transportation Fund

	Fiscal Year 2008-09	Fiscal Years 2009-10 & 2010-11[1]
Step One – Common Costs		
Facilities Management	$ 18,000	$ 18,000
Custodial Services	6,000	5,000
Information Systems[2]	37,000	108,000
Total Common Costs	61,000	131,000
Step Two – Administrative		
City Council & Mayor	39,000	42,000
City Clerk	23,000	15,000
City Manager	37,000	40,000
City Attorney	76,000	83,000
City Auditor	12,000	13,000
Marketing	153,000	157,000
Risk Management	15,000	22,000
Intergovernmental	21,000	15,000
Human Resources	64,000	57,000
Step One Allocation	73,000	75,000
Total Administrative	513,000	519,000
Step Three – Financial		
Finance	93,000	99,000
Budget	19,000	19,000
Purchasing	16,000	10,000
DCM Administrative Services	7,000	13,000
Step One Allocation	20,000	28,000
Step Two Allocation	10,000	8,000
Total Financial	165,000	177,000
Intergroup Allocations:		
Public Works & Field Ops Admin[3]		
Public Works Administration		19,000
Community Development		
Engineering Administration	35,000	44,000
CIP Administration	18,000	53,000
CIP Construction	13,000	
Land Development	10,000	10,000
Construction Inspection	13,000	13,000
Materials Testing	5,000	5,000
Mapping & Records	17,000	12,000
Property Management	14,000	
CIP Design	14,000	
Step One Allocation	5,000	17,000
Step Two Allocation	8,000	8,000
Step Three Allocation	2,000	3,000
Total Community Development	154,000	165,000
Motorola		
Service Agreement	5,000	6,000
Total Indirect Cost Allocation	$ 898,000	$ 1,017,000

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

[1] The City did not update the indirect cost allocations for fiscal year 2010-11. The amounts budgeted were based on the fiscal year 2009-10 indirect cost allocation calculations.
[2] Prior to fiscal year 2009-10, the Information Systems allocations were based on estimated time servicing each department. Starting in fiscal year 2009-10, the Information Systems Department was able to provide a report of incident calls that was used to determine the allocations to each of the departments served.
[3] The City reorganized and moved the Transportation Department under the Deputy City Manager for Public Works.

We were previously hired by the City to conduct an in-depth evaluation of the fiscal year 2008-09 indirect cost allocation model. There were several recommendations that were made as a result of our evaluation. As the current performance audit is concerned solely with the Transportation Program, we have limited the inclusion of any prior recommendations to those that directly affect the Transportation Program. Other findings during current performance audit were also noted. See below for our list of findings and recommendations.

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

   Recommendation

   We recommend the City consider the implementation of a reciprocal allocation method. While this is more complicated that 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.

Surplus Funds Are Appropriately Invested With Some Exceptions Noted.

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

The City's investment policy states that when bond proceeds are invested, the permitted investment's portion of the bond indenture takes precedence over investment policy. The City tracked each bond issuance using a separate account. 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 are invested solely in treasury bonds and other U.S. Agencies.

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

Findings and Recommendations:

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

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

   Recommendation

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

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, as indicated above in section F and submit the forms to the Management and Budget Department.

Findings and Recommendations

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

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

   - For four of 30 CIP Request Forms reviewed, the finance allocation was not made in accordance with the CIP Training Manual. The portion for the accounting charge was included; however, the accounting charge is not applicable for projects paid from the Transportation Capital Fund (fund 2210).
   - For two of 30 CIP Request Forms reviewed, the engineering allocation was not made in accordance with the CIP Training Manuals. The calculation was based on the in-house design rate instead of the outside consultant design rate.

   Recommendation

   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.

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 since the required retention period had passed. Documentation was not provided for the following procurements and expenditures.

   - For one of 17 procurements greater than $50,000 reviewed, written determination of sole source procurement and documentation of city council approval of sole source procurement was not provided.
   - For one of 17 procurements greater than $50,000 reviewed, documentation was not provided regarding why the top ranked bidder was not selected.
   - For two of 17 procurements greater than $50,000 reviewed, documentation of the other bids received was not provided, however, the bid tabulation/summary sheet was provided.
   - For one of six procurements between $10,000 and $50,000 reviewed, documentation of at least two other written quotations received was not provided. It should be noted that federal funding requirements used for this expense requires two written quotations, however local procedures requires three written quotations.

   Recommendation

   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.

2. Contract Award Exceeded On-Call List Authorization.

   For one of 17 procurements greater than $50,000 reviewed, the contract award was made to a vendor on the On-Call List created through a Request for Qualifications (RFQ) process at a price exceeding the amount authorized. The maximum award was $150,000, and the contract for this vendor was for $172,000.

Recommendation

Contract awards to vendors on the On-Call List should be reviewed to ensure they are within the amount authorized.

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.

Findings and Recommendations:

1. The CIP Did Not Include All Projects.

   The following projects in the GO Program of Projects were not included in the adopted CIP for each of the three fiscal years reviewed, except as noted below:

   - Pedestrian Enhancements – Downtown Alley Between 57th Avenue and 57th Drive North of Glendale Avenue
   - Pedestrian Enhancements – Downtown Alley Between 58th Avenue and 57th Drive North of Glendale Avenue (fiscal years 2008-09 and 2009-10)

   Additionally, the City receives federal matching funds for certain programs such as ITS Matching Funds and Bike Ongoing Program Matching Funds. These programs are not included in the CIP until the federal appropriation is secured. Once federal funding is secured, they are then added to the GO Program of Projects as active projects.

   Recommendation

   Staff should review both the GO Program of Projects and the CIP to ensure all projects are included.

Status of Prior Audit Findings

The 2008 performance audit made several recommendations that were applicable to this section.

- **Recommendation 1** – The City's tax system automatically writes off unreconciled differences in taxes received. We recommend that the City consider modifying the tax system to streamline processes so that these manual adjustments are not necessary.

  Actions taken: This has been modified with the implementation of the new tax software system.

- **Recommendation 2** – The information entered into the tax system is not reconciled to the information entered into the cashiering system. We recommend that the City reconcile the information entered into the tax system with the information entered into the cashiering system.

  Actions taken: The City now reconciles the two systems since the implementation of the new tax software system.

- **Recommendation 3** – 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 4** – The City's cost allocation plan did not follow common practices for the step-down allocation method. 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 5** – The City's cost allocation plan worksheet design is very complex. The city should work to make the cost allocation worksheets easier to follow. This can help to prevent future deviations from the plan and can also aid in the GO Program's ability to understand and evaluate the indirect costs they have been charged.

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

- **Recommendation 6** – Indirect cost allocation methods were based on estimations. We recommend a more tangible method be used to allocate each of the costs. For instance, the allocations could be based on minutes of labor for each department or division, number of service requests from each department or division, or number of serviced projects for each department or division. For the IT allocations, the City may wish to consider other options, such as system time usage or number of serviced equipment items. These alternative methods would allow for a better substantiated distribution of indirect costs. However, it is important to consider whether the benefits of obtaining this information outweigh the costs of gathering the data.

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

- **Recommendation 7** – Indirect cost allocation methods were based on budgets. The allocation bases should be based on one of the following, stated in order of preference:

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

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

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

- **Recommendation 8** – The City's cost allocation workbook contained formula errors. We recommend that the City review the formulas within their current cost allocation workbook ensuring that they are operating as intended.

  Actions taken: No exceptions noted during the current performance audit.

- **Recommendation 9** – 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 10** – CIP set-asides are not always based on the CIP Training Manuals. The GO Program personnel should take more care to ensure that the set-aside charges used on the CIP Request Forms are in accordance with the CIP Training Manuals. The Management and Budget Department should ensure that during their review of the CIP Request Forms that all required set-asides are included and are charged appropriately.

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

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

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

- **Recommendation 12** – Policies regarding over-expenditure of purchase order amounts are informal. If the City wishes to continue this practice of allowing departments to exceed purchase order amounts, we recommend the City establish a formal policy to document the over-expenditure authorization.

  Actions taken: This recommendation has not yet been implemented.

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 2009-2033, 2010-2034 and 2011-2035. 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 2009-2033 Program of Projects and Financial Model
- Fiscal Years 2010-2034 Program of Projects and Financial Model
- Fiscal Years 2011-2035 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[4] 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.

[4] 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[5] ranging from 0.64 to 0.95 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
2009-2033	2009	**2010-2033**
2010-2034	2010	**2011-2034**
2011-2035	2011	**2012-2035**

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. As a result of reductions in sales taxes collected during the recessionary period, adjustments were made to the projections to reflect the estimated continuing decline based on actual collections in the prior fiscal year.

[5] 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
- Expenditure patterns (share of disposable personal income spent on taxable items)

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 2009-2033 financial model were higher than actual results for fiscal years 2008-09 through 2012-13. The projections in the 2010-2034 financial model were higher than actual results for fiscal years 2009-10 through 2012-13, but not as high as the previous financial model since additional reductions were included as a result of the continued recessionary impacts. The projections in the 2011-2035 financial model were lower than actual results for fiscal years 2010-11 through 2012-13 as a result of additional reductions included to compensate for the recessionary impacts.

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

Fiscal Year	Actual Sales Taxes	Financial Models		
		2009-2033	2010-2034	2011-2035
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	$23,700		
2009-10	19,488	22,921	$21,000	
2010-11	19,486	23,742	20,795	**$18,700**
2011-12	20,665	24,810	21,138	**18,794**
2012-13	21,691	26,154	21,906	**19,075**

In many ways, the recent recession was unlike prior recessionary periods experienced in the United States. The extent of the recessionary effects were unanticipated by many economists across the country. In each of the first two financial models, the starting sales tax projections were comparable to the prior fiscal year actual results. Additional reductions were made for the starting sales tax projection in the third financial model as the City was continuing to experience recessionary impacts. 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 anticipated 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 of the historical charges for services as a percent of total transportation revenues and compared it against each 25-year projection's average. We determined that historical charges for services are comparable to each of the 25-year projections and that fluctuation of the total fare box revenues in the projection is minimal.

<u>The Cost Estimates And Underlying Assumptions Are Reasonable.</u>

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

- In accordance with regional plans, a number of major local bus routes in Glendale (such as Routes 59, 106, 138 and 170) are to be absorbed by the RPTA super grid.

- As a result of the elimination of LTAF funding, transit services were reduced. Route 186 service was reduced from every 30 minutes to hourly, and Route 138 service was eliminated from 59th Avenue to 67th Avenue.
- Operating costs for the City of Glendale section of the light rail were lower than previously projected to $33 million in the 2011-2035 financial model as a result of projected delays in starting service to from fiscal year 2019-20 to fiscal year 2025-26.
- Capital costs for the City of Glendale section of the light rail decreased to $76 million in the 2011-2035 financial model as result of potential changes in the location of the City's portion of the light rail service.

Streets

- The 59th Avenue: Grand Avenue to Arizona Loop 101 construction project was delayed until fiscal year 2024-25.
- Delays for the pavement management program in the 2011-2035 financial model to the remaining $36 million as a result of the phase out of the GO Program support. The GO Program is scheduled to resume support of the pavement management program in fiscal year 2024-25.

Bike/Pedestrian

- The downtown alley improvement project increased to $0.8 million in the 2011-2035 financial model due to refinement of the construction estimates including the undergrounding of utilities.

Other

- Other costs have been included for general engineering consultant support to the GO Program of $0.3 million each year, GO Program performance audit of $0.3 million every three years, and indirect cost allocations of $1.0 million each year.

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 2012 was 5.05 percent, while the weighted average coupon rate for the three financial models ranged from 5.50 percent to 5.86 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

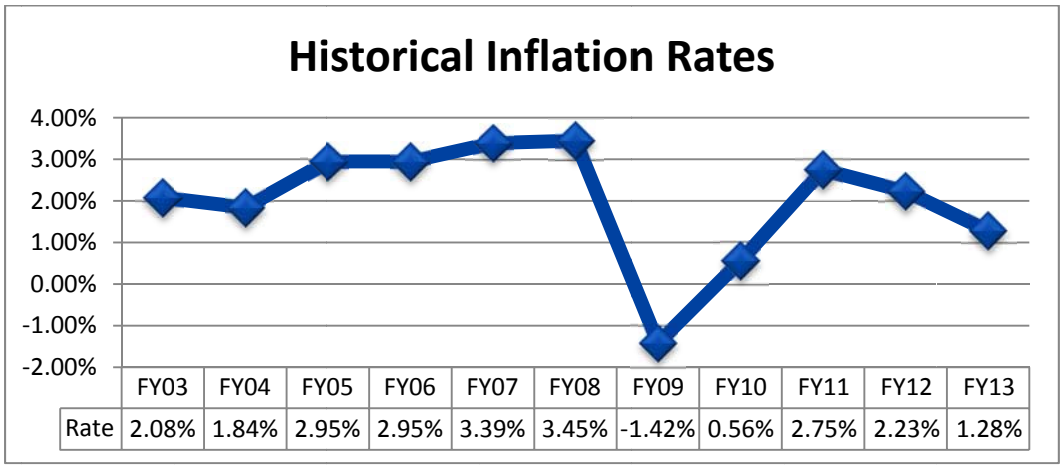
In each of the Programs of Projects, Appendix B describes the following three main reasons for bonding at the level prescribed for each projection:

1. Support construction of street and bicycle projects
2. Complete a light rail transit connection to downtown Glendale
3. 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 2013 against the inflation rates assumed in the financial models. The changes in the consumer price indices were as follows.



	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13
Rate	2.08%	1.84%	2.95%	2.95%	3.39%	3.45%	-1.42%	0.56%	2.75%	2.23%	1.28%

The average rate from 2003 to 2013 was 2.01 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
2009-2033	3.25%	3.36%	**3.50%**
2010-2034	2.50%	3.17%	**3.45%**
2011-2035	1.70%	2.64%	**3.05%**

Each year the inflation rates used in the financial models have been reduced to reflect the trends as impacted by the recession.

<u>The Planned Activity Level Is Reasonable.</u>

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 2012-2013 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 0.85 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. We noted that the following routes were to be absorbed by the RPTA for the years noted:

Route	Fiscal Year absorbed by RPTA super grid
59	**2013-14**
138	**2022-23**
170	**2021-22**

We also noted that there were planned additional routes beginning in fiscal years 2024-25 and 2029-30. We applied analytical procedures to determine if the addition of route miles for each additional route would significantly impact the service level already provided to the citizens of the City of Glendale and determined that the annual revenue miles added would be comparable to the annual revenue miles for the routes to be absorbed by the RPTA.

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.

<u>The 25-Year Program Is Consistent With Regional Programs.</u>

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
  - Arterial Life Cycle Program
- 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

The 2008 performance audit made three recommendations that were applicable to this section.

- **Recommendation 1** – Discrepancies in the 2006-2030 Program of Projects were noted. Additional reviews of data input can help to minimize errors made.

  Actions taken: Staff performed multiple reviews of the consultant's work. We noted no exceptions during the current performance audit.

- **Recommendation 2** – The contingency reserve in the 2008-2032 Program of Projects was eliminated. We recommend that the City include disclosure in the projections that at least a five percent contingency is included at the project level.

  Actions taken: The City has added disclosure regarding the contingencies programmed for individual engineering design and construction projects.

- **Recommendation 3** – Discrepancies were noted between inflation rates presented in the 2007-2031 and 2008-2032 Programs of Projects and the supporting financial models. A secondary review of data input can help to minimize errors made.

  Actions taken: Staff performed multiple reviews of the consultant's work. We noted no exceptions during the current performance audit.

Appendices

Appendix A – Summary of Findings and Recommendations

Are Commitments to Voters Being Met?

1. **Transit Service on Bus Routes 138 and 186 Are Not Consistent with Voter Commitments.**

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. Those commitments continue to be met with two exceptions:

- 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.

According to Transportation Department officials, lower than expected GO Program sales tax revenue made it prohibitive to fill gaps in funding created by the loss of LTAF and reduced regional transit funding. They further stated that cuts in fixed route services were structured to cause the least amount of rider impact by selecting routes and route segments with the least amount of ridership.

Recommendation

We recommend that GO Transportation Program Management consider restoring services on Bus Routes 138 and 186 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.

2. Several Projects That Were to be Completed Within the First Five Years of the GO Program Were Not Complete as of June 30, 2011.

There were 12 projects that according to the Publicity Pamphlet for Proposition 402 were to be completed within the first five years of the GO Program that were not completed as of June 30, 2011. Two of these 12 were completed in 2012 as well as the City portion of another. The ADOT portion of the other is currently under construction and is anticipated to be completed in late Fiscal Year 2014 or early Fiscal Year 2015. The remaining 9 projects, as reported in the last performance audit report, were delayed until 2021 and 2023, first 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 2011, these projects were further delayed and scheduled for completion in Fiscal Years 2026 and 2027. The sales tax revenue decline was the stated reason for additional delays.

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.

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 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.

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**

Recommendation

We recommend the City consider the implementation of a reciprocal allocation method. While this is more complicated that 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.

3. 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.

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

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

- For four of 30 CIP Request Forms reviewed, the finance allocation was not made in accordance with the CIP Training Manual. The portion for the accounting charge was included; however, the accounting charge is not applicable for projects paid from the Transportation Capital Fund (fund 2210).
- For two of 30 CIP Request Forms reviewed, the engineering allocation was not made in accordance with the CIP Training Manuals. The calculation was based on the in-house design rate instead of the outside consultant design rate.

Recommendation

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.

5. Documentation of Some Procurements and Expenditures Were Not Available.

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

- For one of 17 procurements greater than $50,000 reviewed, written determination of sole source procurement and documentation of city council approval of sole source procurement was not provided.
- For one of 17 procurements greater than $50,000 reviewed, documentation was not provided regarding why the top ranked bidder was not selected.
- For two of 17 procurements greater than $50,000 reviewed, documentation of the other bids received was not provided, however, the bid tabulation/summary sheet was provided.
- For one of six procurements between $10,000 and $50,000 reviewed, documentation of at least two other written quotations received was not provided. It should be noted that federal funding requirements used for this expense requires two written quotations, however local procedures requires three written quotations.

Recommendation

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.

6. Contract Award Exceeded On-Call List Authorization.

For one of 17 procurements greater than $50,000 reviewed, the contract award was made to a vendor on the On-Call List created through a Request for Qualifications (RFQ) process at a price exceeding the amount authorized. The maximum award was $150,000, and the contract for this vendor was for $172,000.

Recommendation

Contract awards to vendors on the On-Call List should be reviewed to ensure they are within the amount authorized.

7. The CIP Did Not Include All Projects.

The following projects in the GO Program of Projects were not included in the adopted CIP for each of the three fiscal years reviewed, except as noted below:

- Pedestrian Enhancements – Downtown Alley Between 57th Avenue and 57th Drive North of Glendale Avenue
- Pedestrian Enhancements – Downtown Alley Between 58th Avenue and 57th Drive North of Glendale Avenue (fiscal years 2008-09 and 2009-10)

Recommendation

Staff should review both the GO Program of Projects and the CIP to ensure all projects are included.

Appendix B – Management Responses

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

Are Commitments to Voters Being Met?

1. **Transit Service on Bus Routes 138 and 186 Are Not Consistent with Voter Commitments.**

   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 proposed 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, 2011.**

   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.**

Management Response

We concur. We will endeavor to develop a written process for the allocation process and allocation method during FY 14-15 which will be based on actual interest earned from investments.

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**

Management Response

We concur. During FY14-15, staff will evaluate best practices for cost allocation. In addition, staff will endeavor to implement a revised cost allocation method, if necessary in FY15-16 but no later than FY16-17 depending on the timing of the results of the review.

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

Management Response

We concur. We will endeavor to develop written procedures for determining the amount of short term cash needed by the end of fiscal year 2014-15.

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

Management Response

Staff agrees with this recommendation. 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.

5. Documentation of Some Procurements and Expenditures Were Not Available.

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.

6. Contract Award Exceeded On-Call List Authorization.

Management Response

Staff agrees with this recommendation. Contracts will be reviewed for consistency with the limits of an on-call list before award.

7. The CIP Did Not Include All Projects.

Management Response

Staff agrees with this recommendation. CIP inputs will be ensured for consistency with projects in the Program of Projects.