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# ARIZONA TAX RESEARCH ASSOCIATION NEWSLETTER VOLUME 80 NUMBER 4 MAY 2020

## County Audits Reflect Loose Spending of Taxpayer Dollars

The annual exercise of local governments adopting their budgets is designed to be a very public process. Sometimes local media follows and reports on the public budget meetings held by local boards that typically include discussions on the demand for increased government services to justify tax increases. What rarely makes headlines are the findings of financial audits that keep local governments accountable for the expenditure of taxpayer dollars. Unlike the budget meetings, there's no statutory requirement that local boards publicly disclose the results of their audits, so any irregularities discovered often go unnoticed. The most recent audited reports of Arizona's counties show several instances in which auditors found that counties misused or failed to appropriately account for public monies, much of which occurred in county leadership.

### Gila County FY 2017 Audit

According to the FY 2017 Gila County audit report, auditors found the county failed to follow its travel policy and procedures when it paid \$30,741 in travel expenditures for Sup. Tommie Martin without travel expense reports and other supporting documentation. Sup. Martin purchased \$11,794 in first-class airline tickets for her and her spouse, who was not a county employee, to travel on county business. This despite county travel policy requiring documentation to show that lower fare seats are unavailable prior to

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## ATRA Tracking Local Government Tax Increases

In a recent editorial published in the Arizona Republic ([link at the bottom](#)), ATRA warned taxpayers to be mindful of local taxing entities that may use the current crisis as an excuse to increase taxes and recommended local officials leverage their existing savings instead. As local government budget hearings are currently underway, ATRA staff will be closely monitoring the taxing decisions that will be made by local governing boards in the upcoming months.

Counties, community colleges, cities and towns, and most countywide special taxing districts are subject to the Truth-in-Taxation (TNT) notification requirements when proposing to increase property taxes. Specifically, when these taxing jurisdictions propose to increase property taxes in excess of new construction, they are required to provide notice in a newspaper of general circulation and hold a public hearing to vote on the tax increase. Regrettably, these hearings are sometimes used to confuse

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purchasing first-class tickets. The county also could not show the spouse's flight was an appropriate use of public monies. On another occasion, Sup. Martin paid \$1,576 for hotel reservations for her sister, who also was not a county employee, to attend a conference with the supervisor. Again, the county could not provide documentation that this was an appropriate use of public monies. Also without written preapproval and contrary to the county policy, Sup. Martin purchased travel insurance for her first-class airline tickets and the county did not require the supervisor to provide receipts for \$4,704 in per-diem cash advances and related bank fees.

In the county's required response and plan for corrective action, the county claimed that previous county managers did provide verbal exceptions to the county travel policy for Sup. Martin but, for unknown reasons, did not provide written approval. Past county management also told the supervisor she wasn't required to submit travel claim forms or receipts to substantiate her purchases. However, according to the county's response, the supervisor had not discarded the applicable receipts and was able to substantiate the cash advances from that time period. The County also acknowledged that it must administer laws fairly and impartially for all its employees.

Another finding determined the county awarded \$205,788 to various community organizations for economic development but failed to follow county policy in the process. Specifically, the county failed to require the organizations that received the awards to certify how the monies would be used and how they were ultimately used in providing the intended public benefit.

Auditors also found a county official participated in the award of county monies to an entity in which she had a disclosed conflict-of-interest as a trustee of its board. Although county policy requires employees to refrain from participating in financial awards to entities in which they have a financial interest, the county official neglected to abstain from her participation of the award. This conflict-of-interest finding is not new to Gila County, as auditors have warned the county since FY 2014 that it lacks adequate policies and procedures to ensure compliance with Arizona's conflict-of-interest laws.

Whether these issues have been resolved have yet to be determined. Although counties are required to submit their financial audits within nine months of the close of the fiscal year, Gila County is currently two years behind in its required filing.

**Maricopa County FY 2019 Audit**

During FY 2019, the county paid \$34,349 in purchases made by Sup. Steve Gallardo and his assistant that conflicted with county policy and lacked appropriate documentation. Specifically, the purchases were not reviewed and approved by a designated county official as required under county policy, yet the county paid for the purchases anyway. The supervisor's purchasing card included \$14,139 in charges for a festival of a local nonprofit organization in which he had declared a financial conflict-of-interest. Expenditures for the festival included the rental of tents, tables, chairs, lighting, disc jockey services, 24 hotel rooms in a downtown Phoenix hotel, and

another \$1,010 was spent at the hotel without any supporting documentation for which it was used.

Another \$6,437 in purchases were made for various promotional items that did not include the documentation required to show the expenditures were for a public purpose. Purchases included t-shirts for the tournament of a local baseball team in which the supervisor was a volunteer and coach, and for t-shirts for the local nonprofit organization that he had claimed a financial conflict-of-interest as noted above. Another \$3,406 was made in purchases for community events and over \$2,500 in charitable donations, some of which were distributed to the baseball league he was associated with. Again, these expenditures were not documented to reflect a public purpose. The supervisor also spent \$1,540 for a 9-day trip to San Diego to study homelessness in that area, in which the supervisor failed to submit the required travel expense forms to show the expenditures were for official county business, yet the county still paid for the purchases.

The County's response stated that the supervisor claimed many of the expenditures were for "community engagement and outreach, which is directly aligned with the County's strategic goals of Safe Communities, Regional Services, and Growth and Economic Development." County management did deactivate the supervisor's purchase card in November 2019 after auditors brought the issues to light. The County also instituted training to ensure employees adhere to county policies in the future.

### **Navajo County FY 2019 Audit**

Navajo County paid for \$20,160 in purchases made by the Director of the County's Public Health Department that lacked any documentation and conflicted with county policy. Specifically, purchases made by the Director weren't always adequately reviewed and approved by a separate individual as required by county policy, were not always supported by required documentation, and lacked documentation to show they were for a public purpose and benefit. Furthermore, the Director used his purchase card for personal purchases, which was contrary to county policy.

For example, the Director failed to prepare and submit travel forms for hotel room purchases totaling \$7,439. Of that amount, the Director could not provide documentation for \$4,104 in hotel purchases, which included trips that exceeded state government rates, appeared not to require overnight stays, and even included the purchase of two hotel rooms at different hotels for the same night.

Auditors also discovered that the Director spent \$2,119 in out-of-state travel to San Diego, Philadelphia, and Orlando for conferences in which the Director neglected to receive written pre-approval and to fill out the proper travel forms to show the expenditures indicated a direct benefit to the county. The Director also used his purchase card for \$427 in unallowed costs for flight insurance, preferred seating, and extra leg room.

Other purchases by the Director included \$1,505 in professional membership fees, \$133 in staff appreciation items, \$166 in ridesharing and parking fees, and \$500 in electronic accessories, like AirPods and other wireless Bluetooth headphones. The Director used his purchase card for other personal expenses that included \$848 in gift cards and \$766 in personal cellular services. Auditors also discovered that the Director used his purchasing card for \$2,268 in fuel purchases for his personal vehicle, which he said was for county business but lacked any supporting documentation.

According to the county's response, the Director was required to reimburse the county for all purchases that lacked the appropriate documentation and that was not related to county business. The county explained that these spending issues occurred due to a lack of training and a misunderstanding of county policies by the Director, which has since been addressed.

## Conclusion

Purchases made in violation of county policies put public monies at risk of misuse, whether intentional or not. In many of these instances, the counties justification for failure to adhere to county policies occurred for a variety of reasons, including employee turnover, limited resources, or just a general lack of understanding of county policies. Regardless, it's important that county leaders regularly monitor and update their policies to avoid possible fraudulent expenditures of taxpayer dollars.

Finally, a vast amount of time and money is spent on the annual audits of state and local government expenditures. However, for those audits to be effective, they must be completed in a timely manner so that when issues do arise, they can be addressed immediately. Furthermore, audit findings of government expenditures should be disclosed in a public setting. ATRA advocated for legislation this session under HB2106 that would require local school boards to disclose their financial audits in a public hearing. That same requirement should be extended to all local governments.

*In the coming months, ATRA will produce a special report on the latest audit results of all counties. Arizona state and local government audits may be accessed from the Auditor General's website at <https://www.azauditor.gov/>.*

- Jennifer Stielow

# Gadsden Elementary's Illegal Boondoggles

As part of a Performance Audit, the Arizona Auditor General (OAG) noted Gadsden Elementary annually held a summer board meeting in San Diego at taxpayer expense. In addition to exceeding the amounts the state authorizes to spend on travel by thousands of dollars, the board meetings likely violated open meeting laws. The District's justification for the all expense paid vacations to Coronado Island was "the District held this meeting in California to limit interruptions from the public."

The Attorney General open meeting law handbook requires the location of public meetings "...not be geographically isolated, should not have limited access, and should not be difficult to find." A private conference room in a resort on an island more than 200 miles away is a good example of avoiding the public.

Over the last five years, these trips cost the public \$65,450, increasing their cost significantly in recent years. The OAG reported the 2018 trip cost \$16,309; \$5,823 of that amount was in excess of the State rate for travel.

Public meetings for Arizona jurisdictions should not be held out of state as a general rule. Nor should taxpayers be paying for obvious weekend boondoggles. The OAG report can be found at [https://www.azauditor.gov/sites/default/files/20-204\\_Report.pdf](https://www.azauditor.gov/sites/default/files/20-204_Report.pdf)

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taxpayers about whether taxes are actually increasing. Instead of just acknowledging that they are increasing the tax levy over the previous year, some try to shift the focus to the tax rate. Others attempt to conflate unrelated changes in secondary taxes for bond debt service. Arizona's TNT law is an accurate reflection of whether non voter-approved property taxes are increasing in a jurisdiction. ATRA encourages taxpayers to not be distracted from politically driven efforts to suggest otherwise.

If last year is any indication of what local governments are planning for this year, taxpayers should be concerned. In tax year 2019, eleven counties increased their primary property taxes. Of those eleven, Coconino, Maricopa, Mohave, Pima, Pinal, and Santa Cruz also increased the secondary property taxes for each of their special taxing districts. All but three of Arizona's 12 community colleges and nearly half of the cities that levy a primary property tax increased taxes last year.

According to the TNT rates for tax year 2020, Graham County will need to drop its primary tax rate over 35 cents to avoid a tax increase due to the significant growth in the county's tax base. Pima, Pinal, and Santa Cruz Counties will all need to drop their primary tax rates more than 11 cents to avoid a tax increase. Again, because of the significant growth in property values in Graham, the community college will need to cut its tax rate nearly 40 cents to avoid a significant tax increase, as will the Town of Superior. Alternatively, because of a significant drop in its tax base, the Town of Gila Bend could increase its primary tax rate more than 28 cents and still be within its TNT limit.

The following tables reflect the actions of local governments in tax year 2019 and the TNT rates for tax year 2020 that will gauge the truth on tax increases.

<http://www.arizonatax.org/news-article/local-government-wouldnt-dream-raising-taxes-during-pandemic-or-would-it>

Community College	Tax Year 2019			Tax Year 2020	Change
	TNT Rate	Tax Rate	Exceed TNT?	TNT Rate	
Cochise	2.4035	2.4516	YES	2.4020	-0.0496
Coconino	0.4502	0.4592	YES	0.4402	-0.0190
Gila	0.9390	0.9578	YES	0.9400	-0.0178
Graham	3.2963	3.3451	YES	2.9453	-0.3998
Maricopa	1.1236	1.1565	YES	1.1220	-0.0345
Mohave	1.2996	1.3255	YES	1.2883	-0.0372
Navajo	1.7899	1.8164	YES	1.7827	-0.0337
Pima	1.3488	1.3758	YES	1.3359	-0.0399
Pinal	2.0853	2.0833	NO	2.0193	-0.0640
Santa Cruz	0.4847	0.4847	NO	0.4704	-0.0143
Yavapai	1.6883	1.6883	NO	1.6131	-0.0752
Yuma	2.1939	2.2318	YES	2.1949	-0.0369

County	Tax Year 2019			Tax Year 2020	
	TNT Rate	Tax Rate	Exceed TNT?	TNT Rate	Change
Apache	0.6055	0.6176	YES	0.6186	0.0010
Apache Flood Control	0.0893	0.0893	NO	0.0892	-0.0001
Apache Library	0.3136	0.3136	NO	0.3141	0.0005
Apache Jail	0.2000	0.2000	NO	0.2000	0.0000
Apache Juvenile Jail	0.0909	0.1000	YES	0.1000	0.0000
Apache Public Health Svcs.	0.2500	0.2500	NO	0.2500	0.0000
Cochise	2.6760	2.6747	NO	2.6206	-0.0541
Cochise Flood Control	0.2577	0.2597	YES	0.2539	-0.0058
Cochise Library	0.1452	0.1451	NO	0.1422	-0.0029
Coconino	0.5307	0.5413	YES	0.5189	-0.0224
Coconino Flood Control	0.1716	0.2280	YES	0.2168	-0.0112
Coconino Library	0.2427	0.2556	YES	0.2450	-0.0106
Coconino Public Health Svcs.	0.2374	0.2500	YES	0.2396	-0.0104
Gila	4.1095	4.1900	YES	4.1120	-0.0780
Gila Library	0.2378	0.2378	NO	0.2334	-0.0044
Graham	2.9644	2.9644	NO	2.6101	-0.3543
Graham Flood Control	0.1299	0.1299	NO	0.1214	-0.0085
Greenlee	0.7333	0.7333	NO	0.6410	-0.0923
Greenlee Flood Control	0.2704	0.2500	NO	0.2149	-0.0351
Greenlee Public Health Svcs.	0.2500	0.2500	NO	0.2185	-0.0315
La Paz	2.4884	2.5890	YES	2.5623	-0.0267
Maricopa	1.3444	1.4009	YES	1.3592	-0.0417
Maricopa Flood Control	0.1705	0.1792	YES	0.1715	-0.0077
Maricopa Library	0.0534	0.0556	YES	0.0539	-0.0017
Mohave	1.9084	1.9496	YES	1.8949	-0.0547
Mohave Flood Control	0.4832	0.5000	YES	0.4834	-0.0166
Mohave Library	0.2632	0.2716	YES	0.2640	-0.0076
Navajo	0.8820	0.8820	NO	0.8657	-0.0163
Navajo Flood Control	0.2724	0.2724	NO	0.2640	-0.0084
Navajo Library	0.0980	0.0980	NO	0.0962	-0.0018
Navajo Public Health Svcs.	0.2453	0.2453	NO	0.2408	-0.0045
Pima	3.9257	3.9996	YES	3.8835	-0.1161
Pima Flood Control	0.3208	0.3335	YES	0.3198	-0.0137
Pima Library	0.4971	0.5353	YES	0.5198	-0.0155
Pinal	3.6658	3.7900	YES	3.6736	-0.1164
Pinal Flood Control	0.1626	0.1693	YES	0.1627	-0.0066
Pinal Library	0.0924	0.0965	YES	0.0935	-0.0030
Santa Cruz	3.8251	3.9815	YES	3.8643	-0.1172
Santa Cruz Flood Control	0.7635	0.7963	YES	0.7726	-0.0237
Yavapai	1.7079	2.0152	YES	1.9255	-0.0897
Yavapai Flood Control	0.2103	0.2103	NO	0.2006	-0.0097
Yavapai Library	0.1651	0.1651	NO	0.1577	-0.0074
Yuma	2.4675	2.5288	YES	2.4842	-0.0446
Yuma Flood Control	0.2463	0.2419	NO	0.2331	-0.0088
Yuma Library	0.6448	0.6708	YES	0.6590	-0.0118

City	Tax Year 2019			Tax Year 2020	Change
	TNT Rate	Tax Rate	Exceed TNT?	TNT Rate	
Avondale	0.6865	0.7003	YES	0.6674	-0.0329
Benson	0.8367	0.8704	YES	0.8693	-0.0011
Bisbee	2.8581	2.9152	YES	2.9366	0.0214
Buckeye	1.6905	1.8000	YES	1.7459	-0.0541
Casa Grande	0.9225	1.0606	YES	1.0598	-0.0008
Chandler	0.2581	0.2581	NO	0.2501	-0.0080
Clarkdale	1.5839	1.6150	YES	1.5841	-0.0309
Clifton	4.3342	4.3342	NO	4.3277	-0.0065
Coolidge	1.7454	1.8759	YES	1.7595	-0.1164
Douglas	1.1782	1.1782	NO	1.1591	-0.0191
Duncan	0.8961	0.8961	NO	0.9371	0.0410
El Mirage	1.9447	1.9835	YES	1.9476	-0.0359
Eloy	1.0867	1.0867	NO	1.0566	-0.0301
Flagstaff	0.7778	0.7933	YES	0.7510	-0.0423
Florence	1.0528	1.0738	YES	1.0585	-0.0153
Gila Bend	0.6716	0.6850	YES	0.9669	0.2819
Glendale	0.4144	0.4144	NO	0.4016	-0.0128
Globe	1.2825	1.2825	NO	1.2797	-0.0028
Goodyear	1.0410	1.0619	YES	1.0128	-0.0491
Hayden	5.6183	8.5000	YES	8.6002	0.1002
Holbrook	n/a	0.5115	NO	0.5022	-0.0093
Huachuca City	1.3421	1.3300	NO	1.3892	0.0592
Jerome	0.7660	0.7597	NO	0.7512	-0.0085
Kearny	2.2929	2.2929	NO	2.1772	-0.1157
Lake Havasu City	0.6404	0.6718	YES	0.6442	-0.0276
Mammoth	2.2046	2.2045	NO	2.0251	-0.1794
Maricopa	4.5808	4.7845	YES	4.6309	-0.1536
Miami	4.5020	4.4929	NO	4.4148	-0.0781
Payson	0.3594	0.3594	NO	0.3442	-0.0152
Peoria	0.2762	0.2900	YES	0.2788	-0.0112
Phoenix	1.2649	1.3055	YES	1.2676	-0.0379
Pima	0.1381	0.1381	NO	0.1335	-0.0046
Prescott	0.2599	0.2599	NO	0.2484	-0.0115
Queen Creek	1.8257	1.9500	YES	1.8257	-0.1243
Safford	0.5042	0.5135	YES	0.4963	-0.0172
Scottsdale	0.5108	0.5198	YES	0.5034	-0.0164
Sierra Vista	0.1124	0.1124	NO	0.1094	-0.0030
Somerton	1.6596	1.6596	NO	1.6278	-0.0318
South Tucson	0.2434	0.2434	NO	0.2527	0.0093
Superior	6.7123	6.7123	NO	6.3061	-0.4062
Surprise	0.7252	0.7591	YES	0.7298	-0.0293
Tempe	0.8834	0.9010	YES	0.8742	-0.0268
Tolleson	1.7281	1.7281	NO	1.6584	-0.0697
Tombstone	0.9305	0.9305	NO	0.9357	0.0052
Tucson	0.5114	0.4555	NO	0.4433	-0.0122
Wickenburg	0.5001	0.5000	NO	0.4936	-0.0064
Willcox	0.4107	0.4107	NO	0.4060	-0.0047
Williams	1.2806	1.2806	NO	1.1958	-0.0848
Winkelman	6.6841	6.6800	NO	6.8000	0.1200
Winslow	1.3643	1.3916	YES	1.3599	-0.0317
Yuma	2.1847	2.3185	YES	2.2770	-0.0415

Source: Property Tax Oversight Commission "2019 Review of TNT hearing Requirements."

Tax Year 2020 Levy Limit Worksheets.