

Janet Napolitano
Governor

Mark Winkleman
State Land
Commissioner

September 10, 2007

Ms. Debra K. Davenport
Auditor General
2910 N 44th St. Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The Arizona State Land Department has read the preliminary report draft of the performance audit and sunset review performed by the Auditor General's Office. The audit has two findings and 11 recommendations. The following is the Department's response to those recommendations:

Finding 1 - Department should further improve sales and leasing process

- 1. The Department should establish time frames or ranges for each step within its state trust land sales and leasing process, monitor the performance of various steps within its process against these time frames or ranges, and analyze any discrepancies when time frames or ranges are not met.**

The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

As mentioned in the report, the process for selling or leasing state trust land is complicated and can vary with each parcel. While there are steps in the process that are required by law, many steps are taken to ensure the highest benefit for the beneficiaries of the land. Additionally, every parcel is unique and presents its own challenges. The time needed for many steps in the process are very parcel specific. Therefore, it would be difficult to set a general time frame for many of the steps.

To comply with this recommendation, the Department will continue to meet regularly to discuss the progress of the parcels on the disposition plan. As part of the discussion, goals or timetables will be set for the next steps in the process. At subsequent meetings, the project and the timetables will be discussed.

- 2. Once it establishes time frames or ranges and evaluates the timeliness of the steps within the process, the Department should identify steps that could be completed more quickly and modify its process to complete these steps more quickly.**

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

The Department has been examining the process and has made several improvements. While speeding up the process, it has also improved its communication with prospective bidders, local governments, the public, and the beneficiaries. These improvements are partly responsible for the record revenues of the previous few years. The Department will continue to look at the process to sell or lease land and make necessary adjustments to improve and shorten the process.

3. The Department should ensure that site study information is posted on its Web site as soon as studies are completed.

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

For FY 2008, the Department requested and was budgeted for a webmaster. Previously, the network administrator was assigned the duties of updating the Department's website, which was to take a very small portion of their time. Consequently, there was not enough staff time to make constant changes to the website. This new position will greatly enhance the Department's ability to update and keep its website current.

The Department will try to expedite the posting of completed studies on its website. Before a study can be posted, however, it must be reviewed and accepted by the Department. Procedures will be put into place to ensure that after the study is finalized and accepted by the Department it will be forwarded to the new webmaster to be posted.

- 4. The Department should work with the Departments of Administration and Transportation to increase the number of appraisers on state contract that meet the Department's needs by:**
- a. Issuing a new or supplemental solicitation and contract, and**
 - b. Communicating with all potential bidders to ensure that they understand the State's procurement and contracting process and the types of appraisals the Department needs.**

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

The Department's FY 2008 appropriation includes funds for a procurement position that will help implement this recommendation. The new procurement position will help communicate the Department's need for a new or supplemental solicitation with the State Procurement Office and assist with the solicitation. The Department does not have the delegated procurement authority to issue Request for Proposals (RFP), so it is dependent on the State Procurement Office or other agencies with that delegation to conduct solicitations.

5. **The Department should establish and implement policies for taking appropriate action when appraisals do not meet department requirements or USPAP standards. These policies should take into account the seriousness and frequency of problems, as well as the enforcement or penalty actions authorized by contract, such as termination of the appraiser's contract with the State and/or withholding payment to recover any costs resulting from nonperformance. The policy should also identify circumstances that would require the Department to report appraisers to the Arizona Board of Appraisals.**

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

As mentioned in the Audit Report, the Department has established and implemented procedures regarding the reporting requirements and minimum standards that contract appraisers must meet. The Department will improve this policy.

6. **The Department should ensure that it documents justification for each appraisal that is obtained from an appraiser that is not on the state-wide contract, as required by department procedures.**

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

The new trust management procurement position will help train employees on procurement procedures. Additionally, the Department has already implemented a more rigorous review of purchase requests to ensure that the proper procurement procedures are followed.

Finding 2 – Department should further improve state trust land management.

1. **As Risk Management identifies areas where leases can be improved, the Department should modify its leases to implement these recommendations.**

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

The Department will continue to work with Risk Management to reduce the liability to the state. However, in doing so, the Department must analyze the impact on the Trust.

2. **The Department should:**
 - a. **Revise the terms in its grazing and agricultural SLUPs to reflect similar insurance and environmental terms included in the Department's leases; and**

- b. Incorporate environmental language into the mineral exploration permits, as well as develop and implement policies and procedures for when to require insurance coverage in these permits.**

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

The Department agrees that the insurance and environmental terms in grazing and agricultural SLUPs should be improved.

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

The environmental language will be incorporated into the exploration permits. In 2004, the Department implemented an informal policy regarding the insurance requirements in an exploration permit. The Department will strengthen and improve the existing policy and procedure.

- 3. The Department should develop and implement policies establishing a risk-based inspection approach that at a minimum:
 - a. Requires that all mineral and agricultural leases, SLUPs, and mineral exploration permits receive a field inspection before expiration;**
 - b. Requires that all identified high-risk wells receive an inspection in a timely manner; and**
 - c. Specifies the factors that should be considered when determining the number, types, and frequency of well inspections.****

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

The inspections of Mineral leases, SLUPs and Exploration Permits will increase as the Minerals Section gains replacement staff and two new Geologist positions that were requested by the Department and appropriated for FY 2008 are filled. The Department will continue to refine and develop inspection frequency and procedure on Agriculture leases. As noted in the audit, Agriculture lease inspections have greatly improved since 2006.

- 4. The Department should cross-train staff to ensure that critical inspections are conducted in a timely manner.**

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

- 5. The Department should establish and implement policies and procedures requiring all field inspections to be adequately documented and tracked.**

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

The Environmental Resources and Trespass Section has already made considerable progress on a process to track trespass cases and field inspections. A training class for lease administrators will be conducted by the environmental specialist to enable the administrators to conduct a basic environmental inspection and complete an inspection form. As time allows, the environmental specialist will accompany commercial lease administrators on inspections of leases suspected of having environmental issues.

I and my staff want to thank you and your staff for the professional manner in which this audit was performed. The Department is constantly looking for ways to improve to better serve the citizens of Arizona and specifically the beneficiaries of the Trust. The implementation of these recommendations will improve our service and performance.

Sincerely,

Mark Winkleman
Arizona State Land Commissioner