



A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Performance Audit and Sunset Review

Arizona State Parks Board

September • 2012
REPORT NO. 12-04



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

The Joint Legislative Audit Committee

Representative **Carl Seel**, Chair

Senator **Rick Murphy**, Vice Chair

Representative **Tom Chabin**

Senator **Andy Biggs**

Representative **Justin Olson**

Senator **Rich Crandall**

Representative **David Stevens**

Senator **Linda Lopez**

Representative **Anna Tovar**

Senator **David Lujan**

Representative **Andy Tobin** (*ex officio*)

Senator **Steve Pierce** (*ex officio*)

Audit Staff

Dale Chapman, Director

Jeremy Weber, Manager and Contact Person

Robin Hakes, Team Leader

Laura Long

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

September 17, 2012

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Mr. Walter D. Armer, Jr., Chair
Arizona State Parks Board

Mr. Bryan Martyn, Director
Arizona State Parks Board

Transmitted herewith is a report of the Auditor General, *A Performance Audit and Sunset Review of the Arizona State Parks Board*. This report is in response to an October 26, 2010, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona State Parks Board agrees with all of the findings and plans to implement all of the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on September 18, 2012.

Sincerely,

Debbie Davenport
Auditor General

Attachment

cc: Arizona State Parks Board Members

**REPORT
 HIGHLIGHTS**
PERFORMANCE AUDIT

Our Conclusion

The Arizona State Parks Board (Board) manages 30 State Parks located throughout the State. The State Parks system faces risks to its financial sustainability because of a decrease in annual revenues from approximately \$54.7 million in fiscal year 2008 to approximately \$25.7 million in fiscal year 2012 due to the State's budget difficulties. Additional risks to the system include low and declining park visitation and park receipts that are insufficient to cover park and board operating expenditures. Recognizing that closing parks may have a negative impact, the Board has kept parks open by partnering with various governments and organizations, reducing some operating costs, and promoting visits to parks. The Board should continue these efforts as well as create a new marketing plan. In addition, the Board needs to develop a new strategic plan to address financial sustainability.



2012

Board manages State Parks system

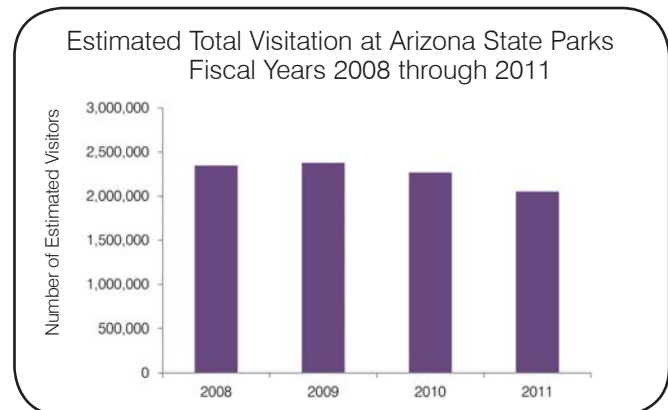
The Board manages 30 parks in the State covering a total area of 62,000 acres, with 28 percent of the land owned by the State and 72 percent of the land either leased or under easement from federal and state entities. There are four types of parks—environmental education parks, such as

the Boyce Thompson Arboretum; historic parks, such as the Tubac Presidio; natural areas, such as the Verde River Greenway; and recreation areas, such as Kartchner Caverns and Slide Rock. The Board estimated that about 2 million people visited State Parks in fiscal year 2011.

Board actions to keep parks open in short term have generally succeeded but can be improved

Financial sustainability is a concern—The Board's annual revenues decreased from approximately \$54.7 million, excluding \$20 million in Land Conservation Fund monies, in fiscal year 2008 to approximately \$25.7 million in fiscal year 2012. Over that same period of time, approximately \$72.1 million in board monies were reduced, redirected, or transferred to the State General Fund or other state agencies in accordance with various laws between fiscal years 2008 and 2012. These reductions, together with other factors, have put the State Parks system's long-term financial sustainability at risk. Key risks include:

- **Low and declining visitation**—Arizona has one of the lowest park visitation counts among western states, competing with many national and local parks for visitors.
- **Historically, park receipts insufficient to cover park-operating expenditures**—The loss of state funding for park operations has created a need for the State Parks system to transition from being publicly funded to paying for its own operating expenses. Histori-



cally, park receipts have not covered the operating expenditures allocated to the parks until recently, going from a deficit of more than \$2 million in each of fiscal years 2008 and 2009 to a surplus of more than \$328,000 in fiscal year 2011. However, certain direct operating expenditures, such as volunteer program administration and law enforcement, are not allocated to the parks. Board staff estimated that these unallocated expenditures totaled approximately \$4.3 million in fiscal year 2011.

- **Park receipts insufficient to cover other board costs**—Park receipts have not been sufficient to cover other board expenditures, such as capital projects and other board operating costs.

- **State General Fund and Board's Heritage Fund monies no longer available to expand parks system**—Historically, the Board used these monies to expand the park system, but these monies are no longer available.
- **Board monies could be transferred to the State General Fund in the future**—Like in the past, and similar to other state agencies' monies, because the Board's monies are not held in trust by the State, board monies are subject to potential transfers to the State General Fund.

Board has kept parks open—Despite these risks to sustainability, the Board has been able to keep parks open and reopen closed parks at least part-time. The Board has done this by partnering with various governments and organizations. For example, the City of Yuma and the Yuma Crossing National Heritage Area have operated the Yuma Territorial Prison and the Yuma Quartermaster Depot State Historic Parks with limited board support. The Board has also taken measures to reduce operating costs such as transferring the operation of some parks to partners. In addition, staff reductions, as

well as using part-time staff and volunteers, has reduced personnel costs by nearly \$7 million between fiscal years 2008 and 2012.

Board has taken measures to increase park revenues—The Board has added amenities such as electrical hookups for campsites, improved its reservation system for Kartchner Caverns and other State Parks, increased fees, and introduced a new fee schedule that accepts lower fees to attract campers during the off-season and higher fees when local events put camping sites at a premium. The Board has also increased its efforts to market State Parks by, for example, promoting special park events.

Recommendations:

The Board should:

- Continue and expand partnerships with interested governments and organizations;
- Assess the steps it has taken to increase revenues and make modifications as needed; and
- Create a new marketing plan—the old plan expired in fiscal year 2009.

Additional actions needed to address long-term financial sustainability

In 2009, the Board developed a strategic plan to address financial sustainability. As with most strategic plans, the Board's plan was intended to be a 2- to 3-year plan. However, the plan does not adequately address the State Parks system's long-term financial sustainability.

Perform board and park-level assessments—The Board will need to go through various steps to adequately develop a strategic plan. The first step is to conduct an assessment of the Board's internal strengths and weaknesses, and the external threats and opportunities. Extending these assessments to each individual park would help identify operational conditions and potential areas for improvement at each park.

Define what financial sustainability means for Arizona's State Parks—The Board should develop a specific definition of "financial sustainability" to provide direction for its future.

Improve goals and objectives; develop action plans—As part of its strategic planning, the Board

will need to develop goals and objectives that better address financial sustainability, and action plans to accomplish them. Georgia's Parks, Recreation, and Historic Sites Division's (Georgia) planning process, for example, focused on developing park-specific business plans.

Performance measures assess progress—Finally, the Board should develop performance measures to assess whether the Board is meeting its goals and objectives. For example, Georgia established specific measures to assess marketing efforts such as the percentage of repeat visitors within 12 months and the percentage of visitors referred by other visitors.

Recommendation:

The Board should undertake additional planning efforts to determine how the State Parks system can become more financially sustainable.

TABLE OF CONTENTS



Introduction	1
Finding 1: Actions to keep parks open in short term have generally succeeded but can be improved	11
State Parks system faces risks to financial sustainability	11
Park closures would have negative impact	17
Board actions have helped keep parks open in the short term	17
Board can take additional steps to strengthen its efforts	20
Recommendations	22
Finding 2: Board should take additional actions to address long-term financial sustainability of State Parks system	23
Improved financial sustainability planning needed	23
Planning resources available to assist Board	28
Recommendations	28
Sunset Factors	31
Appendix A: Board's funds	a-i
Appendix B: Park receipts and operating expenditures	b-i
Appendix C: Methodology	c-i

• continued



TABLE OF CONTENTS

Agency Response

Tables

1	Arizona State Parks, Acquisition Date, Acreage, and Estimated Fiscal Year 2011 Visitation (Unaudited)	4
2	Schedule of Revenues, Expenditures, and Changes in Fund Balance Fiscal Years 2008 through 2012 (Unaudited)	7
3	Comparison of Western States' Number of Parks, Total Acreage, and Total Visitation Fiscal Year 2011 (Unaudited)	12
4	Schedule of System-Wide Park Receipts and Direct Operating Expenditures Fiscal Years 2008 through 2011 (Unaudited)	14
5	Schedule of Agreements with Governments and Organizations to Operate Parks or Contribute Toward Parks Operations As of July 2012	19
6	Arizona State Parks Board Funds, Restrictions, and Related Legislative Actions Fiscal Years 2008 through 2012	a-i
7	Schedule of Receipts and Direct Operating Expenditures by Park, and Park Status Changes Impacting Financial Activity Fiscal Years 2008 through 2011 (Unaudited)	b-i

continued •

TABLE OF CONTENTS



Figures

1	Arizona State Parks Locations and Types As of May 2012	2
2	Estimated Total Visitation at Arizona State Parks Fiscal Years 2008 through 2011 (Unaudited)	13

Photos:

1	Oracle State Park	1
2	Verde River Greenway State Natural Area	3
3	Slide Rock State Park	3

• concluded

INTRODUCTION

Scope and Objectives

The Office of the Auditor General has conducted a performance audit and sunset review of the Arizona State Parks Board (Board) pursuant to an October 26, 2010, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq. This performance audit addresses the Board's efforts to achieve a financially sustainable parks system. The report also includes responses to the statutory sunset factors.

Board selects, acquires, preserves, and maintains Arizona's State Parks

Agency purpose and mission

The Legislature established the Board in 1957. According to A.R.S. §41-511.03, the Board's purposes and objectives are to "select, acquire, preserve, establish, and maintain areas of natural features, scenic beauty, historical and scientific interest, and zoos and botanical gardens, for the education, pleasure, recreation, and health of the people, and for such other purposes as may be prescribed by law." The Board's stated mission is "managing and conserving Arizona's natural, cultural, and recreational resources for the benefit of the people, both in our parks and through our partners."

Arizona State Parks system

The Board manages 30 State Parks organized into four geographic regions and located throughout the State (see Figure 1, page 2, for a map of State Park locations). These parks comprise nearly 62,000 acres of land, of which 28 percent is owned by the State, and 72 percent is either leased or under easement from various entities, including federal government agencies, such as the Bureau of Land Management and U.S. Forest Service; state agencies, such as the Arizona State Land Department; and local utilities. The State Parks include four general site classifications. Specifically:

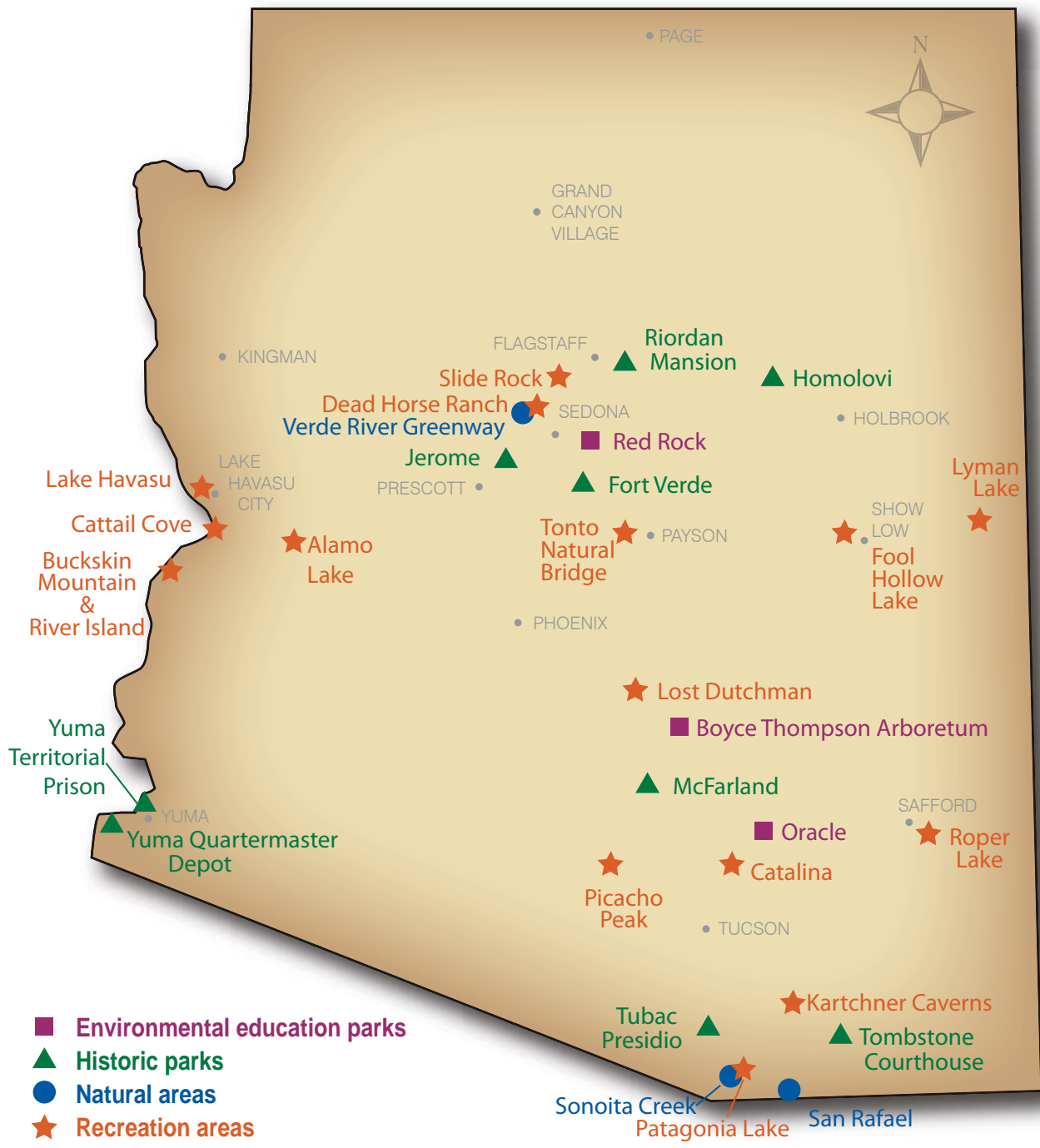
- **Environmental education parks**—These parks provide interpretation and environmental education of the site's natural resources and limited recreational opportunities. The State Parks system has three environmental education parks: Boyce Thompson Arboretum State Park, Oracle State Park, and Red Rock State Park. Photo 1 shows Oracle State Park, which is a designated wildlife refuge that offers visitors and school groups educational opportunities to learn about habitat and the interrelationships between plants, animals, and people.

Photo 1: Oracle State Park



Source: Courtesy of the Board.

Figure 1: Arizona State Parks Locations and Types
As of May 2012



Source: Auditor General staff depiction of information from the Board's Web site and analysis of park data in the Board's Park Asset Management System, as of May 2012.

- **Historic parks**—These parks preserve cultural resources, including archaeological, prehistoric, and historic resources. The State Parks system has nine historic parks, including Jerome State Historic Park, Riordan Mansion State Historic Park, and Tubac Presidio State Historic Park. Jerome State Historic Park features the copper magnate James Douglas’s former mansion. The mansion has been restored and converted into a museum.
- **Natural areas**—These parks consist of undeveloped land or water areas that are set aside to conserve the area in its natural state. There are no camping areas, picnic tables, or restrooms at these sites. The State Parks system has three natural areas: San Rafael State Natural Area, Sonoita Creek State Natural Area, and the Verde River Greenway State Natural Area.¹ As shown in Photo 2, the Verde River Greenway State Natural Area is a 6-mile stretch of land along the Verde River and is home to many animals, including some endangered species.
- **Recreation areas**—These parks provide recreational opportunities such as fishing, boating, and camping. The State Parks system has 15 recreation areas, including Kartchner Caverns State Park, Lake Havasu State Park, and Slide Rock State Park. Photo 3 shows Slide Rock State Park, which offers opportunities for hiking, swimming, fishing, and picnicking and is famous for its natural slide.

The Board estimated that more than 2 million people visited State Parks in fiscal year 2011 (see Table 1, page 4, for additional information about Arizona’s State Parks). The Board charges various fees for park entry, tours, and amenities. Entrance fees generally range from \$2 to \$10 per person over 6 years of age or between \$5 and \$30 per vehicle for up to four persons, depending on the park and seasonal demand. Nightly camping fees range from \$15 to \$50, and cabin rentals range from \$50 to \$75.

Photo 2: Verde River Greenway State Natural Area



Source: Courtesy of the Board.

Photo 3: Slide Rock State Park



Source: Courtesy of the Board.

Other board responsibilities

In addition to managing the State Parks system, A.R.S. §41-511.04(A) requires the Board to (1) plan, coordinate, and administer the state historic preservation program; (2) plan and administer a state-wide parks and recreation program; (3) receive applications for projects to be funded through the Land and Water Conservation Fund and the State Lake Improvement Fund; (4) maintain a state-wide off-highway vehicle

¹ San Rafael State Natural Area is near the U.S.-Mexico border and has never been open to the general public, but has been available under special-use permits for activities such as filming. According to board management, the park remains closed because of border issues.

Table 1: Arizona State Parks, Acquisition Date, Acreage, and Estimated Fiscal Year 2011 Visitation (Unaudited)

State Park	Acquisition Date	Acres	Estimated Visitation FY2011
Environmental Education Parks			
Boyce Thompson Arboretum State Park	1976	382	72,125
Oracle State Park	1986	4,170	121 ¹
Red Rock State Park	1986	286	54,817
Historic Parks			
Fort Verde State Historic Park	1970	11	10,529
Homolovi State Park	1986	4,480	6,140 ²
Jerome State Historic Park	1962	4	24,374 ²
McFarland State Historic Park	1974	2	4,857 ²
Riordan Mansion State Historic Park	1978	6	19,419
Tombstone Courthouse State Historic Park	1959	1	47,061
Tubac Presidio State Historic Park	1957	9	9,252
Yuma Quartermaster Depot State Historic Park	1986	10	54,269
Yuma Territorial Prison State Historic Park	1960	22	58,244
Natural Areas			
San Rafael State Natural Area	1999	21,131	0 ³
Sonoita Creek State Natural Area	1993	7,888	0 ⁴
Verde River Greenway State Natural Area	1986	850	0 ⁵
Recreation Areas			
Alamo Lake State Park	1969	2,858	55,571
Buckskin Mountain State Park & River Island Unit	1965	947	83,554
Catalina State Park	1981	5,525	163,325
Cattail Cove State Park	1965	2,375	70,828
Dead Horse Ranch State Park	1973	320	121,850 ⁵
Fool Hollow Lake State Recreation Area	1991	686	90,402
Kartchner Caverns State Park™	1988	718	119,157
Lake Havasu State Park	1965	928	328,699
Lost Dutchman State Park	1977	320	88,366
Lyman Lake State Park	1960	921	14,258
Patagonia Lake State Park	1975	2,659	141,526 ⁴
Picacho Peak State Park	1966	3,758	63,798
Roper Lake State Park	1975	339	64,742
Slide Rock State Park	1985	55	217,494
Tonto Natural Bridge State Park	1990	193	66,487
Total		<u>61,854</u>	<u>2,051,265</u>

¹ Although Oracle State Park was closed to the general public in fiscal year 2011, board officials reported that it was open for special events.

² Homolovi State Park, Jerome State Historic Park, and McFarland State Historic Park were open only part of the year in fiscal year 2011. For more details, see Appendix B, Table 7 (page b-ii).

³ San Rafael State Natural Area is on the U.S.-Mexico border and is not open to the general public because of border issues, but has been available under special-use permits for activities such as filming.

⁴ Visitation for Sonoita Creek State Natural Area is included in Patagonia Lake State Park's visitation.

⁵ Verde River Greenway State Natural Area's visitation is included in Dead Horse Ranch State Park's visitation.

Source: Auditor General staff analysis of the Board's Park Asset Management System, Web site, and visitor information provided by board staff.

recreational plan; and (5) collaborate with the state forester in presentations to legislative committees on issues associated with forest management and wildfire prevention and suppression.¹

As part of these responsibilities, the Board houses the State Historic Preservation Office (SHPO). SHPO assists private citizens, private institutions, local governments, tribes, and state and federal agencies in the identification, evaluation, protection, and enhancement of significant historic and archaeological properties. Specifically, A.R.S. §41-511.04(A)(9) requires the Board to keep and administer an Arizona register of historic places composed of districts, sites, buildings, structures, and objects that are significant to the State's history, architecture, archaeology, engineering, and culture, and that meet board-established criteria. The Board is also required to advise, assist, and cooperate with federal and state agencies, political subdivisions of this State, and other persons in identifying and preserving properties of historic or prehistoric significance.

In addition, as of May 2012, the Board administered three grant programs consisting of the Federal Recreational Trails Program, Off-Highway Vehicle Recreation Fund Grants, and the Growing Smarter State Trust Land Acquisition Grant Program. These three grant programs provide funding to establish and maintain recreational trails for both motorized and nonmotorized trails and conserve open spaces for the benefit of future generations. The Board previously administered an additional five grant programs, but, according to board staff, these grants were discontinued because of a lack of funding. For example, the Board's Heritage Fund provided monies for three separate grant programs, but these programs were discontinued when the Board's Heritage Fund monies were permanently redirected to the State General Fund (see pages 8 through 9 for additional information about reductions to board funding).

Board organization and staffing

The Board has seven members, including the State Land Commissioner and six governor-appointed members who serve 6-year terms. Statute requires that the appointed board members be selected based on their knowledge of and/or interest in outdoor activities, multiple-use of lands, archaeology, natural resources, Arizona's historical aspects, and the conservation of natural resources. Additionally, A.R.S. §41-511 requires that appointed board members consist of at least one representative from each of the following industries: livestock/cattle, general recreation, and tourism.

The Board appoints an executive director to oversee board operations and staff. However, effective September 29, 2012, Laws 2012, Ch. 321, authorizes the Governor instead of the Board to appoint the executive director. As of April 30, 2012, the Board

¹ The Land and Water Conservation Fund is a federal fund established to provide federal monies to states and the federal government for the purpose of conserving land and water facilities and recreational resources. For additional information about the State Lake Improvement Fund, see Table 6 in Appendix A, pages a-i through a-v.

reported it had 210.9 full-time equivalent (FTE) positions, of which 32.7 positions were vacant. The Board has both full-time and seasonal part-time staff, and is organized into three divisions as follows:

- **Administration Division (21.8 FTE, 0.6 vacancies)**—This division provides the agency with financial resources, human resources, and technical capacity.
- **Park Development and Operation Division (167.5 FTE, 31.3 vacancies)**—This division manages and operates the 30 State Parks. Specifically, the division is responsible for acquiring, planning, developing, managing, and maintaining State Parks. Other responsibilities include protection of historical and cultural sites, environmental and science issues confronting park resources, as well as developing comprehensive long-range plans for state-wide recreational and cultural issues.

In addition to full-time park staff, the Board reported that it used more than 200,000 volunteer hours at the park sites in fiscal year 2010, an estimated value of nearly \$4 million in hourly wages.¹ Volunteers provide services such as fund-raising, archaeological preservation, ecological monitoring, and reenacting historical events. In addition, the Board reported that because of the large reductions in agency staffing, volunteers also assist with park maintenance, provide tours and other customer services, and collect park fees.

- **Partnerships and Grants Division (21.6 FTE, 0.8 vacancies)**—This division oversees numerous state-wide programs, such as historic preservation, grants, research, and marketing, and relies on strong partnerships with other entities to accomplish board goals. The division also includes the State Historic Preservation Office.

Budget

As shown in Table 2 (see page 7), the Board received revenues from various sources between fiscal years 2008 through 2012, including State General Fund appropriations, lottery proceeds, park user fees, and motor and watercraft fuel taxes. The Board's revenues also included restricted funds, such as federal monies, pass-through grant monies, and land conservation monies. For example, \$20 million that the Board received annually in its Land Conservation Fund until fiscal year 2011 is voter protected and restricted for land conservation purposes. The Board also received \$2.6 million in federal monies in fiscal year 2012 for various federal grant programs such as the Federal Recreational Trails Program (see Table 6 in Appendix A, pages a-i through a-v, for a complete list of board funds and restrictions on those funds). Between fiscal years 2008 and 2012, approximately 60 percent of the Board's

¹ The 200,000 volunteer hours used at park sites in fiscal year 2010 represent the most current numbers available.

**Table 2: Schedule of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years 2008 through 2012
(Unaudited)**

	2008	2009	2010	2011	2012
Revenues:					
State General Fund appropriations: ¹					
Land Conservation Fund	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	
Operating	7,792,876	3,625,638	313,739		
Lottery proceeds ²	10,000,000	10,000,000	6,147,750		
Park user fees	9,164,930	9,089,680	9,520,277	9,447,182	\$ 10,309,324
Motor and watercraft fuel taxes ³	9,441,169	9,645,942	7,793,075	6,179,988	6,138,595
Intergovernmental	4,458,434	4,249,169	3,834,105	2,759,345	3,216,379
Watercraft licenses and registration ³	2,635,398	2,759,181	2,626,627	2,311,096	2,191,206
Investment income	9,570,808	3,296,876	1,977,046	1,091,419	1,159,609
Off-highway vehicle user indicia ³		780,700	976,575	1,079,705	1,200,211
Publications and souvenir sales	594,432	516,228	499,870	372,816	418,587
Reservation surcharge	342,018	305,940	339,471	370,574	564,856
Concessions	432,510	402,601	395,494	354,201	369,650
Donations	269,990	177,927	52,354	101,630	92,850
Other	50,716	52,339	38,677	34,904	79,125
Gross revenues	74,753,281	64,902,221	54,515,060	44,102,860	25,740,392
Remittances to the State General Fund	(9,500)	(9,018)	(5,213)	(3,957)	(2,515)
Net revenues	74,743,781	64,893,203	54,509,847	44,098,903	25,737,877
Expenditures and transfers:					
Personal services and related benefits	18,273,952	17,477,930	14,586,532	11,175,258	11,422,449
Professional and outside services	2,050,770	1,742,475	871,794	1,141,331	859,570
Travel	252,321	203,409	99,340	89,575	115,763
Aid to organizations ⁴	53,014,875	47,239,630	13,301,734	43,642,907	42,556,318
Other operating	5,868,132	5,223,750	4,720,176	7,043,252	5,035,065
Capital and noncapital	1,911,312	13,329,393	3,912,921	4,326,292	1,129,728
Total expenditures	81,371,362	85,216,587	37,492,497	67,418,615	61,118,893
Transfers to the State General Fund ⁵	5,731,000	26,457,400	15,903,500	5,710,000	2,466,400
Transfers to other agencies	2,021,034	5,000,000	5,465,000	2,000,000	
Total expenditures and transfers	89,123,396	116,673,987	58,860,997	75,128,615	63,585,293
Net change in fund balance	(14,379,615)	(51,780,784)	(4,351,150)	(31,029,712)	(37,847,416)
Fund balance, beginning of year	198,205,654	183,826,039	132,045,255	127,694,105	96,664,393
Fund balance, end of year ⁶	\$ 183,826,039	\$ 132,045,255	\$ 127,694,105	\$ 96,664,393	\$ 58,816,977

¹ In fiscal year 2010, the Board received \$213,900 in appropriations for deposit into the State Parks Donation Fund to offset prior year transfers out; however, it received no new State General Fund appropriations other than for the Land Conservation Fund. See Table 6 in Appendix A (pages a-i to a-v) for information on the Land Conservation Fund. In addition, administrative adjustments were reported in the year they were paid along with the State General Fund appropriation that paid for these expenditures.

² The Board previously received up to \$10 million annually in Heritage Fund revenues from lottery ticket proceeds; however, Laws 2010, 7th S.S., Ch. 12, §15, repealed the statute appropriating these lottery ticket proceeds to the Board.

³ The Board is appropriated a portion of motor fuel taxes, watercraft license fees, and beginning in January 2009, certain off-highway vehicle fees as authorized by A.R.S. §§28-5927, 5-323, and 28-1177, respectively.

⁴ The majority of these amounts consist of grants awarded from the Land Conservation Fund. The amount significantly decreased in fiscal year 2010 because only approximately \$8.8 million was awarded as compared to between \$31.1 million and \$42 million for fiscal years 2008, 2009, and 2011. In addition, other grant programs, such as the Board's Heritage Fund, State Lake Improvement Fund, and Land and Water Conservation Fund grant programs, were inactive as of June 2012 because of budget constraints affecting the Board.

⁵ Amount consists of transfers to the State General Fund in accordance with Laws 2008, Ch. 53, §§2 and 23, and Ch. 285, §§24 and 46; Laws 2009, Ch. 11, §110, Ch. 12, §44, 1st S.S., Ch. 1, §§4, 5, and 7, and 5th S.S., Ch. 1, §2; Laws 2010, 7th S.S., Ch. 1, §§112, 113, and 148; and Laws 2011, Ch. 24, §§108, 129, and 138 to provide support for state agencies.

⁶ Ending fund balances are primarily composed of externally restricted monies or monies subject to an annual appropriation. For example, approximately \$41 million of the fiscal year 2012 ending fund balance consists of Land Conservation Fund, which is a voter-protected fund that is restricted for land conservation purposes. See Table 6 in Appendix A (pages a-i to a-v) for additional information about fund restrictions.

Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* for fiscal years 2008 through 2012 and AFIS Management Information System *Status of General Ledger-Trial Balance* screen for fiscal years 2010 through 2012.

expenditures from its revenues and available fund balances were expended as aid to organizations, which were monies passed through to other organizations in the form of grants (see page 5 for additional information about the grant programs administered by the Board).

The Board's annual net revenues have decreased from approximately \$74.7 million in fiscal year 2008 to approximately \$25.7 million in fiscal year 2012. Various legislative actions, the end of voter-mandated funding for the Board's Land Conservation Fund, and a decline of interest earned have contributed to this decline in the Board's revenues. Specifically:

- **Legislative actions enacted**—Through various legislative actions between fiscal years 2008 and 2012, approximately \$72.1 million of board monies were reduced, redirected, or transferred. Specifically, the State General Fund appropriations for the Board's operations were reduced by a total of nearly \$5.5 million in fiscal years 2008 and 2009 and were completely eliminated in fiscal years 2010 through 2012. In addition, the Legislature redirected nearly \$3.9 million in Heritage Fund monies that the Board received from lottery proceeds to the State General Fund in fiscal year 2010 and permanently redirected all of the Board's allocated lottery proceeds, up to \$10 million annually, beginning in fiscal year 2011 to the State General Fund.¹ Finally, the Board was required to transfer approximately \$62.7 million from various board funds to the State General Fund or other state agencies in accordance with various laws between fiscal years 2008 and 2012. To help offset these reductions, the Legislature has authorized the use of other restricted board funds for operating expenditures, which the Board has used to support its operations (see Table 6 in Appendix A, pages a-i through a-v, for additional information about legislative actions).
- **Voter-mandated funding ended**—The final \$20 million voter-mandated annual payment from the State General Fund to the Board's Land Conservation Fund was made in fiscal year 2011. The Land Conservation Fund was created in response to a voter-passed referendum in 1998 (Proposition 303). Monies are used to award grants for the purchase or lease of state trust lands that are classified as suitable for conservation purposes and must be matched by an equal expenditure of monies from donations or other private or governmental sources.
- **Interest earnings decreased**—Interest earned on investments declined from nearly \$9.6 million in fiscal year 2008 to less than \$1.2 million in fiscal year 2012. This decline occurred primarily because the Board had less money available for investing as a result of the various transfers to the State General Fund and spending of previously accumulated fund balances, as well as reduced interest earnings on investments for fiscal years 2008 through 2012.

¹ The Board was allowed to spend remaining Heritage Fund monies through fiscal year 2011. As of January 31, 2010, the Heritage Fund fund balance was a little more than \$24.2 million.

As also shown in Table 2 (see page 7), the Board's expenditures varied during fiscal years 2008 through 2012. For example, expenditures were more than \$81.3 million in fiscal years 2008 and 2009 and then decreased in fiscal year 2010 to approximately \$37.5 million. The primary reason for this decline was that less aid to organizations was awarded because of reduced revenues and a lack of eligible recipients for Land Conservation Fund grants (see Table 2, footnote 4, for additional information). Fiscal years 2011 and 2012 expenditures increased to more than \$67.4 million and \$61.1 million, respectively, primarily because additional aid was awarded to grant recipients, such as cities and counties, from the accumulated voter-protected Land Conservation Fund fund balance. It should also be noted that the Board decreased its salaries and other employee-related benefits from about \$18.3 million in fiscal year 2008 to approximately \$11.4 million in fiscal year 2012.

FINDING 1

The Arizona State Parks Board (Board) faces a number of risks to the financial sustainability of the State Parks system. Many of these risks relate to the large reductions in board funding brought on by the State's budget difficulties in recent years and declining visitation. Closing parks could have an adverse effect on local economies near many of these parks. So far, the actions the Board has taken have allowed the State Parks to remain open or re-open, thus minimizing the potential negative impact of park closures to surrounding communities. These actions have included partnering with various governments and organizations to help operate or support specific parks, reducing operating expenditures, and taking measures to increase park revenues. Auditors have identified some ways in which these actions could be further improved.

Actions to keep parks open in short term have generally succeeded but can be improved

State Parks system faces risks to financial sustainability

Since 2008, the Board has seen its available funding cut by more than half. Specifically, board revenues have decreased from approximately \$54.7 million in fiscal year 2008 to approximately \$25.7 million in fiscal year 2012.¹ As discussed in the Introduction (see pages 6 through 9), approximately \$72.1 million in board monies were reduced, redirected, or transferred to the State General Fund or other state agencies between fiscal years 2008 and 2012. In addition, the Legislature eliminated State General Fund appropriations to the Board beginning in fiscal year 2010 and permanently redirected the Board's Heritage Fund monies to the State General Fund beginning in fiscal year 2011 (see Table 6 in Appendix A, pages a-i through a-v, for additional information on legislative actions).

These reductions, together with other factors, place the long-term financial sustainability of the State Parks system and the Board's ability to become more financially self-sufficient at risk. Key risks facing the State Parks system include the following:

- **Relatively low and declining visitation affects the Board's ability to generate revenue**—Low visitation is a risk to the financial sustainability of the State Parks system because it adversely affects the Board's ability to generate park revenues. As shown in Table 3 (see page 12) statistical data published by the National Association of State Park Directors indicates that Arizona has one of the lowest state park visitation counts among western states. Although Arizona also has one of the smallest state parks systems, it still has low visitation compared to states with a relatively similar number of state parks such as Idaho, Nevada, New Mexico, and Wyoming. In an October 2009 report regarding the Board's financial situation, the Morrison Institute attributed Arizona's low State Parks visitation to (1) the composition of the Arizona State Parks system and (2) the availability of other outdoor recreation options closer to the

¹ The fiscal year 2008 amount of \$54.7 million excludes \$20 million in State General Fund monies appropriated to the Land Conservation Fund that may be used only to award grants for purchasing or leasing state trust land that is classified as suitable for conservation purchases. A 1998 voter-passed referendum mandated State General Fund appropriations to this fund through fiscal year 2011.

Table 3: Comparison of Western States' Number of Parks, Total Acreage, and Total Visitation
Fiscal Year 2011
(Unaudited)

State	Number of Operating Parks ¹	Total Acreage	Total Visitation ²
Montana	68	46,156	1,798,267
Arizona	32³	64,088⁴	2,051,265
Nevada	22	146,059	2,931,594
Wyoming	40	119,480	2,978,604
Idaho	29	58,922	4,381,523
New Mexico	39	196,677	4,572,200
Utah	50	150,757	4,820,957
Alaska	139	3,386,702	5,405,238
Hawaii	68	39,824	10,278,329
Colorado	141	225,257	12,338,520
Washington	179	120,555	38,895,704
Oregon	224	105,684	42,303,613
California	279	1,575,107	63,964,034

¹ Includes parks, recreation areas, natural areas, historical areas, environmental education areas, scientific areas, forests, fish and wildlife areas, and other areas operated by each state.

² Includes total attendance for day and overnight use of parks.

³ Arizona manages 30 State Parks (see page 1). The total in this table is higher because, in accordance with the National Association of State Park Directors reporting requirements, the Board counted River Island Unit and Rockin' River Ranch, which are part of Buckskin Mountain State Park and the Verde River Greenway State Natural Area, respectively, as separate parks.

⁴ Arizona's State Parks comprise almost 62,000 acres of land (see page 1). The total in this table is higher because the acreage reported to the National Association of State Park Directors includes the Spur Cross Ranch Conservation Area, which the Board helped purchase for Maricopa County and the Town of Cave Creek. The park is operated by Maricopa County.

Source: Auditor General staff summary of information from Lueng, Y. & Siderelis, C. (2011). *Statistical report of state park operations: 2010-2011*. Raleigh, NC: National Association of State Park Directors.

State's most populated areas.^{1,2} First, Arizona has a proportionally higher number of historical and natural areas, which typically have fewer visitors than other types of parks, as compared to other states' parks systems reviewed. As shown in Table 1 (see page 4), auditors found that estimated visitation at the State's historic parks was generally lower than the estimated visitation at the State's recreation areas and environmental education parks in fiscal year 2011. Second, according to the Morrison Institute report, Arizona has many national, county, and municipal parks that provide a wide variety of leisure activities from which to choose. Many of these other parks are located in the most populous

¹ Maricopa County, the most populous county in the State, has no State Parks.

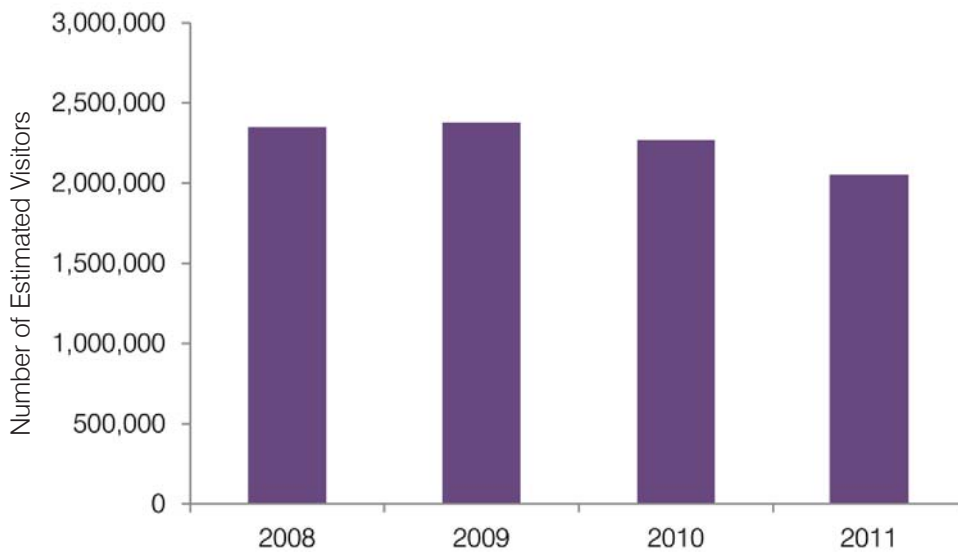
² Gammage, G., & Welch, N. (2009). *The price of stewardship: The future of Arizona's state parks*. Tempe, AZ: Arizona State University, Morrison Institute for Public Policy. The Board and the Arizona State Parks Foundation commissioned this report to provide an independent appraisal of the state of the agency and its financial needs.

area of the State—Maricopa County—and provide recreational activities like sports or picnicking.

According to board records, except for a slight increase in fiscal year 2009, total visitation at the State Parks has decreased from an estimated 2.3 million visitors in fiscal year 2008 to an estimated 2.1 million visitors in fiscal year 2011 (see Figure 2). According to board management, this decline is likely due in part to the various temporary park closures or reduced days of operation that occurred during those years (see Table 7 in Appendix B, pages b-i through b-v, for additional information). In addition, board staff reported that visitation can fluctuate due to a number of factors such as weather conditions or the price of gas. For example, wildflowers at Picacho Peak State Park draw visitors in spring, but only if there is sufficient rainfall in winter. Board staff also reported that high gas prices may encourage Arizonans to visit State Parks instead of driving to out-of-state destinations.

Total visitation at the State Parks has decreased from an estimated 2.3 million visitors in fiscal year 2008 to an estimated 2.1 million visitors in fiscal year 2011.

Figure 2: Estimated Total Visitation at Arizona State Parks
Fiscal Years 2008 through 2011
(Unaudited)



Source: Auditor General staff review of visitation information provided by board staff.

Although board records show that visitation at Arizona's State Parks has declined somewhat in recent years, weaknesses in current practices for tracking attendance limit the Board's ability to rely on this information. Specifically, the Board does not have standard procedures for counting visitors, and the methods used to do so vary by park. According to board staff, the parks use various methods to count visitors, such as using clickers, hash marks written on paper, or cash register tapes. Further, for at least one park, staff estimate the number of visitors during its

The loss of state funding for park operations has created a need for the State Parks system to pay for its operating expenditures.

busy season because of the difficulty in manually counting a high volume of visitors. The use of such varied and manual methods that are subject to human error may affect the reliability of these counts. Consequently, the Board's estimated visitor counts may not accurately reflect actual visitation for those fiscal years.

- Historically, park receipts have not covered park operating expenditures—** Historically, the Board has relied on state funding to help pay for park operations. According to board officials, the Board was established as a publicly funded agency to provide a system of State Parks for the public to enjoy. The loss of state funding for park operations has created a need for the State Parks system to transition from being publicly funded to paying for its own operating expenditures. However, park receipts have not been sufficient to cover park operating expenditures. As shown in Table 4, operating expenditures charged directly to the parks and regional offices exceeded total park receipts for fiscal years 2008 through 2010, although park receipts exceeded these expenditures in fiscal year 2011. Even though these net park receipts have improved, this is primarily because the Board has reduced operating expenditures through various measures such as transferring operations of some parks to partners and reducing staffing and park operating hours (see page 18 for more information). Specifically, the Board has been able to reduce park operating expenditures from more than \$13 million in fiscal year 2008 to less than \$10.3 million in fiscal year 2011.¹

Table 4: Schedule of System-Wide Park Receipts and Direct Operating Expenditures Fiscal Years 2008 through 2011 (Unaudited)

	2008	2009	2010	2011
Total receipts ¹	\$10,623,031	\$10,382,745	\$10,784,791	\$ 10,592,484
Total operating expenditures	<u>13,015,012</u>	<u>12,409,288</u>	<u>11,171,245</u>	<u>10,264,156</u>
Excess (Deficiency) of receipts over operating expenditures ²	<u>\$ (2,391,981)</u>	<u>\$ (2,026,543)</u>	<u>\$ (386,454)</u>	<u>\$ 328,328</u>

¹ Receipts include only monies received at the park such as park entry fees, donations, commissions, and souvenir sales. The table does not include monies received from partnerships with entities that have entered agreements to help pay for park operations.

² Direct operating expenditures include operating expenditures directly charged to the State Parks and regional offices. Expenditures do not include certain park-related costs that are not allocated to the parks, such as volunteer program administration, public safety, park special events, and nonroutine park repair and maintenance expenditures. They also do not include costs the Board paid for projects and grants that have specific funding sources. For example, land acquisitions made with Heritage Fund monies and specific projects paid for by State Lake Improvement Fund monies are not included.

Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* and the Board's *Park Summary* report for fiscal years 2008 through 2011.

¹ As stated in Table 4, operating expenditures do not include expenditures for projects and grants that have specific funding sources. For example, land acquisitions made with the Board's Heritage Fund monies and specific projects paid for by State Lake Improvement Fund monies are not included.

By contrast, total park receipts remained relatively stable between fiscal years 2008 and 2011, although they improved in fiscal year 2012. As shown in Table 4 (see page 14), total park receipts fluctuated between approximately \$10.4 million and \$10.8 million from fiscal years 2008 through 2011. According to board officials, transferring some park operations to partners would have reduced total park receipts, but board actions taken to increase park fees helped keep these receipts level (see pages 18 through 19 for additional information about park fee increases). However, the Board reported that fiscal year 2012 park receipts increased to \$11.8 million. According to board staff, receipts increased for various reasons, including increased park attendance, fee increases implemented in March 2010 and other fee changes implemented in April 2012, an increase in the number of parks using the reservation system that generates surcharge revenue, a more consistent application of cancellation and refund policies resulting in fewer refunds, and additional concession revenue resulting from an audit of the Board's concessionaires.

However, net park receipts would have been less favorable in fiscal years 2008 through 2011 if all park-related expenditures had been allocated to the parks and regional offices. Board staff reported that they do not allocate certain direct operating expenditures to the parks or regional offices, such as volunteer program administration, public safety, park special events, and nonroutine park repair and maintenance expenditures. Including these expenditures would have increased the deficits for fiscal years 2008 through 2010 and would have resulted in a deficit for fiscal year 2011. For example, board staff estimated that these unallocated expenditures totaled approximately \$4.3 million in fiscal year 2011.

In addition, several individual parks historically have not generated sufficient receipts to cover the direct operating expenditures that were charged to them (see Table 7 in Appendix B, pages b-i through b-v, for a schedule of receipts and operating expenditures by park for fiscal years 2008 through 2011). For example, most of the historic parks, which generally have lower visitation, have not generated sufficient receipts to cover their allocated expenditures.¹

- **Park receipts have not been sufficient to cover other board costs**—Park receipts have not been sufficient to cover other board expenditures, such as capital projects and board operating costs, which historically have been paid by various funding sources, including sources that are no longer available to the Board. For example, prior to fiscal year 2012, the Board used its Heritage Fund monies to pay for some capital projects. In fiscal year 2011, the Board reported spending more than \$5.5 million in Heritage Fund monies to make the final lease-purchase payment for the purchase of the Tonto Natural Bridge State Park and pay for capital projects such as adding electrical hookups to Patagonia Lake State Park campsites and designing additional parking and boat ramps at Lake

Net park receipts between fiscal years 2008 and 2011 would have been less favorable if all park expenditures had been allocated to the parks and regional offices.

¹ During fiscal year 2011, all of the historic parks that did not generate receipts in excess of direct operating expenditures were under partnership agreements. These agreements either provided the Board with additional monies to help operate the parks or allowed those entities to operate the parks. Many of these agreements allowed the Board to eliminate or reduce deficits, or provided additional monies to cover deficits during fiscal year 2011.

Insufficient capital funding could affect the Board's ability to maintain its existing assets, which could increase the risk of park closures due to public safety concerns.

Havasu State Park. With the loss of its Heritage Fund monies, the Board has fewer options available to pay for its capital needs.

Insufficient capital funding could affect the Board's ability to maintain existing assets, which could increase the risk of park closures because of public safety concerns. It could also affect the Board's ability to invest in revenue-generating capital improvement projects, such as adding recreational vehicle hookups, ramadas, and boat launches. In addition, the Board's administrative expenditures, which board staff estimated to be \$2.3 million in fiscal year 2011, are paid from various funding sources that have been affected by funding reductions and transfers to the State General Fund.¹

- **Board lacks monies to expand park system**—Historically, the Board has used State General Fund and Heritage Fund monies to expand the park system. However, board management reported that it has not had sufficient funding to acquire a new State Park since it purchased acreage for Tonto Natural Bridge State Park in 1990. Since then, the Board had used its Heritage Fund monies to purchase parcels of land to increase existing State Park boundaries, but the Legislature permanently redirected these monies to the State General Fund in February 2010.² Without funding, the Board cannot expand the park system, thus limiting one potential option for improving the financial sustainability of the park system. For example, with adequate funding, the Board could seek to acquire new parks with high revenue-generating potential in order to subsidize operations at low-revenue parks such as historic parks.
- **Board's effort to establish new dedicated funding source not successful**—The Board sought legislation to secure a new dedicated funding source in fiscal year 2010, but this effort was unsuccessful. Specifically, the legislation would have established a fee that Arizonans would pay at the time of their vehicle registration each year in exchange for free admission to all State Parks. This strategy was one of many options suggested by the Morrison Institute report, as well as a 2009 report by the Governor's Sustainable Parks Task Force.^{3,4} These reports identified a vehicle license fee as one of the best sources of stable funding that would grow with the State's population. However, the proposed legislation was held in committee.

¹ Board staff estimated that approximately \$1.5 million of the \$2.3 million in administrative expenditures were for park-related administrative expenditures such as training, marketing, and computer support.

² The Board also used Heritage Fund monies in 2001 to help purchase Spur Cross Ranch Conservation Area for Maricopa County and the Town of Cave Creek.

³ Gammage & Welch, 2009

⁴ Governor's Sustainable Parks Task Force. (2009). *Governor Brewer's task force on sustainable state parks funding*. Retrieved June 13, 2012, from http://azstateparks.com/publications/downloads/2009_Task_Force_Final_Report.pdf. In executive order 2009-3, the Governor continued the Sustainable Parks Task Force in March 2009; the task force studied and made recommendations as to how the Board could achieve future financial sustainability. The task force's report based some recommendations on information it reiterated from the Morrison Institute's report.

- **Board monies may be subject to future transfers to the State General Fund or other state agencies**—As stated previously, the Board was required to transfer approximately \$62.7 million to the State General Fund or other state agencies in accordance with various laws between fiscal years 2008 and 2012. The State’s fiscal year 2013 budget does not require the Board to transfer any monies to the State General Fund or other state agencies. However, because the Board’s monies are not held in trust by the State, except for monies in the voter-protected Land Conservation Fund and federal monies granted to the Board in the Federal Grants Fund, board monies are subject to potential transfers, similar to most state agencies’ monies.

Park closures would have negative impact

Given these risks to the financial sustainability of the parks system, the Board may not have the financial resources to keep parks open if it is unable to secure long-term sustainable funding. However, park closures could have a negative impact on local and state economies as well as the public. Specifically, a study published by Northern Arizona University in 2009 reported that Arizona’s State Parks have a significant economic impact on the communities and counties in which they are located.¹ According to the study, the economic impact of State Parks visitors in fiscal year 2007 was estimated to be more than \$266 million state-wide, plus an additional \$22.8 million in state and local government taxes. Because many State Parks are in the State’s less populated or rural areas, the parks are important to those areas’ economies. Also, closing parks would affect the public’s opportunity to enjoy them unless the State Parks’ operations were transferred to other organizations.

Because many State Parks are located in less-populated or rural areas, they are important to those areas’ economies.

Several State Parks faced closure as a result of the Board’s funding reductions. In January 2010, the Board closed 1 park, proposed closing an additional 13 parks, and reported that 3 parks that had been previously closed for repair would remain closed. Since that time, however, the actions described in the next section have allowed the State Parks to remain open or reopen, at least part-time.

Board actions have helped keep parks open in the short term

The Board has taken various actions to keep parks open and to reopen closed parks at least part-time, and these actions have generally succeeded. Specifically, the Board has:

¹ Northern Arizona University. (2009). *The economic impact of Arizona state parks*. Flagstaff, AZ: Northern Arizona University, The Arizona Hospitality Research & Resource Center, Center for Business Outreach, The W.A. Franke College of Business.

As of July 2012, 13 of the 30 State Parks were operated by or with financial support from various partners.

- **Partnered with governments and organizations**—The Board has partnered with various governments and organizations to obtain funding or other support to keep some State Parks open. For example, the Board has entered into agreements with the City of Yuma and the Yuma Crossing National Heritage Area to operate both the Yuma Territorial Prison State Historic Park and Yuma Quartermaster Depot State Historic Park with limited board support. These types of agreements have helped reduce the Board's operating costs. The Board has also contracted with governments and organizations, such as the Hopi Tribe and the Friends of Oracle State Park, that have given the Board funding to cover its operating expenditures for parks in which the entities have an economic or cultural interest. As shown in Table 5 (see page 19), as of July 2012, 13 of the 30 State Parks were operated by or with financial support from various partners.
- **Reduced some operating costs**—The Board has taken various measures to reduce its operating costs. For example, transferring operations of some parks to partners has reduced operating expenditures, although the partners also retain the receipts from those parks. In addition, the Board has temporarily reduced days of operation at some parks at various times during fiscal years 2009 through 2011 (see Table 7 in Appendix B, pages b-i though b-v, for additional information). Staff reductions and increased use of part-time staff and volunteers have reduced its personnel costs from approximately \$18.3 million in fiscal year 2008 to approximately \$11.4 million in fiscal year 2012.
- **Taken measures to increase park revenues**—The Board has taken various measures to generate additional park revenue. Specifically:
 - The Board has added amenities at some parks for which it may charge additional fees. For example, in fiscal year 2011, the Board added electrical hookups to campsites and installed ramadas at the Alamo Lake and Lost Dutchman State Parks. The Board also stabilized or built new boat launches at Alamo Lake and Lake Havasu State Parks. Board management reported that they will continue to add revenue-enhancing amenities as funding becomes available.
 - The Board contracted with a local software development firm in 2010 to develop and maintain an online reservation system for tours at Kartchner Caverns State Park and campgrounds at 14 State Parks. This reservation system was first used to make reservations for the cavern tours at Kartchner Caverns State Park in December 2010. The ability to make campground reservations at 14 State Parks was added in phases between March and September 2011 to increase the Board's reservation surcharge revenue. According to board staff, in addition to collecting reservation surcharges, the system can be used to analyze the demographics of visitors who make reservations and track the effectiveness of advertising campaigns.

Table 5: Schedule of Agreements with Governments and Organizations to Operate Parks or Contribute Toward Parks Operations As of July 2012

Park	Government(s) and/or Organization(s)	Agreement End Date	Annual Support ¹
Agreements to operate parks:			
Boyce Thompson Arboretum State Park ²	University of Arizona and Boyce Thompson Foundation	Perpetual	N/A
McFarland State Historic Park	Town of Florence	June 30, 2013	N/A
Riordan Mansion State Historic Park	Arizona Historical Society	March 31, 2013	N/A
Tombstone Courthouse State Historic Park	City of Tombstone	March 31, 2013	N/A
Tubac Presidio State Historic Park	Santa Cruz County and Tubac Historical Society	March 31, 2013	N/A
Yuma Quartermaster Depot State Historic Park	City of Yuma and Yuma Crossing Heritage Area	June 30, 2015	N/A
Yuma Territorial Prison State Historic Park	City of Yuma and Yuma Crossing Heritage Area	March 31, 2013	N/A
Agreements to contribute towards operations of parks:			
Fort Verde State Historic Park	Town of Camp Verde	September 30, 2012	\$ 19,000
Homolovi State Park	Hopi Tribe	February 28, 2013	175,500
Jerome State Historic Park	Yavapai County	August 31, 2013	20,000
Lyman Lake State Park	Apache County	December 31, 2012	20,000
Oracle State Park	Friends of Oracle State Park	December 31, 2012	21,000
Red Rock State Park			
Agreement 1	Yavapai County	June 30, 2013	20,000
Agreement 2	Benefactors of Red Rock	June 30, 2013	10,000

¹ Agreement for an entity to operate the park does not provide the Board with any financial support; therefore, this column is not applicable for this type of agreement. For an agreement that contributes toward the operation of a park, the amount is the annual support contributed by an entity when the Board continues to operate the park. The amount is tied to the agreement date and not necessarily to the state fiscal year.

² The University of Arizona and the Boyce Thompson Foundation have operated Boyce Thompson Arboretum State Park since 1976.

Source: Auditor General staff analysis of agreements with governments and organizations, interviews with board staff, and the *Partnership Agreement Status Attachment* included in the agenda for the Arizona State Parks Board's May 2, 2012, public board meeting.

- The Board increased park fees in March 2010 and further revised its fee schedule in April 2012. The new fee schedule allows the Board to quickly adjust park fees within a range to take advantage of fluctuations in local demand.¹ The prior fee schedule set different individual fees for entrance and amenities at each park. One of the benefits of the new schedule is that fees for amenities, especially for campsites, can be adjusted lower to attract

¹ Board management reported that Arizona's State Parks' fees are among the highest in the western states, and therefore, the new fee schedule is one of the few options left for maximizing park revenue without alienating visitors.

The Board uses its Web site and social media sites to promote special events and attract visitors to the State Parks.

campers during off-seasons or adjusted higher if there is a local event that puts lodging prices in the area at a premium. The Board estimates that the new fee schedule will generate an additional \$65,000 each year—an estimate it regards as conservative.

- **Continued marketing efforts**—Board staff have continued efforts to market the State Parks. For example, the Board has partnered with the Arizona Council for Enhancing Recreation and Tourism to distribute information about events at the parks. The Board also uses its Web site and social media sites, such as Facebook and Twitter, to promote special events held at the State Parks to attract visitors. Special events held in 2011 included an annual boat show at Lake Havasu State Park that attracted more than 6,000 visitors, a civil war reenactment at Picacho Peak State Park that attracted more than 4,000 visitors, and a Mariachi festival at Patagonia Lake State Park that attracted more than 1,700 visitors. The Board has also used promotional codes or coupons for some State Parks to increase visitation.

Board can take additional steps to strengthen its efforts

Although the Board's efforts have had success, auditors have identified some ways in which these specific efforts can be improved. Specifically, the Board should:

- **Continue to maintain and expand partnerships**—Although partnerships have helped keep the State Parks open and are an effective method for addressing financial sustainability, they are dependent on the partners' ability to provide resources or support and may not be sustainable in the long term. For example, Benefactors of Red Rock State Park provided \$145,000 to support park operations for June 2010 through June 2011, but reduced its support to \$55,000 for June 2011 through June 2012 and \$10,000 for June 2012 through June 2013. As a result of these reductions in support, the Board reported that it doubled the entrance fees to Red Rock State Park and further reduced park staffing. Therefore, the Board should continue to maintain and expand partnerships.
- **Assess the effect of measures taken to increase park revenues**—As discussed earlier, the Board has taken several steps to increase revenue, including adding amenities for which it may charge additional fees, adding a new reservation system to help increase reservation surcharge revenue, and instituting a new fee structure that is more sensitive to demand fluctuations. However, as of May 2012, the Board had not yet formally assessed the impact of these three measures on park revenues. The Board should do so to evaluate the effectiveness of these measures and make modifications as needed based on the results.

- **Create a new marketing plan**—Although the Board has kept a number of marketing efforts in place in spite of its reduced operating revenues, its most recent marketing plan expired in fiscal year 2009, and board staff reported that they no longer use it. However, in May 2012, board staff reported they are in the process of creating a new marketing plan and provided auditors with a draft copy. A goal of this draft plan is to use a comprehensive marketing campaign to increase revenue through new and repeat park visitors. The Board should continue and complete the development of the new marketing plan and implement it when finalized.
- **Improve cash-handling controls to minimize risk of loss or theft**—It is important that all park receipts be collected and deposited in full. However, the Board’s cash receipts, which accounted for approximately 26 percent of recorded park revenues between July 2011 and January 2012, may be at risk for loss or theft. According to a June 2012 procedural review conducted by the Office of the Auditor General, the Board lacks policies and procedures over cash receipts; lacks internal controls over receipt collections, self-pay receipts, park fee refunds, and donations; and does not analyze trends in cash collections to identify irregularities in collections recorded at the individual parks.¹ In addition, the procedural review found that the Board had not performed a complete annual physical inventory of all of its capital assets as required by the *State of Arizona Accounting Manual* since fiscal year 2009. The Office of the Auditor General made several recommendations to improve the Board’s controls over cash-handling and assets, and the Board should ensure it implements all of these recommendations.
- **Develop more accurate and consistent ways to track visitation**—As discussed earlier, methods for counting visitors at State Parks vary by park, and some methods may be less accurate—such as using hash marks written on sheets of paper—because they are subject to error. Having accurate visitor counts is important for the Board to analyze trends and be able to assess whether its efforts to increase visitors are successful. It would also allow board staff to monitor cash receipts compared to visitation to help reduce the risk of loss or theft. In order to develop more accurate counts, board staff reported that they began using the new online reservation system in January 2012 to count visitors, but only 14 of the 30 State Parks are using this system. The Board should continue its efforts to improve the accuracy of its visitor counts at all of the State Parks. Specifically, the Board should develop and implement policies and procedures for standardizing methods for counting visitors at each park, as appropriate. The Board should also ensure that the park staff who are responsible for making visitor counts are trained in these new procedures.

¹ Procedural Review of the Arizona State Parks Board as of January 31, 2012, issued June 25, 2012.

Recommendations:

- 1.1 The Board should continue to maintain and expand partnerships.
- 1.2 The Board should assess the impact of its recent revenue-enhancement measures—including amenities added to increase revenue potential, implementation of its new reservation system, and implementation of its adjustable fee schedule—to evaluate the effectiveness of these measures and make modifications as needed based on the results.
- 1.3 The Board should continue the development of a new marketing plan and implement it when finalized.
- 1.4 The Board should implement the recommendations related to its cash-handling controls and asset inventories made in the Office of the Auditor General's June 2012 procedural review.
- 1.5 The Board should continue its efforts to improve the accuracy of its visitor counts. Specifically, the Board should develop and implement procedures for standardizing methods for counting visitors across parks, as appropriate. The Board should ensure that the park staff who are responsible for making visitor counts are trained in these new procedures.

FINDING 2

Additional actions appear necessary to help address risks to the State Parks system's long-term financial sustainability. The Arizona State Parks Board (Board) should improve its planning efforts to determine how the State Parks system can best be sustained in an environment in which the Board's financial resources have changed. Specifically, the Board should:

- Assess the strengths, weaknesses, opportunities, and threats related to the Board's and specific parks' financial sustainability;
- Define financial sustainability as a way of providing strategic direction for future planning;
- Develop goals, objectives, and action plans for achieving long-term financial sustainability; and
- Develop performance measures to assess and monitor progress toward sustainability goals.

Although accomplishing these efforts with diminished resources poses a challenge, the Board has access to some resources that can help with the task, such as the Governor's Office of Strategic Planning and Budgeting (OSPB) and planning approaches developed by other states.

Board should take additional actions to address long-term financial sustainability of State Parks system

Improved financial sustainability planning needed

In 2009, the Board began to strategically plan to address the agency's financial sustainability. As part of the planning process, the Board conducted a self-assessment and identified several strategic issues related to financial sustainability. It then developed a strategic plan containing its mission and vision statements, goals, and objectives. However, the strategic plan was intended to be a 2- to 3-year plan and does not provide adequate direction for achieving long-term financial sustainability. As a result, the Board should take additional actions to plan for the long-term financial sustainability of the State Parks system.

Board should perform agency and park-level assessments—In 2009, the Board conducted an agency assessment that identified financial sustainability as a strategic issue. Since that time, the Board has lost its State General Fund and Heritage Fund monies. Therefore, the Board should undertake another agency assessment. Similar to its 2009 efforts, the Board should assess the agency's strengths, weaknesses, opportunities, and threats related to its financial sustainability. According to model planning practices developed by the OSPB, performing an internal assessment identifies an organization's strengths and weaknesses and evaluates its capacity to respond to issues, problems, and opportunities.¹ In addition, looking at an organization's opportunities and threats helps the organization understand the environment in which it exists and provides essential information needed to strategically plan.

In addition, although it did not do so in 2009, the Board should also conduct park-level assessments similar to planning efforts in other states and some of its prior work. Park-level assessments would help the Board identify existing operational conditions and potential areas for improvement at each park. Planning efforts undertaken in other states—particularly Georgia—can provide examples of actions to take in this and other planning areas.² For example, Georgia's Parks, Recreation, and Historic Sites Division (Georgia)

¹ State of Arizona, Office of Strategic Planning and Budgeting. (2011). *Managing for results*. Phoenix, AZ: Author.

² Auditors reviewed plans other states have developed for financial sustainability. In particular, according to the president of the National Association of State Park Directors, other states are looking to Georgia as a model for park planning efforts. Many of the examples cited in this report refer to steps taken in Georgia's planning process.

began a sustainability planning effort in 2010. As part of its planning process, staff assessed or were in the process of assessing each park's existing operations and future prospects (see textbox).¹ These assessments are used to develop ambitious, but realistic recommendations for improving financial sustainability. Similarly, Kentucky State Parks (Kentucky) developed a strategic plan in 2010 that addressed the sustainability of its parks system.² This planning process included assessing each of its parks' expenses, revenues, visitation rates, strengths, and threats.

Georgia's Parks, Recreation, and Historic Sites Division park assessments

As part of its sustainable business-planning process, staff conduct three assessments at each site:

- **Park inventory and facility assessment**—Staff inventory and assess the condition of all major facilities and infrastructure, and identify and prioritize capital needs.
- **Operational assessment**—Staff inventory and classify major programs and services; review staffing, including full- and part-time employees, volunteers, and others; review concessionaires partners; and summarize current visitation and customer satisfaction.
- **Financial assessment**—Staff summarize operational expenses, earned revenue, and cost-recovery ratios for the past 3 fiscal years, and review service pricing for 5 years.

Source: Auditor General staff review of Georgia Planning Manual, 2011.

The Board previously conducted park-level assessments when it developed marketing plans for individual parks during fiscal years 1997 through 1999. The marketing plans' goals were to increase park revenue, increase park awareness, and assist in allocating appropriate marketing monies to the parks. The plans included park descriptions; analyses of each park's strengths, weakness, opportunities, and threats; visitation analyses and visitor survey results; and park-specific marketing strategies.

In conducting its park-level assessments, the Board should, at a minimum, assess each park's strengths, weaknesses, opportunities, and threats, as it has done in the past. In addition, it should consider conducting a more information-driven assessment similar to Georgia's model, which would provide a more detailed picture of each park's operating situation and future prospects.

Board should define financial sustainability for Arizona State Parks—

Although the Board has a broad goal to keep all of the State Parks open as much as possible, board management reported that the Board has not defined what

¹ Georgia's Planning Manual, *Direction 2015 sustainable business planning: Planning manual business & management plan* prepared by PROS Consulting, LLC, April 2011. Used with permission from Georgia State Parks and Historic Sites, Friends of Georgia State Parks and Historic Sites, and PROS Consulting, LLC.

² Pros Consulting, LLC. (2010). *Kentucky State Parks financial and operations strategic plan*. Frankfort, Kentucky: Commonwealth of Kentucky Tourism, Arts, and Heritage Cabinet.

The Board should assess each park's strengths, weaknesses, opportunities, and threats.

“financial sustainability” means to State Parks. Given its ongoing financial challenges, the Board should develop a specific definition of financial sustainability that can provide strategic direction for its future. Various other states have defined financial sustainability to provide a foundation for their planning efforts. For example, according to Georgia’s planning manual, Georgia’s planning initiative is focused on improving the financial sustainability of its parks operations in order to generate sufficient parks revenue to recover 75 percent of the parks system’s costs by the year 2015.¹ In addition, Georgia has developed criteria for assessing whether the entire system or individual parks have become unsustainable because of circumstances, budget cuts, or management decisions. It has also developed recommended actions if sustainability criteria are not met. For example, if a park does not earn sufficient revenues to meet its specific cost recovery goal, recommended actions include (1) eliminating programs, services, or functions, or (2) temporarily or permanently closing facilities. Although the Board does not receive State General Fund monies like Georgia does, developing a specific definition of financial sustainability for Arizona’s State Parks and establishing criteria for assessing sustainability would provide a framework for decision-making across organizational levels, functions, and parks.

Defining financial sustainability for Arizona’s State Parks would provide a framework for decision-making across organizational levels, functions, and parks.

Board should improve financial sustainability goals and objectives and develop action plans for achieving them—Goals and objectives should describe an agency’s intended outcomes or results. Although the Board’s strategic plan contains goals and objectives related to financial sustainability, such as expanding partnerships and creating a strategy for sustainable agency funding, these goals and objectives do not adequately describe the Board’s intended results. Specifically, according to the OSPB model-planning practices, objectives should be specific, measureable, aggressive, results-oriented, and time-bound, or SMART.² However, none of the Board’s objectives meet these criteria. Further, the current strategic plan does not contain any specific strategies or action plans, and consequently, the Board has no strategies that describe how the Board plans to achieve its goals and objectives related to financial sustainability.

One action the Board could take in improving its planning efforts would be to better focus some of its existing goals and objectives more specifically on financial sustainability. For example, as previously discussed, one risk factor affecting the financial sustainability of Arizona’s State Parks is low visitation. However, the Board’s goal and objectives regarding visitation focus primarily on improving visitors’ experiences rather than increasing the number of visitors. Although improving visitors’ experiences could improve the number of visitors, developing a goal related to increasing the number of visitors would more directly address financial sustainability by specifically focusing on increased visitation.

Various other states’ parks agencies have developed plans that contain clearer goals, objectives, and strategies or action plans for achieving financial sustainability.

¹ Georgia’s Planning Manual, 2011

² Arizona OSPB, 2011

OSPB model practices recommend that goals describe the agency's desired results, and objectives should be SMART.

In particular, Georgia's planning process entails developing park-specific business plans that contain:

- System-wide agency goals adopted by each park that include recovering costs through increased revenues and/or reduced costs, enhancing revenue-generating strategies, expanding special events at the park, improving park programs, improving the effectiveness of marketing and sales, and expanding partnership opportunities;
- Park-specific measurable targets for increased visitation and revenue, reduced expenses, and improved cost-recovery by the year 2015; and
- Park-specific strategies for partnership development, marketing and sales, revenue generation, and expense management to achieve those targets.¹

The two Georgia park managers auditors spoke with indicated the park-level planning process was helpful in identifying opportunities for cost-savings and increased revenues at their parks.

To improve the long-term financial sustainability of the State Parks system, the Board should improve existing goals and objectives or develop new ones that directly address factors that affect financial sustainability. As recommended by the OSPB model-planning practices, the goals should describe the agency's desired results, and the objectives should be SMART. In addition, the Board should include park-level goals and objectives based on the individual conditions and opportunities at each park. Collectively, the Board's goals and objectives should address:

- Increasing visitors through improved marketing and additional park events or programs;
- Maintaining and expanding partnerships, including partnerships related to operations, funding, concessions, programs, marketing, and other services;
- Enhancing revenue-generating strategies, such as revenue-generating capital improvements, innovative programming and special events, and increased partnerships and concessions;
- Managing park expenses through personnel assignments and adjusted operations or service levels; and
- Seeking additional revenue sources.

In addition, the Board should develop specific strategies through action plans, marketing plans, capital improvement plans, or other plans that guide staff to

¹ Georgia's Planning Manual, 2011

achieve agency-level and park-level goals and objectives. Consistent with the OSPB model-planning practices, as well as other state park agencies' plans, the Board's plans should identify who is responsible for achieving action steps, when steps should be completed, and the resources needed to complete them. For example, Georgia uses monthly action plans for each park that focus on achieving goals in five areas, including park management, partnership development, marketing and sales, revenue generation, and expense management.¹ Each park's action plan lists the scheduled tasks or steps to complete, short-term strategies for completing the tasks, resources needed to complete the task, and outcomes that can be expected. Similarly, Kentucky's strategic plan has specific action steps for each goal that lists tasks to be completed, suggested responsible parties, and target completion dates.² Finally, in developing these action plans, the Board could further consider recommendations from reports prepared by organizations such as the Morrison Institute and Governor's Sustainable Parks Task Force.

Board should develop performance measures to assess progress in meeting goals and objectives—Although each objective in the Board's strategic plan includes a list of board accomplishments and, in a few cases, some performance measures, the strategic plan lacks defined performance measures used to assess progress in meeting board goals and objectives. For example, one of the Board's objectives is to effectively communicate with stakeholders by "utilizing marketing strategies." The strategic plan identifies board accomplishments in this area, which include the use of (1) traditional marketing strategies, such as media exposure and coupons; (2) Web site enhancements, such as updating the Web site to publicize various events; and (3) emerging strategies, such as social media sites like Facebook and Twitter. However, the strategic plan does not contain performance measures for assessing whether using these marketing strategies has led to effective communication with stakeholders or whether the Board is achieving desired results. In contrast, Georgia has developed specific measures to assess the results of its marketing efforts. These measures include the percentage of repeat visitors within a 12-month period and the percentage of visitors polled who indicate that they were referred to the parks by other visitors.

According to the OSPB model-planning practices, various measures should be developed to assess performance, including input, output, outcome, efficiency, and quality measures, as appropriate. The Board should ensure that it has adequate performance measures to track its progress in meeting its revised and/or new goals and objectives. In addition, baseline information should be developed in order to assess future progress. For example, Georgia has developed or is in the process of developing cost-recovery benchmarks for each of its parks. According to Georgia's parks division management, although its parks may have different cost-recovery benchmarks, the benchmarks help assess whether individual parks are reaching their cost-recovery potential. Lastly, the Board should ensure that it has reliable data

The Board's strategic plan lacks defined performance measures that assess progress in meeting its goals and objectives.

¹ Georgia's Planning Manual, 2011

² Pros Consulting, LLC, 2010

for measuring progress. For example, as discussed previously, the Board should improve the accuracy of its visitor counts (see page 21).

Board should implement planning and monitor progress—Finally, once the Board develops its plans, it should implement them. In addition, the Board should use its performance measures to monitor its progress toward achieving its financial sustainability goals and objectives.

Planning resources available to assist Board

The level of planning recommended by auditors will require time and staff resources; however, several resources are available that may help facilitate the Board's planning process. Specifically, in addition to following the OSPB model-planning practices, the Board could seek assistance from its assigned OSPB analyst if additional planning expertise is needed. The Board could also adopt specific planning models used by other states' parks agencies. For example, the Board could adopt Georgia's planning approach and delegate some park-planning tasks to its park managers, such as conducting site assessments. Similar to Georgia, the Board could also develop park-specific sustainability plans using common templates and tools that are outlined in Georgia's planning manual and that have already been shared with board staff.

Recommendations:

- 2.1 The Board should assess its current strengths, weaknesses, opportunities, and threats related to its financial sustainability. This assessment should include conducting park-level assessments. In conducting its park-level assessments, the Board should at a minimum assess each park's strengths, weaknesses, opportunities, and threats, as it has done in the past. In addition, it should consider conducting a more information-driven assessment similar to Georgia's model, which would provide a more detailed picture of each park's operating situation and future prospects.
- 2.2 The Board should develop a specific definition of financial sustainability for Arizona's State Parks and establish criteria for assessing sustainability that can provide strategic direction to board staff.
- 2.3 To improve the long-term financial sustainability of the State Parks system, the Board should improve existing goals and objectives or develop new ones that directly address factors that affect financial sustainability. As recommended by the OSPB model-planning practices, the goals should describe the agency's desired results, and the objectives should be specific, measureable, aggressive, results-oriented, and time-bound. In addition, the Board should include park-

level goals and objectives based on the individual conditions and opportunities at each park. Collectively, the Board's goals and objectives should address:

- Increasing visitors through improved marketing;
- Maintaining and expanding partnerships, including partnerships related to operations, funding, concessions, programs, marketing, and other services;
- Enhancing revenue-generating strategies, such as revenue-generating capital improvements, innovative programming and special events, and increased partnerships or concessions;
- Managing park expenses through personnel assignments and adjusted operations or service levels; and
- Seeking additional revenue sources.

2.4 The Board should develop specific strategies through action plans, marketing plans, capital improvement plans, or other plans that guide staff to achieve agency-level and park-level goals and objectives. The Board's plans should identify who is responsible for achieving action steps, when steps should be completed, and the resources needed to complete them.

2.5 The Board should ensure that it has adequate performance measures to track its progress in meeting its revised and/or new goals and objectives. Specifically, the Board should:

- a. Develop various measures to assess its performance, including input, output, outcome, efficiency, and quality measures as appropriate;
- b. Determine baseline information in order to assess future progress; and
- c. Ensure that it has reliable data for measuring progress.

2.6 Once its plans are developed, the Board should implement its plans and use its performance measures to monitor its progress toward achieving its financial sustainability goals and objectives.

SUNSET FACTORS

Sunset factor analysis

In accordance with Arizona Revised Statutes (A.R.S.) §41-2954, the Legislature should consider the following factors included in this report in determining whether the Arizona State Parks Board (Board) should be continued or terminated.

This analysis includes a recommendation for the Board to continue to contract with additional concessionaires where possible (see Sunset Factor 12, pages 38 through 40).

1. The objective and purpose in establishing the Board and the extent to which the objective and purpose are met by private enterprises in other states.

The Legislature established the Board in 1957 “to select, acquire, preserve, establish and maintain areas of natural features, scenic beauty, historical and scientific interest, and zoos and botanical gardens, for the education, pleasure, recreation, and health of the people, and for such other purposes as may be prescribed by law.”¹ The Board’s mission is to manage and conserve Arizona’s natural, cultural, and recreational resources for the benefit of the people, both in the State Parks and through the Board’s partners. The Board is responsible for managing 30 State Parks located throughout Arizona, including environmental education parks, historic parks, natural areas, and recreation areas (see Figure 1 on page 2 for a map of State Park locations). The Board’s major functions include maintaining and developing State Parks; acquiring park properties and natural areas; partnering with other entities; performing research and marketing; offering cultural and recreational opportunities; preserving historic sites/artifacts; and administering various grant programs.

As discussed in Finding 1, the Board has partnered with governments and other organizations to operate some State Parks with limited board support (see Table 5, page 19). As of July 2012, 7 of the 30 State Parks, or 23 percent, were operated by various partners. Further, other state parks agencies partner with organizations to operate some of their park sites. In February 2012, auditors conducted a survey of state parks agencies in all 50 states and Puerto Rico to review the extent to which they use privatization in their parks systems compared to Arizona. Of the 20 states that responded to the survey, 10 states reported that they partner with private companies, nonprofits, or local governments to operate some of their parks. Two of these states—Alaska and Iowa—reported that they had more park sites operated through partnerships than the Board, although both of these states have more parks than the Board. Only Iowa reported that it operated a similar percentage of its state parks through partnerships compared to Arizona—about 24 percent. According to board staff, other state parks agencies have sought the Board’s advice regarding its partnerships with local governments and nonprofit entities.

¹ A.R.S. §41-511.03

2. **The extent to which the Board has met its statutory objective and purpose and the efficiency with which it has operated.**

The Board has met its prescribed objectives and purpose, but it can do more to plan for and achieve a financially sustainable parks system. Some examples of how the Board has met its objectives include:

- **Limited expansion of the State Parks system**—The Board has expanded some State Parks, but funding constraints have limited the State Parks system's expansion. Statute indicates that one of the Board's purposes and objectives is to expand the State Parks system by selecting, acquiring, preserving, and establishing parks and natural areas for various purposes. The last park the Board acquired was Spur Cross Ranch Conservation Area, which was acquired for Maricopa County's park system and the Town of Cave Creek in 2001. Board management reported that, since then, the Board has lacked adequate funding to both purchase and develop land suitable for a new State Park. However, the Board has used its Heritage Fund monies to purchase land parcels to expand existing State Parks. These included parcels for the Sonoita Creek State Natural Area in 2005, parcels for the Verde River Greenway State Natural Area in 2008, and the Picket Post House for Boyce Thompson Arboretum State Park in 2008. Nevertheless, the loss of the Board's Heritage Fund monies in fiscal year 2010 may limit the Board's ability to further expand existing State Parks or acquire new ones.
- **Improved efficiencies in park operations**—The Board's funding has been reduced considerably since fiscal year 2008, and the Board has taken several actions that increased efficiency in order to keep State Parks open. Specifically, the Board has:
 - **Partnered with governments and organizations**—The Board has partnered with various governments and organizations to obtain funding or other support to keep some State Parks open and reduce some of the Board's operating costs. As of July 2012, 13 of the 30 State Parks were operated by or with financial support from various partners (see Table 5, page 19).
 - **Reduced some operating costs**—The Board has taken various measures to reduce its operating costs. For example, the Board has temporarily reduced days of operation at some parks at various times during fiscal years 2009 through 2011. In addition, staff reductions and increased use of part-time staff and volunteers have reduced its personnel expenses from approximately \$18.3 million in fiscal year 2008 to approximately \$11.4 million in fiscal year 2012.

- **Implemented various revenue generation measures**—The Board has implemented various revenue-generation measures. These measures include funding capital improvement projects with the goal of providing a return on investment, such as improving facilities by adding electrical hookups at some parks; increasing surcharge revenue by developing a new online reservation system; implementing an adjustable fee schedule that allows the Board to adjust park fees within a range to take advantage of fluctuations in local demand; and developing some low-cost marketing initiatives to increase visitation, including disseminating information about special events through social media such as Facebook and Twitter (see Finding 1, pages 11 through 22, for more information).

However, the audit found that the Department can better meet its statutory objectives by:

- **Taking additional steps to improve Board’s short-term successes**—Although the Board’s actions have generally had short-term success, auditors identified some ways in which these specific actions can be improved. Specifically, the Board should: (1) continue to maintain and expand partnerships; (2) assess the effect of its measures to increase park revenues and make modifications as needed based on the results; (3) create and implement a new marketing plan; (4) improve cash-handling controls to minimize risk of loss or theft by implementing the several recommendations made in the Office of the Auditor General’s June 2012 procedural review; and (5) develop procedures for more accurate and consistent ways to track park visitation (see Finding 1, pages 11 through 22, for more information).
- **Improving planning for the State Parks system’s long-term financial sustainability**—Although the Board has taken some actions to plan for the parks system’s financial sustainability, it needs improved planning. Specifically, despite the general short-term success of the Board’s efforts, the long-term financial sustainability of the State Parks system is still at risk because of relatively low and declining visitation, insufficient park receipts to cover park operating and other expenditures, lack of funding for State Park system expansion, and unsuccessful efforts to establish a new dedicated funding source (see Finding 1, pages 11 through 22, for more information on these risks). To help address the risks to the State Parks system’s long-term financial sustainability, the Board should:
 - Assess the strengths, weaknesses, opportunities, and threats related to the Board’s and specific park units’ financial sustainability;
 - Define financial sustainability—a currently undefined term for Arizona’s State Parks—as a way of providing strategic direction for future planning;

- Develop goals, objectives, and action plans for achieving long-term financial sustainability; and
- Develop performance measures to assess and monitor progress toward sustainability goals.

Although accomplishing these efforts with diminished resources poses a challenge, the Board has access to some resources that can help with the task, such as the Governor's Office of Strategic Planning and Budgeting and planning approaches developed by other states' parks agencies (see Finding 2, pages 23 through 29, for more information).

3. The extent to which the Board serves the entire State rather than specific interests.

The Board has served the entire State by developing and managing the State Parks system, administering grant programs that benefit entities such as Arizona communities and agencies, and evaluating and protecting Arizona's prehistoric and historic heritage resources.

The Board manages a State Parks system that is open to all Arizona residents and visitors. This park system includes 30 State Parks located throughout the State, and there is at least one State Park in every county except Maricopa and Greenlee Counties.¹ State Parks are generally open seven days a week for public visitors, although some are open only five days a week.² During fiscal years 2008 through 2011, it is estimated that more than 2 million people visited Arizona's State Parks annually (see Finding 1, pages 11 through 14, for information regarding concerns with park visitor counts). In addition, the State Parks have served as economic drivers for local communities. According to a study published by Northern Arizona University in 2009, the estimated economic impact of Arizona's State Parks visitors in fiscal year 2007 was more than \$266 million state-wide, plus an additional \$22.8 million in state and local government taxes.³

In addition, the Board administers various grant programs that benefit the public. Historically, the Board administered eight grant programs, but due to funding reductions, such as the elimination of the Board's Heritage Fund monies, some grants programs were discontinued. As of May 2012, the Board administered three grant programs—the Federal Recreational Trails Program, Off-Highway Vehicle Recreation Fund Grants, and the Growing Smarter State

¹ According to board management, there are no State Parks in Maricopa County because the county has its own park system. Still, the Board entered into a partnership with Maricopa County and the Town of Cave Creek to help them purchase the Spur Cross Conservation Area.

² State Parks that operate on a five-day schedule and closed parks are listed on the Board's Web site.

³ Northern Arizona University. (2009). *The economic impact of Arizona state parks*. Flagstaff, AZ: Northern Arizona University, The Arizona Hospitality Research & Resource Center, Center for Business Outreach, The W.A. Franke College of Business.

Trust Land Acquisition Grant Program. These grants provide funding to conserve open spaces for the benefit of future generations and to establish and maintain recreational trails, including both motorized and nonmotorized trails.

Further, the Board houses the State Historic Preservation Office (SHPO). SHPO assists private citizens, private institutions, local governments, tribes, and state and federal agencies in the identification, evaluation, protection, and enhancement of significant historic and archaeological properties (see the Introduction, page 5, for additional information about SHPO).

4. The extent to which rules adopted by the Board are consistent with the legislative mandate.

General Counsel for the Office of the Auditor General has analyzed the Board's rule-making statutes and believes that the Board's rules are consistent with the legislative mandate prescribed in these statutes.

5. The extent to which the Board has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

The Board is exempt from rulemaking with respect to setting fees pursuant to A.R.S. §§41-1005(18) and (19). However, the Board has encouraged public input on board actions that affect the public. For example, the Board encouraged public input before implementing a new fee schedule in April 2012. This action changed park fees, such as entrance fees and campground rental fees, from set fees to a range of fees that allow the Board to take advantage of fluctuations in local demand. In December 2011, the Board used its Web site and social media, including Twitter and Facebook, to request public input regarding the proposed fee schedule via an online survey. The Board accepted online survey submissions until January 22, 2012, and received 289 responses—a record number according to board staff. Based on concerns or misunderstandings raised by respondents, the Board distributed frequently asked questions to respondents to provide additional information about the new fee schedule.

Another way the Board solicits public input is by holding public meetings at various locations throughout the State, including its Phoenix office. For example, between November 2011 and June 2012, the Board held six public meetings, and auditors noted that the Board followed the State's open meeting laws for these meetings. Specifically, the meeting dates and agendas were posted on the Board's Web site and in its Phoenix office lobby at least 24 hours prior to the meetings. Audio recordings of public meetings were available to the public upon request 3 days after the meetings were held, and, after approval, written public meeting minutes were posted and archived on the Board's Web site. Auditors

found that meeting minutes posted on the Board's Web site and minutes of executive sessions met the criteria stated in the open meeting law.

6. The extent to which the Board has been able to investigate and resolve complaints that are within its jurisdiction.

Although the Board does not have regulatory authority, the Board has received, investigated, and resolved/responded to complaints from the public. For example, between 2009 and 2011, the Board received 30 complaints, including 18 complaints regarding potential closures or partial closures of State Parks. The other 12 complaints regarded various topics, such as concerns about how the off-highway vehicle program was being administered, that a fence at one park was located on grazing land and could hurt cattle, poor customer service, and concerns about another park patron allowing his/her dogs to be unleashed at a State Park.

In most cases, board staff reviewed the complaints and responded within an average of about 6 business days. Board staff responses to the complaints varied but generally consisted of staff providing additional information or clarifications, apologizing for poor customer service, or suggesting contact information when complaints should be handled by other people.

7. The extent to which the Attorney General or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation.

The Attorney General is the Board's attorney according to A.R.S. §41-192 and, as such, has authority to prosecute a class 2 misdemeanor such as a violation of board law or rule, according to A.R.S. §41-511.13. In addition, a county attorney could also prosecute pursuant to A.R.S. §11-532.

8. The extent to which the Board has addressed deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.

The Board's enabling statutes have been amended several times since 2008. These changes include:

- Laws 2008, Ch. 83, amended A.R.S. §41-511.04(D)(1) to add historical private burial sites and cemeteries to the state historic preservation officer's survey duties.
- Laws 2008, Ch. 294, amended A.R.S. §41-511.04(A)(20) to require the Board to update the off-highway vehicle recreation plan every 5 years instead of every 6 years, and requires the plan to be open for public input.

- Laws 2009, 3rd S.S., Ch. 5, amended A.R.S. §41-511.23(l) to permit the use of investment earnings in excess of \$500,000 from the Land Conservation Fund to operate State Parks.
- Laws 2011, Ch. 216, amended A.R.S. §41-511 to change the Board's makeup. Prior to this change, two board members were required to represent the livestock industry; however, the revised law replaced one livestock industry representative with a member who is professionally engaged in the tourism industry.
- Laws 2012, Ch. 303, amended A.R.S. §§41-511.11(B) and 41-511.21 to eliminate the enhancement fund, create the donations fund to receive gifts and donations, and add the State Parks Revenue Fund, which receives revenue from sales of posters and post cards, appropriations, gifts to the revenue fund, park fees, and surcharges.
- Laws 2012, Ch. 321, amended A.R.S. §41-511.02(A) to give the Governor, instead of the Board, authority to appoint the executive director, effective September 29, 2012. As of the effective date, the executive director will serve at the pleasure of the Governor.

9. The extent to which changes are necessary in the laws of the Board to adequately comply with the factors listed in the sunset law.

This audit did not identify any needed changes to the Board's statutes.

10. The extent to which the termination of the Board would significantly affect the public health, safety, or welfare.

Terminating the Board would not significantly harm the public health, safety, or welfare. According to A.R.S. §41-511.03, the Board's purposes and objectives include acquiring, preserving, and maintaining areas of natural features, scenic beauty, and historic and scientific significance for the education, pleasure, recreation, and health of Arizona's people. However, according to the National Association of State Park Directors, all 50 states have a state parks system. Further, some surveys of Arizonans indicate that State Parks are valued by its citizens. For example, a July 2011 survey by WestGroup Research, called *Perceptions of Parks and Recreation in Arizona*, reported that 74 percent of Arizona respondents rated parks and open space as "important" to themselves personally.¹ The same study found that 71 percent of the Arizona respondents believed parks and open spaces were important for the overall economy. In addition, a study published by Northern Arizona University in 2009 reported that Arizona's State Parks have a significant economic impact on the communities and

¹ WestGroup Research. (2011). *WestGroup research report: Perceptions of parks and recreation in Arizona*. Phoenix, AZ: Author.

counties in which they are located.¹ Specifically, the study estimated that the economic impact of State Parks visitors in fiscal year 2007 was more than \$266 million state-wide, plus an additional \$22.8 million in state and local government taxes that fiscal year.

Finally, if the Board were terminated, its statutory duties would need to be reassigned to another government agency. For example, A.R.S. §41-511.04(A)(7) requires the Board to plan, coordinate, and administer a state historic preservation program in accordance with the National Historic Preservation Act of 1966. In addition, other programs managed by the Board, such as grant programs, would need to be transferred to another government agency (see the Introduction, page 5, for information about the Board's grant programs). Further, the State would need to determine what to do with State Park lands and assets. In some cases, federal monies used to purchase State Park lands could potentially be required to be repaid. For example, if parks that were purchased with Federal Land and Water Conservation Fund (LWCF) monies were closed, the Secretary of the Interior would have to approve the park closure plans. In the opinion of board management, the Secretary of the Interior could also require that LWCF monies used for such purposes be repaid.

11. The extent to which the level of the regulation exercised by the Board compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.

This factor does not apply because the Board is not a regulatory agency.

12. The extent to which the Board has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.

In addition to contracting for park site operations (see Sunset Factor 1, page 31), the Board also contracts for concessions services and various administrative services at its State Parks. According to auditors' survey regarding the use of private contractors by other state parks agencies, all 20 states who responded to the survey indicated that they use contractors for concessions, and 19 states indicated that they use contractors for administrative services. Specifically:

- **Concessions**—All 20 states that responded to the survey reported that they contract with at least one concessionaire, although the number of concessions contracts varied by state.² States reported having concessions contracts for miniature train rides, horseback riding, day spas, skiing, all-terrain vehicle rentals, boat or train tours, mobile food vendors, canoe rentals, and swim schools. The majority of states that responded to the

¹ Northern Arizona University, 2009

² Privatizing concessions involves contracting with for-profit partners to run or operate various functions at a state park. Some of the Board's parks offer one or more concessions at its parks, while another park may offer none.

survey reported that they had more than ten concessions contracts in place. Arizona, which has a smaller parks system than many of the survey respondents, had six concessions contracts at the time of auditors' February 2012 survey and entered into a seventh contract in May 2012. For example, Buckskin Mountain State Park, located in Parker, AZ, had a concessionaire that operated a variety of park sales/services, including the operation of general stores, clothing stores, a restaurant, a recreation hall, a gas station, boat storage, and laundromat services.

The Board can likely increase or expand concessions contracts at its State Parks. For example, the 2010 PROS Consulting plan, Arizona State Park Privatization and Efficiency Plan, outlines specific opportunities that the Board could consider when striving to increase or improve its privatization efforts.¹ The PROS plan was commissioned by the Arizona State Parks Foundation to develop guidelines for privatization and efficiency measures at Arizona's State Parks. The PROS plan included park-by-park potential opportunities for privatization, while also considering potential limitations that may exist when trying to contract for services at each park.

Some factors that can limit the Board's ability to privatize concessions at a park include low visitation, low revenue-generation potential, and facility maintenance and/or large capital expense issues. For example, Arizona has a high percentage of natural areas and historic parks. These natural and historic park areas generally have a harder time attracting concessionaires, in part due to low visitation and revenues, and in part because these parks offer limited opportunities for concession services. Specifically, natural areas by definition cannot be developed and do not offer options such as picnic tables, benches, or restrooms. In addition, some leases require federal approval prior to contracting with concessionaires. Specifically, the Board must obtain the Bureau of Land Management's approval to enter into concession contracts for State Parks leased under the Recreation and Public Purposes Act. Despite these factors, the Board should continue to contract with additional concessionaires where possible and cost-effective for the State and agency.

- **Administrative services**—The Board uses private contractors for administrative services to about the same extent as other states that responded to the survey, although some states use for-profit companies to a greater extent than Arizona. As of March 2012, the Board used for-profit companies for six types of services including designing and operating the Board's online reservation system, sanitation, publishing, general construction contracting, and maintenance services. Similarly, 19 of the 20 states that

¹ PROS Consulting, LLC. (2010). *Arizona state park privatization and efficiency plan*. Phoenix, AZ: Arizona State Parks Foundation.

Types of privatized administrative services used by other state parks agencies

States that responded to auditors' survey reported that they used for-profit entities for the following types of services:

- reservation system
- temporary employment agency
- sanitation
- strategic/business planning
- publishing
- general construction contracting
- environmental testing and monitoring
- maintenance
- architectural design
- historic restoration

Source: Auditor General staff review of 20 survey responses.

responded to the survey also reported that they used for-profit companies for various administrative services (see textbox). The reported number of services performed by for-profit companies varied by state, but ranged from two to nine services.

Table 6: Arizona State Parks Board Funds, Restrictions, and Related Legislative Actions Fiscal Years 2008 through 2012

Fund Name and Description	Restrictions	Legislative Actions	June 30, 2012, Ending Fund Balance
<p>State General Fund—This fund previously accounted for the State General Fund monies appropriated to the Board. During fiscal years 2008 and 2009, the Board received approximately \$7.7 million and \$3.5 million, respectively, in State General Fund appropriations for agency operations.</p>	<p>State restricted: This fund is subject to annual appropriation.</p>	<p>Monies appropriated to the Board in fiscal years 2010 through 2012 for agency operations were eliminated.</p>	
<p>Arizona Trail Fund—Established by A.R.S. §41-511.15, this fund consists of gifts and grants of private and public monies, and other monies, including State General Fund appropriations, to maintain and preserve the Arizona Trail. No financial activity occurred in this fund during fiscal year 2012.</p>	<p>State restricted: Statute restricts monies to maintain and preserve the Arizona Trail.</p>	<p>Although this fund received a State General Fund appropriation in fiscal year 2010, the appropriation was later eliminated. No appropriations were made in fiscal years 2011 through 2013.</p>	
<p>Law Enforcement and Boating Safety Fund—Established by A.R.S. §5-383, the fund included a portion of watercraft license fees. In fiscal year 2012, this fund received nearly \$2 million from the fees.</p>	<p>Transferred in fiscal year 2013: Prior to the elimination of this fund, monies in this fund were subject to annual appropriation. In addition, statute allows the Arizona Outdoor Recreation Coordinating Commission to provide grants from this fund to county law enforcement agencies for water and boating safety programs.</p>	<ul style="list-style-type: none"> The Board was authorized to spend amounts appropriated from this fund in excess of \$500,000 and \$750,000 in fiscal years 2011 and 2012, respectively, for park operations. Between fiscal years 2009 and 2012, the Board was required to transfer a total of \$511,000 from this fund to the State General Fund. Laws 2011, Ch. 333, §2, transferred the administration of this fund from the Board to the Arizona State Treasurer beginning in fiscal year 2013. 	
<p>State Lake Improvement Fund—Established by A.R.S. §5-382, this fund includes a portion of motor fuel taxes and watercraft license fees. In fiscal year 2012, this fund received nearly \$5 million from taxes and fees.</p>	<p>State restricted: Statute allows monies to be used for staff support to plan and administer this fund and the Law Enforcement and Boating Safety Fund in conjunction with other board administrative tasks and recreation plans, and projects at boating sites where gasoline-powered boats are permitted.</p>	<ul style="list-style-type: none"> Between fiscal years 2008 and 2012, the Board was required to transfer a total of \$28,395,700 from this fund to the State General Fund. In fiscal year 2009, the Board was authorized to transfer \$2 million to its State Parks Enhancement Fund to offset transfers from that fund. The Board was authorized to transfer \$4,964,000 from its Heritage Fund and \$1,491,100 from its State Parks Enhancement Fund to this fund in fiscal years 2010 and 2011, respectively, to help offset the transfers to the State General Fund. 	<p>\$ 4,416,586</p>

Table 6: Arizona State Parks Board Funds, Restrictions, and Related Legislative Actions (Continued)
Fiscal Years 2008 through 2012

Fund Name and Description	Restrictions	Legislative Actions	June 30, 2012, Ending Fund Balance
<p>Off-Highway Vehicle Recreation Fund—Established by A.R.S. §28-1176, this fund includes a portion of motor fuel taxes and certain off-highway vehicle fees. In fiscal year 2012, this fund received approximately \$2.7 million from the taxes and fees.</p>	<p>State restricted: Statute limits the Board to using 12 percent of fund monies for staff support to plan and administer this fund. The remaining monies are to be used to: (1) establish an off-highway vehicle program based on the priorities established in the off-highway vehicle recreational plan; (2) designate, construct, maintain, renovate, repair, or connect off-highway vehicle routes and trails and to designate, manage, and acquire land for access roads, off-highway vehicle recreation facilities, and off-highway vehicle use areas; (3) enforce off-highway vehicle laws; (4) provide off-highway vehicle-related informational and environmental education programs, information, signage, maps, and responsible use programs; (5) mitigate damages to land, revegetation, and the prevention and restoration of damages to natural and cultural resources, including the closure of existing access roads, off-highway vehicle use areas, and off-highway vehicle routes and trails; and (6) provide necessary environmental, historical, and cultural clearance or compliance activities. Statute also requires transfers to the Arizona Game and Fish Department and Arizona State Land Department.</p>	<ul style="list-style-type: none"> Beginning in fiscal year 2004, the Board was authorized to use \$692,100 to pay for agency operating costs to offset fiscal year 2003 State General Fund reductions. This authority continues at the same annual amount through fiscal year 2013 but will require legislative action to extend it. Between fiscal years 2008 and 2012, the Board was required to transfer a total of \$4,813,600 from this fund to the State General Fund. In fiscal year 2010, the Board was authorized to transfer \$500,000 from this fund to its State Parks Enhancement Fund. 	3,293,454
<p>Federal Grants Fund—Established by A.R.S. §35-142, this fund accounts for the receipt and expenditure of all federal monies granted or awarded to the Board. In fiscal year 2012, the Board received approximately \$2.6 million in federal monies.</p>	<p>Federally restricted: Monies can be used only as permitted by federal laws, regulations, contracts, and/or agreements.</p>	None	1,151,431
<p>Land Conservation—Administration Fund—Established by A.R.S. §41-511.23(l), this fund consists of investment earnings on the Land Conservation Fund. In fiscal year 2012, investment earnings were nearly \$830,000.</p>	<p>State restricted: Statute restricts monies for the purpose of administering the land acquisition and conservation program and limits the amount to the lesser of 5 percent of the amount deposited into the Land Conservation Fund, or \$500,000. Investment earnings in excess of \$500,000 is appropriated to the Board for park operations.</p>	Statute was amended in fiscal year 2009 to allow the Board to use Land Conservation Fund interest earnings in excess of \$500,000 for park operations to offset State General Fund decreases.	2,112,251

Table 6: Arizona State Parks Board Funds, Restrictions, and Related Legislative Actions (Continued)
Fiscal Years 2008 through 2012

Fund Name and Description	Restrictions	Legislative Actions	June 30, 2012, Ending Fund Balance
<p>Land Conservation Fund—Established by A.R.S. §41-511.23(D), this fund accounts for the use of \$20 million of State General Fund monies deposited annually to this fund as required by Proposition 303 (1998) for land conservation.</p>	<p> Voter protected: \$20 million was deposited annually from the State General Fund as mandated by a voter-passed referendum in 1998 (Proposition 303). Under the referendum, the last appropriation occurred in fiscal year 2011. Monies in this fund are used to award grants for the purchase or lease of state trust lands that are classified as suitable for conservation purposes and must be matched by an equal expenditure of monies from donations or other private or governmental sources. In addition, statute requires \$2 million to be paid annually from this fund to the Arizona Department of Agriculture's Livestock and Crop Conservation Fund. The remainder of the monies are appropriated to the Board for the exclusive purpose of granting monies to the State or any of its political subdivisions, or to a 501(c)3 nonprofit that has the purpose of preserving open space, to purchase or lease state trust lands that are classified as suitable for conservation purposes, or to purchase the development rights of state trust lands under various conditions.</p>	<p>None</p>	<p>40,734,761</p>
<p>Heritage Fund—This fund was originally used to account for the receipt and use of \$10 million from lottery proceeds designated for the Heritage Fund in accordance with statute. However, Laws 2010, 7th S.S., Ch. 12, §15, eliminated the Heritage Fund at the end of fiscal year 2011; therefore, this fund no longer exists, and the statute has been repealed.</p>	<p>Repealed: Monies were originally restricted by voters and then later statute when the Legislature renewed the Lottery; however, this fund was eliminated at the end of fiscal year 2011.</p>	<ul style="list-style-type: none"> • Beginning February 1, 2010, the Board's portion of lottery revenues was redirected to the State General Fund. • In fiscal years 2009 and 2010, the Board was required to transfer a total of \$6,051,400 from this fund to the State General Fund. • In fiscal years 2009 and 2010, the Board was required to transfer a total of nearly \$6.5 million from this fund to state agencies. • In fiscal years 2009 and 2010, the Board was authorized to transfer a total of \$11,104,100 from this fund to other board funds to help offset reductions in those funds. • The statutes authorizing this fund were repealed, and the fund was eliminated on June 30, 2011. 	

Table 6: Arizona State Parks Board Funds, Restrictions, and Related Legislative Actions (Continued)
Fiscal Years 2008 through 2012

Fund Name and Description	Restrictions	Legislative Actions	June 30, 2012, Ending Fund Balance
<p>State Parks Enhancement Fund—This fund was originally established by A.R.S. §41-511.11 and consisted of all monies derived from State Park user fees, concession fees, and other revenue-generating activities, and unconditional gifts and donations specifically designated to this fund. In fiscal year 2012, the Board collected over \$10.7 million from revenue-generating activities for deposit into this fund.</p>	<p>Eliminated in fiscal year 2013: Prior to the elimination of this fund, statute originally restricted this fund to acquiring and developing real property and improvements, and for State Parks operations, subject to an annual appropriation.</p>	<ul style="list-style-type: none"> Between fiscal years 2009 and 2012, the Board was required to transfer a total of \$15,196,500 from this fund to the State General Fund. The Board was authorized to transfer a total of \$5,987,100 from its Heritage Fund, \$2 million from its State Lake Improvement Fund, and \$500,000 from its Off-Highway Vehicle Recreation Fund to this fund between fiscal years 2009 and 2010 to help offset transfers to the State General Fund. In fiscal year 2012, the Board was authorized to transfer \$1,491,100 from this fund to its State Lake Improvement Fund to offset transfers in that fund. Beginning in fiscal year 2004, the Board was authorized to use this fund for park operations. This authorization was continued through fiscal year 2012. Laws 2012, Ch. 303, combined this fund with two other funds to create the State Parks Revenue Fund beginning August 2, 2012. 	6,168,699
<p>Publications and Souvenir Revolving Fund—Established by A.R.S. §41-511.21, this fund originally consisted of proceeds from the sale of park posters, park postcards, books, souvenirs, and sundry items, and all monies received from the operation of the Tonto Natural Bridge restaurant, lodge, and gift shop. In fiscal year 2012, the Board collected nearly \$420,000 from the sale of souvenirs and publications for deposit in this fund.</p>	<p>Eliminated in fiscal year 2013: Prior to the elimination of this fund, statute originally restricted monies to purchase, promote, produce, and distribute board publications, information, souvenirs, and sundry items; to operate concessions selling publications, souvenirs, and sundries; and the maintenance and operation of the Tonto Natural Bridge restaurant, lodge, and gift shop.</p>	<ul style="list-style-type: none"> Between fiscal years 2008 and 2012, the Board was required to transfer a total of \$353,500 from this fund to the State General Fund. During fiscal year 2010, the Board was authorized to transfer \$22,700 to this fund from its Heritage Fund to help offset transfers to the State General Fund. Laws 2012, Ch. 303, combined this fund with two other funds to create the State Parks Revenue Fund beginning August 2, 2012. 	127,978
<p>State Parks Donations Fund—Established by A.R.S. §41-511.11, this fund, formerly called the State Parks Fund, consists of unconditional gifts, donations, bequests, and endowments not specifically designated to the State Parks Revenue Fund. In fiscal year 2012, the Board received approximately \$93,000 in donations for deposit into this fund.</p>	<p>State restricted: The Board uses monies in accomplishing its objectives and duties.</p>	<ul style="list-style-type: none"> Between fiscal years 2009 and 2011, the Board was required to transfer a total of \$261,600 from this fund to the State General Fund. In fiscal year 2010, \$213,900 was appropriated to this fund from the State General Fund to offset previous transfers to the State General Fund. In fiscal year 2010, the Board was authorized to transfer \$19,700 to this fund from its Heritage Fund to offset transfers to the State General Fund. 	391,525

Table 6: Arizona State Parks Board Funds, Restrictions, and Related Legislative Actions (Concluded)
Fiscal Years 2008 through 2012

Fund Name and Description	Restrictions	Legislative Actions	June 30, 2012, Ending Fund Balance
<p>Reservation Surcharge Revolving Fund—This fund was originally established by A.R.S. §41-511.24 and consisted of a surcharge on park fees. During fiscal year 2012, nearly \$565,000 was received from the surcharge.</p>	<p>Eliminated in fiscal year 2013: Prior to the elimination of this fund, statute originally allowed for payment of staff and operating costs relating to the reservation system and required all monies in this fund at year-end in excess of \$75,000 be transferred to the State General Fund.</p>	<ul style="list-style-type: none"> Between fiscal years 2008 and 2012, the Board was required to transfer a total of \$356,400 from this fund to the State General Fund. During fiscal year 2010, the Board was authorized to transfer \$96,600 to this fund from its Heritage Fund to help offset the transfers to the State General Fund. Since fiscal year 2004, receipts received in this fund above the annual appropriation amount, \$203,800 for fiscal year 2012, could be spent only after the intended use of the monies were reported to the Joint Legislative Budget Committee. Laws 2012, Ch. 303, combined this fund with two other funds to create the State Parks Revenue Fund beginning August 2, 2012. 	54,512
<p>Partnership Fund—Established by A.R.S. §41-511.04, this fund consists of collections received to plan and administer the Land and Water Conservation Fund program such as surcharges for subgrantees, monies from intergovernmental agreements, and monies received for interagency services. In fiscal year 2012, the Board received nearly \$590,000 from state and local governments.</p>	<p>State restricted: Statute restricts monies to manage, develop, and operate State Parks, monuments, or trails. In addition, monies may be used for other duties outlined in statute, such as working with the federal government, private entities, and other state agencies to develop other State Parks and manage the state historic preservation program.</p>	<ul style="list-style-type: none"> Between fiscal years 2009 and 2012, the Board was required to transfer a total of \$328,600 from this fund to the State General Fund. During fiscal year 2010, the Board was authorized to transfer \$14,000 from its Heritage Fund to this fund to help offset transfers. 	366,781
<p>State Parks Revenue Fund—Effective August 2, 2012, Laws 2012, Ch. 303, amended and repealed certain statutes and created a new A.R.S. §41-511.21 that established this fund. This fund combines the State Park Enhancement, Reservation Surcharge Revolving, and Publications and Souvenir Revolving Funds. This fund will consist of the revenues from the combined funds as well as any appropriations for park enhancements and the sale of park assets.</p>	<p>State restricted: Beginning August 2, 2012, the monies in this fund will be subject to an annual appropriation. Statute restricts the use of monies from this fund to the operation and maintenance of the state park system, and acquisition and development of real property and improvements.</p>	<ul style="list-style-type: none"> Laws 2012, Ch. 303, created this fund by combining three funds effective August 2, 2012. 	

Source: Auditor General staff analysis of Arizona Revised Statutes pertaining to the Board's funds, various 2008 through 2012 laws pertaining to legislative actions related to the Board, Arizona Financial Information System (AFIS) Accounting Event Transaction File for fiscal years 2008 through 2012, State of Arizona Appropriations Report for fiscal years 2004 through 2013, and the AFIS Management Information System Status of General Ledger-Trial Balance screen for fiscal year 2012.

APPENDIX B

Park receipts and operating expenditures

Table 7: Schedule of Receipts and Direct Operating Expenditures by Park, and Park Status Changes Impacting Financial Activity¹
Fiscal Years 2008 through 2011
(Unaudited)

	2008	2009	2010	2011	Park Status Changes Impacting Financial Activity
Alamo Lake State Park:					
Receipts	\$ 340,854	\$ 405,204	\$ 427,399	\$ 401,918	A partnership provided the Board with \$30,000 in fiscal year 2011 to help support operations.
Direct operating expenditures	294,677	304,777	374,980	330,357	
Excess of receipts over operating expenditures	46,177	100,427	52,419	71,561	
Boyce Thompson Arboretum State Park:					
Receipts	11,845	12,000	9,400	8,175 ²	Beginning in February 2010, the Board ceased financial support for the park. The park is operated by outside entities.
Direct operating expenditures	115,629	124,201	38,243	1,791 ²	
Excess (Deficiency) of receipts over operating expenditures	(103,784)	(112,201)	(28,843)	6,384	
Buckskin Mountain State Park/River Island State Park:					
Receipts	570,792	570,415	616,236	635,916	
Direct operating expenditures	560,058	609,024	715,211	726,055	
Excess (Deficiency) of receipts over operating expenditures	10,734	(38,609)	(98,975)	(90,139)	
Catalina State Park:					
Receipts	552,550	568,283	733,076	784,410	
Direct operating expenditures	370,898	377,706	413,345	475,712	
Excess of receipts over operating expenditures	181,652	190,577	319,731	308,698	
Cattail Cove State Park:					
Receipts	437,599	435,863	443,627	464,218	
Direct operating expenditures	376,072	410,102	433,120	535,983	
Excess (Deficiency) of receipts over operating expenditures	61,527	25,761	10,507	(71,765)	
Dead Horse Ranch State Park:					
Receipts	532,691	636,441	592,927	682,855	
Direct operating expenditures	683,066	690,703	647,779	660,849	
Excess (Deficiency) of receipts over operating expenditures	(150,375)	(54,262)	(54,852)	22,006	
Fool Hollow Lake Recreation Area:					
Receipts	403,415	418,490	442,475	521,531	
Direct operating expenditures	471,726	469,017	514,370	495,708	
Excess (Deficiency) of receipts over operating expenditures	(68,311)	(50,527)	(71,895)	25,823	
Fort Verde State Historic Park:					
Receipts	40,847	51,531	52,565	48,412	Since May 2009, the park has operated on a five-day schedule. A partnership provided the Board with nearly \$55,100 and \$78,800 in fiscal years 2010 and 2011, respectively, to help support operations.
Direct operating expenditures	217,910	214,221	105,479	121,505	
Deficiency of receipts over operating expenditures	(177,063)	(162,690)	(52,914)	(73,093)	

Table 7: Schedule of Receipts and Direct Operating Expenditures by Park, and Park Status Changes Impacting Financial Activity¹ (Continued)
 Fiscal Years 2008 through 2011
 (Unaudited)

	2008	2009	2010	2011	Park Status Changes Impacting Financial Activity
Homolovi State Park:					
Receipts	44,824	53,768	19,765	34,839	The park transitioned to a five-day schedule in October 2009 and was fully closed in February 2010. The park reopened in March 2011. A partnership provided the Board with nearly \$43,900 in fiscal year 2011 to help support operations.
Direct operating expenditures	255,661	276,389	251,936	208,611	
Deficiency of receipts over operating expenditures	<u>(210,837)</u>	<u>(222,621)</u>	<u>(232,171)</u>	<u>(173,772)</u>	
Jerome State Historic Park:					
Receipts	205,104	103,733	11,849	142,095	The park was closed for repair in March 2009. It reopened in October 2010. A partnership provided the Board with \$30,000 in fiscal year 2011 to help support operations.
Direct operating expenditures	289,267	239,490	(11,849)	180,028	
Deficiency of receipts over operating expenditures	<u>(84,163)</u>	<u>(135,757)</u>	<u>(11,849)</u>	<u>(37,933)</u>	
Kartchner Caverns State Park:					
Receipts	3,112,194	2,850,600	2,921,222	2,755,968	
Direct operating expenditures	2,709,479	2,323,607	2,121,232	2,070,396	
Excess of receipts over operating expenditures	<u>402,715</u>	<u>526,993</u>	<u>799,990</u>	<u>685,572</u>	
Lake Havasu State Park:					
Receipts	751,172	853,316	968,188	1,067,078	
Direct operating expenditures	741,916	674,987	713,678	783,319	
Excess of receipts over operating expenditures	<u>9,256</u>	<u>178,329</u>	<u>254,510</u>	<u>283,759</u>	
Lost Dutchman State Park:					
Receipts	286,532	289,382	356,453	349,830	A partnership provided the Board with \$6,000 and \$18,000 in fiscal years 2010 and 2011, respectively, to help support operations.
Direct operating expenditures	269,784	277,071	282,390	375,127	
Excess (Deficiency) of receipts over operating expenditures	<u>16,748</u>	<u>12,311</u>	<u>74,063</u>	<u>(25,297)</u>	
Lyman Lake State Park:					
Receipts	173,463	152,830	104,677	62,139	The park was closed in February 2010. The park reopened at the end of May through the beginning of September 2010. Partnerships provided the Board with \$35,000 in fiscal year 2011 to help support operations.
Direct operating expenditures	327,956	347,937	317,621	171,192	
Deficiency of receipts over operating expenditures	<u>(154,493)</u>	<u>(195,107)</u>	<u>(212,944)</u>	<u>(109,053)</u>	
McFarland State Historic Park:					
Receipts	8,781	1,112	25,813	4,500	The park was closed for repair in September 2008 and was reopened in January 2011. The park has been under contract for operation by a partner since October 2010.
Direct operating expenditures	198,405	152,946	(25,813)	(4,500)	
Deficiency of receipts over operating expenditures	<u>(189,624)</u>	<u>(151,834)</u>	<u>(25,813)</u>	<u>(4,500)</u>	

Table 7: Schedule of Receipts and Direct Operating Expenditures by Park, and Park Status Changes Impacting Financial Activity¹ (Continued)
 Fiscal Years 2008 through 2011
 (Unaudited)

	2008	2009	2010	2011	Park Status Changes Impacting Financial Activity
Oracle State Park:					
Receipts	21,470	24,821	6,471	649	In May 2009, the park switched to a five-day schedule and was closed in October 2009; it remained closed through fiscal year 2011.
Direct operating expenditures	278,791	272,833	111,362	17,930	
Deficiency of receipts over operating expenditures	<u>(257,321)</u>	<u>(248,012)</u>	<u>(104,891)</u>	<u>(17,281)</u>	
Patagonia Lake State Park:					
Receipts	568,296	649,752	681,907	653,960	Prior to fiscal year 2011, the Board included the Sonoita Creek State Natural Areas financial activity with the park. A partnership in fiscal year 2008 related to the Sonoita Creek State Natural Area provided the Board with \$50,000 to help support operations.
Direct operating expenditures	842,586	764,609	676,471	916,513	
Excess (Deficiency) of receipts over operating expenditures	<u>(274,290)</u>	<u>(114,857)</u>	<u>5,436</u>	<u>(262,553)</u>	
Picacho Peak State Park:					
Receipts	326,991	213,837	343,175	255,607	A partnership provided the Board with \$20,000 in fiscal year 2011 to help support operations.
Direct operating expenditures	374,838	372,375	424,157	308,891	
Deficiency of receipts over operating expenditures	<u>(47,847)</u>	<u>(158,538)</u>	<u>(80,982)</u>	<u>(53,284)</u>	
Red Rock State Park:					
Receipts	327,985	280,925	277,670	221,624	In November 2009, the park transitioned to a five-day schedule and resumed a normal operating schedule at the end of January 2010.
Direct operating expenditures	394,916	359,343	299,716	272,014	Partnerships provided the Board with \$16,300 and \$123,750 in fiscal years 2010 and 2011, respectively, to help support operations.
Deficiency of receipts over operating expenditures	<u>(66,931)</u>	<u>(78,418)</u>	<u>(22,046)</u>	<u>(50,390)</u>	
Riordan Mansion State Historic Park:					
Receipts	150,150	140,451	121,885	2,000 ²	In October 2009 through April 2010, the park transitioned to a five-day schedule. The park has been under contract for operation by a partner since May 2010. It also received nearly \$78,100 from this partner in fiscal year 2011 to retain board employees at the park.
Direct operating expenditures	255,771	230,298	216,534	80,056 ²	
Deficiency of receipts over operating expenditures	<u>(105,621)</u>	<u>(89,847)</u>	<u>(94,649)</u>	<u>(78,056)</u>	
Roper Lake State Park:					
Receipts	263,585	285,078	283,850	298,819	A partnership provided the Board with approximately \$11,300 in fiscal year 2010 to help support operations.
Direct operating expenditures	441,214	456,434	403,135	307,137	
Deficiency of receipts over operating expenditures	<u>(177,629)</u>	<u>(171,356)</u>	<u>(119,285)</u>	<u>(8,318)</u>	

Table 7: Schedule of Receipts and Direct Operating Expenditures by Park, and Park Status Changes Impacting Financial Activity¹ (Continued)
 Fiscal Years 2008 through 2011
 (Unaudited)

	2008	2009	2010	2011	Park Status Changes Impacting Financial Activity
San Rafael State Natural Area: Receipts Direct operating expenditures Deficiency of receipts over operating expenditures	3,555 183,854 <u>(180,299)</u>	177,072 <u>(177,072)</u>	2,250 120,375 <u>(118,125)</u>	13,855 <u>(13,855)</u>	The park has never been opened to the general public, but has been available under special-use permits for activities such as filming.
Slide Rock State Park: Receipts Direct operating expenditures Excess of receipts over operating expenditures	608,533 388,964 <u>219,569</u>	629,834 410,657 <u>219,177</u>	711,235 491,493 <u>219,742</u>	882,325 465,384 <u>416,941</u>	In November 2009 the park transitioned to a five-day schedule and resumed a normal operating schedule at the end of January 2010.
Sonoita Creek State Natural Area: Receipts Direct operating expenditures Deficiency of receipts over operating expenditures				1,804 <u>(1,804)</u>	Prior to fiscal year 2011, the Board included the park's financial activity with Patagonia Lake State Park.
Tombstone Courthouse State Historic Park: Receipts Direct operating expenditures Excess (Deficiency) of receipts over operating expenditures	213,384 222,147 <u>(8,763)</u>	191,944 212,254 <u>(20,310)</u>	136,609 118,829 <u>17,780</u>	742 ² <u>(742)</u>	In April 2009, the park switched to a five-day schedule. The park has been under contract for operation by a partner since April 2010.
Tonto Natural Bridge State Park: Receipts Direct operating expenditures Excess (Deficiency) of receipts over operating expenditures	273,322 259,210 <u>14,112</u>	212,596 298,118 <u>(85,522)</u>	236,645 304,062 <u>(67,417)</u>	318,116 294,279 <u>23,837</u>	From March to May 2009, the park was closed for repair. The park opened only for weekends in May 2009. In November 2010, the park switched to a five-day schedule. Partnerships provided the Board with \$39,000 in fiscal year 2011 to help support operations.
Tubac Presidio State Historic Park: Receipts Direct operating expenditures Deficiency of receipts over operating expenditures	52,413 215,570 <u>(163,157)</u>	38,853 192,845 <u>(153,992)</u>	32,214 159,575 <u>(127,361)</u>	1,363 ² <u>(1,363)</u>	In April 2009, the park switched to a five-day schedule. The park has been under contract for operation by a partner since May 2010.
Verde River Greenway State Natural Area: Receipts Direct operating expenditures Deficiency of receipts over operating expenditures				11,758 <u>(11,758)</u>	Prior to fiscal year 2011, the Board included the park's financial activity with Dead Horse Ranch State Park.

Table 7: Schedule of Receipts and Direct Operating Expenditures by Park, and Park Status Changes Impacting Financial Activity¹ (Concluded)
 Fiscal Years 2008 through 2011
 (Unaudited)

	2008	2009	2010	2011	Park Status Changes Impacting Financial Activity
Yuma Quartermaster Depot State Historic Park:					
Receipts	43,064	42,160	4,110		Beginning April 2009, the park operated on a five-day schedule. The park has been under contract for operation by a partner since November 2009. The partner provided the Board \$150,000 and approximately \$140,500 in fiscal years 2008 and 2009, respectively, to help operate the park, and \$11,250 in both fiscal years 2010 and 2011 to retain one part-time, seasonal board employee at the park.
Direct operating expenditures	297,273	261,867	90,882	15,777	
Deficiency of receipts over operating expenditures	<u>(254,209)</u>	<u>(219,707)</u>	<u>(86,772)</u>	<u>(15,777)</u>	
Yuma Territorial Prison State Historic Park:					
Receipts	297,620	269,526	258,760		Between April and November 2009, the park operated on a five-day schedule. The park has been under contract for operation by a partner since April 2010.
Direct operating expenditures	239,078	257,262	288,809	170 ²	
Excess (Deficiency) of receipts over operating expenditures	<u>58,542</u>	<u>12,264</u>	<u>(30,049)</u>	<u>(170)</u>	
Regional offices:					
Receipts					
Direct operating expenditures	738,296	651,143	498,799	415,350	
Deficiency of receipts over operating expenditures	<u>(738,296)</u>	<u>(651,143)</u>	<u>(498,799)</u>	<u>(415,350)</u>	
Total park system:					
Total receipts	10,623,031	10,382,745	10,784,791	10,592,484	
Total direct operating expenditures	13,015,012	12,409,288	11,171,245	10,264,156	
Excess (Deficiency) of receipts over operating expenditures	<u>\$ (2,391,981)</u>	<u>\$ (2,026,543)</u>	<u>\$ (386,454)</u>	<u>\$ 328,328</u>	

¹ Receipts in the table include only monies received at the park such as park entry fees, donations, commissions, and souvenir sales. The receipts in this table do not include monies received from partnerships with entities that have entered agreements to help pay for park operations, but the amount received from these agreements is included in the last column of the table. Direct operating expenditures include only those operating expenditures directly charged to the State Parks and regional offices. However, the expenditures do not include certain park-related costs that are not allocated to the parks, such as volunteer program administration, public safety, park special events, and nonroutine park repair and maintenance expenditures. They also do not include costs the Board paid for expenditures related to projects and grants that have specific funding sources. For example, land acquisitions made with Heritage Fund monies and specific projects paid for by State Lake Improvement Fund monies are not included.

² The Board received small receipts, such as donations, at some parks operated by a contracted entity; however, most receipts are collected and retained by the entity. Similarly, the entities pay for the costs of operating the parks; however, the Board incurred some expenditures at these parks such as paying to retain the park's public telephone number, buying an emergency pump replacement, and paying for storage or office space.

Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS) Accounting Event Transaction File and the Board's Park Summary report for fiscal years 2008 through 2011; the Board's Annual Report for fiscal years 2009 through 2011; intergovernmental agreements with outside entities; meeting minutes for the Board's February 3, 2009, meeting; and information from board staff.

APPENDIX C

Methodology

This appendix provides information on the methods auditors used to meet the audit objectives.

This performance audit was conducted 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 Auditor General and staff express appreciation to the Arizona State Parks Board (Board), its executive director, and staff for their cooperation and assistance throughout the audit.

Auditors used various methods to study the issues addressed in this report and to develop the report's Introduction section. These methods included reviewing federal laws and regulations, state statutes, administrative rules, and the *Fiscal Years 2010-2013 Master List of State Government Programs*. Auditors attended the Board's meetings from November 2011 to March 2012; interviewed board members and staff; analyzed information in the Board's Park Asset Management System; and reviewed board documentation, including partnership contract documents and various reports, and the Board's Web site. Auditors also visited 12 state parks.

Auditors also used the following specific methods to address the audit's objective:

- To assess the Board's financial situation and risks to the Board's financial sustainability, auditors reviewed several reports pertaining to the sustainability of Arizona's State Parks. These reports included:
 - Gammage, G., & Welch, N. (2009). *The price of stewardship: The future of Arizona's state parks*. Tempe, AZ: Arizona State University, Morrison Institute for Public Policy.
 - Governor's Sustainable Parks Task Force. (2009). *Governor Brewer's task force on sustainable state parks funding*. Retrieved June 13, 2012, from http://azstateparks.com/publications/downloads/2009_Task_Force_Final_Report.pdf
 - Northern Arizona University. (2009). *The economic impact of Arizona state parks*. Flagstaff, AZ: Northern Arizona University, The Arizona Hospitality Research & Resource Center, Center for Business Outreach, The W.A. Franke College of Business.
 - Pros Consulting, LLC. (2010). *Arizona state park privatization and efficiency plan*. Phoenix, AZ: Arizona State Parks Foundation.
 - WestGroup Research. (2011). *WestGroup research report: Perceptions of parks and recreation in Arizona*. Phoenix, AZ: Author.

In addition, auditors reviewed data published annually in the National Association of State Park Directors *Statistical Report of State Parks Operations* from fiscal years 2009 through 2011 and also reviewed Arizona's State Parks visitation information for fiscal years 2008 through 2011 that was provided by board staff. Auditors reviewed various session

laws enacted by the Legislature from 2008 through 2012 pertaining to the Board, Arizona Financial Information System (AFIS) *Accounting Event Transaction File* and *State of Arizona Appropriations Report* for fiscal years 2004 through 2012, and the AFIS Management Information System *Status of General Ledger-Trial Balance* screen for fiscal years 2010 through 2012. Auditors also reconciled the Board's *Parks Summary* report to the AFIS *Accounting Event Transaction File* for fiscal years 2008 through 2012. Further, auditors reviewed the Office of the Auditor General's June 2012 procedural review of the Board's internal controls related to cash receipts, cash disbursements, purchasing, payroll, journal entries and transfers, and capital assets.¹

- To assess the Board's planning efforts, auditors reviewed the Board's 2009 strategic planning process and associated plans and documentation; various marketing plans; and the Arizona Office of Strategic Planning and Budgeting's 2011 *Managing for Results*.² Auditors also interviewed consultants with experience in state parks, the president of the National Association of State Park Directors, as well as administrators from state parks agencies in Georgia, Kentucky, New Hampshire, Montana, Colorado, and Idaho. Auditors also reviewed various strategic planning documents from these states.³
- To obtain information used in the sunset factors, auditors sent surveys to the directors of state parks agencies in all 50 states and Puerto Rico regarding the use of contracting services and analyzed the 20 responses received.⁴ In addition, auditors reviewed board complaints received between February 2009 and December 2011, and the Board's compliance with open meeting law requirements.
- Auditors' work on internal controls focused on reviewing department processes for strategic planning, associated documentation, and partnership contracts. Auditors also reviewed the Office of the Auditor General's June 2012 procedural review of the Board's internal controls related to cash-handling and capital asset inventory procedures. Further, auditors reviewed an October 2011 letter the Arizona General Accounting Office prepared reporting its review of certain board internal controls and accounting procedures.⁵ Auditors' conclusions on internal controls are reported in Findings 1 and 2 of the report.

¹ Procedural Review of the Arizona State Parks Board as of January 31, 2012, issued June 25, 2012.

² State of Arizona, Office of Strategic Planning and Budgeting. (2011). *Managing for results*. Phoenix, AZ: Author.

³ Auditors selected these states based on their planning efforts to achieve more financially sustainable state parks systems. In particular, according to the president of the National Association of State Park Directors, other states are looking to Georgia as a model for park planning efforts. Many of the examples cited in this report refer to steps taken in Georgia's planning process.

⁴ States that responded to the auditor's survey were: Alaska, Arkansas, Connecticut, Florida, Georgia, Idaho, Iowa, Louisiana, Nevada, New Hampshire, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, South Dakota, Utah, Virginia, Washington, and West Virginia.

⁵ Arizona Department of Administration. (2011). *GAO internal audit report: Arizona State Parks*. Phoenix, AZ: Author.

AGENCY RESPONSE

Janice K. Brewer
Governor

Bryan Martyn
Executive Director



Board Members

Walter D. Armer, Jr., Vail, *Chair*
Maria Baier, State Land Commissioner, *Vice Chair*
Kay Daggett, Sierra Vista
Alan Everett, Sedona
Larry Landry, Phoenix
William C. Scalzo, Phoenix
Tracey Westerhausen, Phoenix

September 10, 2012

Debra K. Davenport, CPA
Auditor General
State of Arizona
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The Arizona State Parks Board is responding to your recent letter and latest preliminary report draft of August 31 of the Auditor General's Performance Audit and Sunset Review of the Arizona State Parks Board.

Part One of this letter will address Finding 1 and Finding 2 with Auditor Recommendations and the Agency's responses.

Part Two provides comments from the Arizona State Parks Board which will further clarify details that will be helpful for readers to understand the agency's mission and management of issues in these unprecedented times.

PART ONE

Findings and Recommendations and Agency Responses

Auditor General - Finding 1 (Left side of Page 11)

The Arizona State Parks Board (Board) faces a number of risks to the financial sustainability of the State Parks system. Many of these risks relate to the large reductions in board funding brought on by the State's budget difficulties in recent years and declining visitation. Closing parks could have an adverse effect on local economies near many of these State Parks. So far, the actions the Board has taken have allowed the State Parks to remain open or re-open, thus minimizing the potential negative impact of park closures to surrounding communities. These actions have included partnering with various organizations to help operate or support specific State Parks, reducing operating expenditures, and taking measures to increase State Park revenues. Auditors have identified some ways in which these actions could be further improved.

Recommendations (In report on Page 22)

- 1.1 *The Board should continue to maintain and expand partnerships.*

Agency Response

For the past four years, Arizona State Parks has had a continuing priority of expanding and maintaining partnerships. This has resulted in 19 funding partnerships, including agreements with Native American Nations, state agencies and local communities such as Arizona Game and Fish, Yavapai County and the City of Yuma. Partnerships with many other entities are also prominent in the other divisions of the agency as well.

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

- 1.2 *The Board should assess the impact of its recent revenue-enhancement measures – including amenities added to increase revenue potential, implementation of its new reservation system, and implementation of its adjustable fee schedule – to evaluate the effectiveness of these measures and make modifications as needed based on the results.*

Agency Response

Since many of the changes to revenue enhancements are new and additional revenue enhancements are being implemented, twice a year the Arizona State Parks Board will examine these revenue enhancements and alter these as appropriate.

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

- 1.3 *The Board should continue the development of a new marketing plan and implement it when finalized.*

Agency Response

A revised comprehensive marketing plan following the OSPB Smart Guidelines will be presented to the ASP Board for review and approval.

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

- 1.4 *The Board should implement the recommendations related to its cash-handling controls and asset inventories made in the Office of the Auditor General's 2012 procedural review.*

Agency Response

The cash handling procedures recommended by the Auditor General are already being implemented.

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

- 1.5 *The Board should continue its efforts to improve the accuracy of its visitor counts. Specifically, the Board should develop and implement procedures for standardizing methods for counting visitors across parks, as appropriate. The Board should ensure that the park employees who are responsible for making visitor counts are trained in these new procedures.*

Agency Response

Standardized methods of counting visitors have been implemented and will be constantly monitored.

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

Auditor General - Finding 2 (Pages 28-29)

Additional actions appear necessary to help address risks to the State Parks system's long-term financial sustainability. The Arizona State Parks Board (Board) should improve its planning efforts to determine how the State Parks system can best be sustained in an environment in which the Board's financial resources have changed. Specifically, The Board should:

- *Assess the strengths, weaknesses, opportunities and threats related to the agency's and specific parks' financial sustainability;*
- *Define financial sustainability as a way of providing strategic direction for future planning;*
- *Develop goals, objectives, and action plans for achieving long-term financial sustainability; and*
- *Develop performance measures to assess and monitor progress toward sustainability goals.*

Although accomplishing these efforts with diminished resources poses a challenge, the Board has access to some resources that can help with the task, such as the Governor's Office of Strategic Planning and Budgeting (OSPB) and planning approaches developed by other states.

Recommendations:

- 2.1 *The Board should assess its current strengths, weaknesses, opportunities and threats related to its financial sustainability. This assessment should include conducting park-*

level assessments. In conducting its park-level assessments, the Board should at a minimum assess each park's strengths, weaknesses, opportunities and threats, as it has done in the past. In addition, it should consider conducting a more information-driven assessment similar to Georgia's model, which would provide a more detailed picture of each park's operating situation and future prospects.

Agency Response

Every year the ASP Board develops and approves a comprehensive strategic plan. The Board will take advantage of the offer to use the OSPB technical format for the next five-year plan, which is due from all agencies by October 1. The ASP Board has an adopted policy that the agency strategic plan is a "living," constantly updated document that includes action steps. Quarterly, the ASP Board will review and update its strategic plan. Arizona State Parks has begun efforts to develop a new Strategic Plan, including an analysis of the strengths, weaknesses, opportunities and threats (SWOT) facing each park in the system. In addition, the Board, as is the case with all state agencies, will be required to have a Five Year Plan for the annual budget submission to OSPB by October 1, 2012

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

- 2.2 *The Board should develop a specific definition of financial sustainability for Arizona's State Parks and establish criteria for assessing sustainability that can provide strategic direction to board staff.*

Agency Response

Obtaining sustainable funding has been and continues to be the top priority of the Arizona State Parks Board. While Arizona State Parks formally endorsed the proposed 2012 parks funding ballot measure on June 6, 2012, that measure did not obtain enough signatures to make the November 2012 ballot. The Board's recommendation for the FY 2012-2013 budget to OSPB requested \$30 to \$34 million dollars for annual operations. This amount was consistent with reports from both the independent Morrison Institute and from Pros Consulting. Further, the Board has submitted its funding request for FY 2013-2014. The Board also directed staff to explain the \$202 million capital needs of Arizona State Parks to the Arizona Legislature.

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

- 2.3 *To improve the long-term financial sustainability of the State Parks system, the Board should improve existing goals and objectives or develop new ones that directly address factors that affect financial sustainability. As recommended by the OSPB model planning practices, the goals should describe the agency's desired results, and the objectives should be specific, measurable, aggressive, results-oriented, and time-bound. In addition, the Board should include park-level goals and objectives based on the*

individual conditions and opportunities at each park. Collectively, the Board's goals and objectives should address:

Agency Response

These recommendations have been and are part of the ASP Board's current goals.

AGENCY:

- Managing agency expenses through personnel assignments for parks, Phoenix administrative staff and Partner program staff
- Adjusting operations and service levels at the parks and in the programs
- Seeking additional revenue sources for Parks and Partner Programs

PARKS:

- Increasing visitors to Parks through reconstructed marketing/media tactics
- Maintaining and expanding partnerships, including partnerships related to operations, funding, concessions, programs, marketing and other services
- Enhancing revenue-generating strategies through action plans, marketing plans, capital improvements, innovative programming and special events, and increased partnerships and concessions

PROGRAMS

- Combining staffing, cross-training individuals to accomplish section goals
- Statewide research programs have been severely curtailed, however going forward more partnerships with other agencies will be developed
- To increase outdoor recreation opportunities, the ASPB will boost the staffing to support remaining and future grant programs

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

- 2.4 *The Board should develop strategies through actions plans, marketing plans, capital improvement plans or other plans that guide staff to achieve agency-level and park-level goals and objectives. The Board's plans should identify who is responsible for achieving actions steps, when steps should be completed, and the resources needed to complete them.*

Agency Response

The ASP Board has focused on best practices governance issues with clear direction to the Parks' Executive Director to implement the necessary approved strategic plan and the Executive Director is formally evaluated on the agency's accomplishments and achievements in relation to the adopted strategic plan.

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

2.5 *The Board should ensure that it has adequate performance measures to track its progress in meeting its revised and/or new goals and objectives. Specifically, the Board should:*

- a. Develop various measures to assess agency performance, including input, output, outcome, efficiency, and quality measures as appropriate;
- b. Determine baseline information in order to assess future progress; and
- c. Ensure that it has reliable data for measuring progress.

Agency Response

These recommendations are consistent with past and current ASPB practices. The ASPB will continue to improve in this area and in the next five-year plan.

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

2.6 *Once its plans are developed, the Board should implement its plans and use its performance measures to monitor its progress toward achieving its financial sustainability goals and objectives.*

Agency Response

These are currently policies and actions by ASP. Consistent with earlier comments in this report, the ASP Board will continually embrace best practices.

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

Sunset Factors

In accordance with Arizona Revised Statutes (A.R.S.) §41-2954, the Legislature should consider the following factors included in this report in determining whether the Arizona State Parks Board (Board) should be continued or terminated.

This analysis includes a recommendation for the Board to continue to contract with additional concessionaires where possible. (see Sunset Factor 12, pages 36-37).

Agency Response

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

PART TWO

Comments from the Board:

Page 5 – Comment: Other Board Responsibilities

In addition to the other responsibilities, we would also like to mention that the Main Street Program was added to SHPO's responsibilities in July of 2012, and is another program managed by Arizona State Parks Board.

Page 13 – Comment: Park Visitation Section

While State Parks struggled with the ongoing public perception that “all the parks were closed” after 2010, system-wide visitation dropped slightly. However, it should be noted that during this national recession, visitation to National Parks in Arizona was also down 1.8% in 2011. The Arizona Office of Tourism also reported that overall domestic and international travelers to Arizona were down 2.2% in 2011 as well.

Page 14 – Agree: Park Receipts Discussion

Until recently, the public, nationally and locally, seldom considered self-funding to be a goal of government. Without remarking on that philosophy itself, it should be noted that agencies, including Arizona State Parks, were not created, designed or legislatively intended to cover expenses. The Arizona Legislature initiated and financed the acquisition of numerous Arizona State Parks. They were created as economic engines to drive tourism to rural Arizona communities.

The financial impact of parks is usually indirect through the generation of sales in surrounding areas that generate thousands of dollars in taxes for all levels of city, county and state General Funds.

That funding reductions for Arizona State Parks have necessitated a keen focus on cash flow at Arizona State Parks has been a necessity created by circumstance, not explicit policy. Arizona State Parks is fortunate in having a few parks with substantial visitation that, when combined with dramatic cuts to staffing levels, now have a positive operating margin (as defined) that help support the other parks that were never intended to cover operating expenses, and are unlikely to ever reach that level.

Page 16 – Agree: Park receipts have not been sufficient to cover other board costs.

As of June 30, 2012, Arizona State Parks had \$153 million of fixed assets as reported to the General Accounting Office. By any of the standards of providing scheduled necessary maintenance for capital assets, the current total lack of capital funding in Arizona State Parks' financial resources is an unsustainable business model.

Insufficient capital funding is estimated at this time to be approximately \$202 million dollars, which affects the Board's ability to maintain existing assets. This also increases the risk of park closures because of public safety concerns.

Page 17 – Comment: Park Closures would have a negative impact. The Board has stated that its policy is to keep as many parks open as possible, which has been successfully achieved, at least by having all parks operating at some capacity. However, most Arizona State Parks were created by acts of the Legislature. We think the closure of a park should be a decision ratified by either the Governor, now that the ASP Director is an appointee, and the Legislature after review and recommendation by the Board.

Page 21 – Comment: New Marketing Plan

A new marketing plan is being finalized at this time. However, the agency's existing marketing plan was written, managed and maintained based on prior levels of staff and funding resources. With reductions by more than half in staff and funding, staff internally implemented numerous tactics to maintain visitation. More than 1,200 media stories, millions of web page views, 7,000 facebook fans and 6,000 Twitter followers occurred each year, even with the large number of changes in the operation of the entire park system.

Page 23 – Comment: Board should perform agency and park-level assessments.

The Board has asked Staff to perform a SWOT (strength, weakness, opportunity and threat) analysis of the agency's operations in every division and each park. This includes financial and operational planning, marketing, co-operation arrangements, and capital requirements.

However, we believe the Georgia planning efforts cited as an example provide only a template, albeit a generically clear general outline, for such planning efforts, for two reasons:

1) The State of Georgia Legislature has stated that the goal is for its park system to be 75% self sufficient, with state funding providing 25% of park system operations costs. The State of Arizona suddenly withdrew all state General Fund support in FY 2009 and FY 2010. The State provides 0% funding for Agency.

2) After discussing the implementation of the consultant's park system planning report with Georgia State Parks staff, they reported that the plan required an additional consulting contract with Pros Consulting because agency staff there could not sufficiently understand or implement it.

In fact, combined ASP park system revenues from gate fees and concessions generate, we believe, at least an 8 to 12% operating margin in the park system now, without any state General Fund support.

Page 25 – Comment: The Board should improve financial sustainability goals and objectives and develop action plans for achieving them.

The ASP Board has requested a new Strategic Plan exercise to establish a new operating plan that will focus on mission, tasks and sustainable financing of the agency, including the parks system. In addition, ASP will perform a 5-year strategic budget planning exercise for OSPB for submission by October 1, 2012. This is required of all Arizona agencies. The ASP and OSPB plans will probably contain some similar information, but differ in detail with the ASP plan probably being the more detailed.

Page 28 – Comment: Planning resources available to assist the Board

The Board and Staff will use the OSPB planning template but also other resources within the state and local governments to aid in the planning processes, including stakeholder groups and possibly private consultants.

Page 37 - #10 – Disagree: The statement that terminating the Arizona State Parks Board would not significantly harm the public health, safety, or welfare is incorrect.

The Arizona State Parks Board is responsible for the public safety, health and welfare of all 2.2 million visitors to the State Parks each year. Law enforcement personnel, as well as those in the parks with added certifications, are: first responders, wildland firefighters, wastewater and drinking water managers, e-coli water testers, and search and rescue experts. These are skills that park rangers must have to protect visitors.

Also, according to A.R.S. 41-511.03, the Board’s purposes and objectives include acquiring, preserving and maintaining areas of natural features, scenic beauty, and historic and scientific significance, pleasure, recreation and health of Arizona’s people. Other affected statewide programs would include the motorized and non-motorized recreational trails systems for residents and visitors. These programs would be eliminated as well. The State Historic Preservation Office would also be eliminated.

Further, many facilities have deed restrictions that require continual use as Arizona State Parks or the lands revert to the previous ownership.

And closing the Arizona State Parks department would create a severe economic hardship on those communities that have State Parks.

Page 39 – Agree: Concessions Discussion

The privatization plans created and endorsed by the Board are being implemented throughout the system in all categories, including expanding concession contracts. However, the Board is adamant that law enforcement, environmental education and habitat protection continue to be part of operations at the parks.

The Arizona State Parks Board and agency staff have appreciated the opportunity to work closely with the Auditor General's Staff during this performance and sunset audit process. We are continuing to implement the policies adopted by the Board to further the agency's mission, including the thorough and helpful recommendations in your report.

Sincerely,

Walter D. Armer, Jr. Chair
Arizona State Parks Board

cc: Kevin Kinsall, Governor's Office Natural Resources Liaison
Maria Baier, Vice-Chair, Arizona State Parks Board
Kay Daggett, Member, Arizona State Parks Board
Alan Everett, Member, Arizona State Parks Board
Larry Landry, Member, Arizona State Parks Board
William C. Scalzo, Member, Arizona State Parks Board
Tracey Westerhausen, Member, Arizona State Parks Board

Performance Audit Division reports issued within the last 24 months

10-07	Arizona Department of Agriculture—Sunset Factors	11-09	Arizona Department of Veterans' Services—Veterans' Donations and Military Family Relief Funds
10-08	Department of Corrections—Prison Population Growth	11-10	Arizona Department of Veterans' Services and Arizona Veterans' Service Advisory Commission—Sunset Factors
10-L1	Office of Pest Management—Regulation	11-11	Arizona Board of Regents—Tuition Setting for Arizona Universities
10-09	Arizona Sports and Tourism Authority	11-12	Arizona Board of Regents—Sunset Factors
11-01	Department of Public Safety—Followup on Specific Recommendations from Previous Audits and Sunset Factors	11-13	Department of Fire, Building and Life Safety
11-02	Arizona State Board of Nursing	11-14	Arizona Game and Fish Commission Heritage Fund
11-03	Arizona Department of Veterans' Services—Fiduciary Program	12-01	Arizona Health Care Cost Containment System—Coordination of Benefits
11-04	Arizona Medical Board	12-02	Arizona Health Care Cost Containment System—Medicaid Eligibility Determination
11-05	Pinal County Transportation Excise Tax	12-03	Arizona Board of Behavioral Health Examiners
11-06	Arizona Department of Veterans' Services—Veteran Home		
11-07	Department of Corrections—Oversight of Security Operations		
11-08	Department of Corrections—Sunset Factors		

Future Performance Audit Division reports

Arizona State Schools for the Deaf and the Blind