



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Audit

State of Arizona

Statement of Federal Land Payments

October 1, 2001 through September 30, 2002



Debra K. Davenport
Auditor General

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

State of Arizona, Department of Administration

We have audited the accompanying Statement of Federal Land Payments of the State of Arizona for the period October 1, 2001 through September 30, 2002. This statement is the responsibility of the State of Arizona. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the *Audit Guide for Bureau of Land Management Payments in Lieu of Taxes Program*, prepared by the Office of the Inspector General, U.S. Department of the Interior. Those standards and the cited audit guide require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Federal Land Payments is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this Statement of Federal Land Payments was prepared on the cash basis, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the Statement of Federal Land Payments referred to above presents fairly, in all material respects, the payments that the State of Arizona made to qualified local governmental subdivisions under 31 U.S.C. 6901 et seq, for the period October 1, 2001 through September 30, 2002, in accordance with the regulatory requirements and on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the addressees and for filing with the U.S. Department of the Interior, Bureau of Land Management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

January 16, 2003

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Federal Agency Making Payment and Type of Payment

Local Unit	USFS/MMS Timber and Secure Schools	USFS Secure Schools	USFS Bankhead-	BLM/MMS Mineral Leasing	BLM Taylor Grazing		BLM Bankhead-	BLM Sale of Materials	FERC Power Sales	FWS Refuge Revenue	Total
	Title I (A.R.S. \$11-497)	Title III	Jones	(A.R.S. \$37.741.b)	\$3 (A.R.S. \$37-725)	\$15 (A.R.S. \$37-724)	Jones	(A.R.S. \$37-521 to 525)	(A.R.S. \$35.142.A)	Sharing	Retained
Apache County	-										-
Cochise County	\$ 92,386										\$ 92,386
Coconino County	1,832,635	\$ 636,957									2,469,592
Gila County	30,886										30,886
Graham County	37,380										37,380
Greenlee County	376,963										376,963
La Paz County	-										-
Maricopa County	138,882										138,882
Mohave County	1,227										1,227
Navajo County	25,000										25,000
Pima County	72,328										72,328
Pinal County	46,497										46,497
Santa Cruz County	5,000										5,000
Yavapai County	543,993	138,157									682,150
Yuma County	-	-									-
Total	<u>\$ 3,203,177</u>	<u>\$ 775,114</u>									<u>\$ 3,978,291</u>

Abbreviations Used:

USFS - U.S. Forest Service
MMS - Mineral Management Service
BLM - Bureau of Land Management
FERC - Federal Energy Regulatory Commission
FWS - Federal Wildlife Service
A.R.S. - Arizona Revised Statutes

See accompanying notes to statement.

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Note 1 -Basis of Accounting

The Statement of Federal Land Payments was prepared on the basis of cash disbursements that the State of Arizona made to qualified local governmental subdivisions during the period October 1, 2001 through September 30, 2002, under 31 U.S.C. 6901 et seq, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. This basis of reporting federal land payments is prescribed by the U.S. Department of the Interior Rules and Regulations (43 CFR Part 1881.12), and is in accordance with the provisions of the October 16, 1978, Comptroller General of the United States Decision (B-167553).

Note 2 -Reconciliation of Federal Land Payments

The following presents a reconciliation of the amounts presented on the Statement of Federal Land Payments to the Bureau of Land Management's (BLM) Schedule of Prior Year Payments Received By State and Local Governments During the Period October 1, 2001 Through September 30, 2002:

Timber and Secure Schools, Title I and III

The State received \$7,002,295 of Timber and Secure Schools receipts, which were disbursed to the counties. Subsequently, the counties distributed \$3,024,004 to the benefit of the school districts and retained \$3,978,291. However, as of January 16, 2003, Maricopa County had not yet distributed any of its \$138,882 in receipts to school districts.

Bankhead-Jones

Monies received from the Bankhead-Jones Act are credited to the University of Arizona in compliance with the Enabling Act. The State received no amounts under this program.

Mineral Leasing

The State received and retained \$128,907, of which 50 percent was used for secondary roads and the other 50 percent was transferred to the permanent state school fund.

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Taylor Grazing, Sections 3 and 15

The State received \$1,906 and \$635, respectively, of Taylor Grazing, Sections 3 and 15 monies from October 1, 2001 through September 30, 2002. During the period the State disbursed \$68,772 and \$84,366 to the counties from current and prior year's receipts of Taylor Grazing, Sections 3 and 15, respectively.

	<u>Section 3</u>	<u>Section 15</u>
Payments received by the State	\$ 1,906	\$ 635
Add:		
Amounts received from BLM prior to, but disbursed to the counties after, October 1, 2001	<u>66,866</u>	<u>83,731</u>
Total amounts disbursed to the counties	<u>68,772</u>	<u>84,366</u>
Less:		
Amounts distributed by the counties as prescribed by the Arizona Revised Statutes §§35-725 and 35-724, respectively	<u>68,772</u>	<u>84,366</u>
Amounts retained by counties	<u>\$ 0</u>	<u>\$ 0</u>

Sale of Materials

The State received \$4,251, which was retained in the State's permanent land funds to be applied in accordance with their respective purposes.

Power Sales

The State received \$10,810, which was retained in the State's General Fund.

Refuge Revenue Sharing

Federal Wildlife Service Refuge receipts are paid directly to the counties. There are no statutes governing the counties' use of these receipts. The State received no amounts under this program.

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A.R.S. §11-497. Disbursement of forest reserve monies

The treasurer shall notify the clerk of the board of supervisors and the county school superintendent of the amount received from the state treasurer as the county share of pass through monies from the United States from forest reserves, as provided in §41-736, and thereafter the money shall be disbursed for the benefit of public schools and public roads of the county as the board of supervisors may direct.

A.R.S. §35-142. Monies kept in funds separate from general fund; receipt and withdrawal

- A. All monies received for and belonging to the state shall be deposited in the state treasury and credited to the state general fund except the following, which shall be placed and retained in separate funds:
1. The unexpendable principal of monies received from federal land grants shall be placed in separate funds and the account of each such separate fund shall bear a title indicating the source and the institution or purpose to which such fund belongs.
 2. The interest, rentals, and other expendable money received as income from federal land grants shall be placed in separate accounts, each account bearing a title indicating the source and the institution or purpose to which the fund belongs. Such expendable monies shall be expended only as authorized, regulated, and controlled by the general appropriation act or other act of the legislation.
 3. All private or quasi-private monies authorized by law to be paid to or held by the state treasurer shall be placed in separate accounts, each account bearing a title indicating the source and purpose of such fund.
 4. All monies legally pledged to retirement of building indebtedness or bonds issued by those institutions authorized to incur such indebtedness or to issue such bonds shall be placed in separate accounts.
 5. Monies of a multi-county water conservation district authorized by law to be paid to or held by the state treasurer shall be placed in separate accounts, each account bearing a title indicating the source and purpose of such fund.

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A.R.S. §35-142. Monies kept in funds separate from general fund; receipt and withdrawal (Cont'd)

6. All monies collected by Arizona game and fish department shall be deposited in a special fund known as the state game and fish protection fund for the use of the Arizona game and fish commission in carrying out the provisions of title 17.
 7. All federal monies that are received by the department of economic security for family assistance benefits and medical eligibility as a result of efficiencies developed by the department of economic security and that would otherwise revert to the state general fund pursuant to §35-190 shall be retained for use by the department of economic security in accordance with the terms and conditions imposed by the federal funding source.
 8. Monies designated by law as special state funds shall not be considered a part of the general fund. Unless otherwise prescribed by law, the state treasurer shall be the custodian of all such funds.
- B. No money shall be received or held by the state treasurer except as authorized by law, and in every instance the treasurer shall issue a receipt for money received and shall record the transaction in the statewide accounting system. No money shall be withdrawn from the treasury except upon the warrant or electronic funds transfer voucher of the department of administration.
- C. All federal monies granted and paid to the state by the federal government shall be accounted for in the accounts or funds of the state in the necessary detail to meet federal and state accounting, budgetary and auditing requirements, and all appropriations for matching such federal monies shall be transferred from the general fund to such separate funds as needed, except as otherwise required by the federal government.
- D. Nothing in this section requires the establishment of separate accounts or funds for such federal monies unless otherwise required by federal or state law. The department of administration has the authority to use the most efficient system of accounts and records, consistent with legal requirements and standard and necessary fiscal safeguards.

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A.R.S. §35-142. Monies kept in funds separate from general fund; receipt and withdrawal (Cont'd)

- E. Nothing in this section precludes the creation by the department of administration of a clearing account or other acceptable accounting method to effect prompt payment of claims from an approved budget or appropriation. The department of administration shall report each account or fund established or cancelled to the directors of the joint legislative budget committee and the governor's office of strategic planning and budgeting.
- F. Nothing in this section or any other section precludes the use of monies kept in funds separate from the general fund, the interest from which accrues to the general fund, for payment of claims against the general fund, provided sufficient monies remain available for payment of claims against such funds.
- G. The department of administration may issue warrants for qualified expenditures of federal program monies before they are deposited in the state treasury. The receipt of federal monies shall be timed to coincide, as closely as administratively feasible, with the redemption of warrants by the state treasurer. The department of administration shall limit expenditures to the amount that has been made available for the use under the grant award by the federal government. The state agency initiating the expenditures is responsible for ensuring that expenditures qualify for coverage under the guidelines of the federal grant award.
- H. The department of administration shall establish the policies and procedures for all state agencies for drawing federal monies. When the established method results in federal monies being held by this state, the department of administration may use the interest earned on the monies to pay the federal government for any related interest liability. If an interest liability is incurred due to a state agency varying from the established policies and procedures, the department of administration shall charge the appropriate agency account or fund. Interest payment charges to agencies shall be reported by the department of administration to the joint legislative budget committee on or before March 1. Any federal interest liability owed to this state as a result of the delayed federal disbursements shall be used to offset this state's interest liability to the federal government. Any remaining interest earnings shall be deposited in the state general fund.
- I. Any state agency or authorized agent of a state agency may accept credit cards pursuant to an agreement entered into by the state treasurer pursuant to §35-315 for the payment of any amount due to that agency or agent or this state.

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A.R.S. §35-142. Monies kept in funds separate from general fund; receipt and withdrawal (Cont'd)

- J. Except for the department of revenue for tax payments, agencies or authorized agents on behalf of state agencies that accept credit cards shall deduct any applicable discount fee associated with the transaction amount before depositing the net amount in the appropriate state fund. The net amount deposited in the appropriate state fund shall be considered as the full deposit required by law of monies received by the agency. Payment of any applicable discount fee shall be accounted for in the annual report submitted to the governor's office of strategic planning and budgeting in accordance with §41-1273.
- K. Any state agency that contracts with an authorized agent for the electronic processing of transactions pursuant to title 41, chapter 23 may include a provision in the contract to allow the authorized agent to impose a convenience fee. If allowed, the convenience fee shall be charged to the cardholder in addition to the transaction amount, except for the following:
 - 1. Any permits, licenses, or other authorizations needed to pursue a trade or occupation in this state.
 - 2. Any permits, licenses, or other authorizations needed to establish, expand, or operate a business in this state.
 - 3. Any permits, licenses, or other authorizations needed to register and license a motor vehicle or driver in this state.
- L. Any state agency or its authorized agent may deduct the convenience fee associated with electronic transactions listed in this subsection before depositing the net amount in the appropriate state fund. The net amount deposited in the appropriate state fund pursuant to subsection K, paragraphs 1, 2, and 3 shall be considered as the full deposit of monies that is required by law and that is received by the agency.
- M. When the percentage of electronic transactions first exceeds at least 30 percent of a state agency's total transactions, the state agency shall perform a cost benefit report, including costs of convenience fees, the amount of revenue generated and any realized cost savings. The state agency shall submit the cost benefit report to the joint legislative budget committee within 6 months after reaching the 30 percent threshold.

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A.R.S. §37-142. Monies kept in funds separate from general fund; Receipt and withdrawal (Concl'd)

N. State agencies shall report the number of transactions, the total dollar amount of transactions processed, the total dollar amount of any discount fee, and the total dollar amount of any convenience fee charged, deducted, or paid pursuant to subsections J and K of this section quarterly to the governor, the government information technology agency, and the joint legislative budget committee.

A.R.S. §37-521. Permanent state school fund; composition; use

A. The permanent state school fund shall consist of:

1. The proceeds of all lands granted to the state by the United States for the support of common schools.
2. All property which accrues to the state by escheat or forfeiture.
3. All property donated for the benefit of the common schools, unless the terms of the donation otherwise provide.
4. All unclaimed shares and dividends of any corporation incorporated under the laws of this state.
5. The proceeds of the sale of timber, mineral, gravel, or other natural products or property from school lands and state lands other than those granted for specific purposes.
6. The residue of the lands granted for the payment of the bonds and accrued interest issued by Maricopa, Pima, Yavapai, and Coconino counties, after the purpose of the grant has been satisfied, and the 5 percent of the proceeds of sales of public lands lying within this state sold by the United States subsequent to admission of this state into the union, as granted by the enabling act.

B. The fund shall be and remain a perpetual fund and distributions from the fund pursuant to article X, section 7, Constitution of Arizona, plus monies derived from the rental of the lands and property, interest and accrued rent for that year credited pursuant to §37-295 and interest paid on installment sales, shall be used as follows:

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A.R.S. §37-521. Permanent state school fund; composition; use (Concl'd)

1. If there are outstanding state school facilities revenue bonds pursuant to title 15, chapter 16, article 6, or outstanding qualified zone academy bonds pursuant to title 15, chapter 16, article 7, the state treasurer and the state land department shall annually transfer to the state school facilities revenue bond debt service fund established in §15-2054 the amount that is necessary to pay that fiscal year's debt service on outstanding state school facilities revenue bonds or qualified zone academy bonds.
2. If there are no outstanding state school facilities revenue bonds pursuant to title 15, chapter 16, article 6, or if the amount of monies available under this subsection exceeds the amount required under paragraph 1 of this subsection, the monies are subject to legislative appropriation to the new school facilities fund established by §15-2041.
3. If the amount of monies available under this subsection exceeds the amount required under paragraphs 1 and 2 of this subsection, the legislature may annually appropriate an amount to be used as provided in §15-971, subsection H, except that the amount appropriated may not exceed the amount appropriated from the permanent state school fund and from the rent and interest paid on installment sales for this purpose in fiscal year 2000-2001.
4. Notwithstanding paragraphs 1, 2, and 3 of this subsection, from and after June 30, 2001, any expendable earnings under this subsection that exceed the fiscal year 2000-2001 expendable earnings shall be deposited in the classroom site fund established by §15-977.

A.R.S. §37-522. Universities land fund; composition; use

A. The universities land fund shall consist of:

1. The proceeds of all lands granted to the state by the United States for university purposes.
2. All property donated by individuals for university purposes, unless the terms of the donation otherwise provide.
3. The sale of timber, mineral, gravel, or other natural products or property from lands granted or given for university purposes.

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A.R.S. §37-522. Universities land fund; composition; use (Concl'd)

- B. The fund is and shall remain a perpetual fund for the benefit and support of the universities of this state and distributions from the fund pursuant to article X, section 7, Constitution of Arizona together with the monies derived from the sales of timber or timber products and the rental of the lands and property, including interest and accrued rent for that year credited pursuant to §37-295, shall be used.

A.R.S. §37-523. Normal schools land fund; composition; use

- A. The normal schools land fund shall consist of:
1. The proceeds of all lands granted to the state by the United States for normal schools for the purpose of training teachers.
 2. All property donated for normal schools, teacher colleges, or colleges of education for the purpose of training teachers, unless the terms of the donation otherwise provide.
 3. The sale of timber, mineral, gravel or other natural products of property granted or donated for such purposes.
- B. The fund shall be and remain a perpetual fund for the benefit and support equally of the universities for the purpose of training teachers and distributions from the fund pursuant to article X, section 7, Constitution of Arizona together with the monies derived from the rental of the lands and property, including interest and accrued rent for that year credited pursuant to §37-295, shall be used.

A.R.S. §37-524. Agricultural and mechanical colleges land fund and school of mines land fund; composition; use

- A. The agricultural and mechanical colleges land fund, and the school of mines land fund, shall separately consist of the proceeds of:
1. All lands granted to the state by the United States for the respective purposes named.
 2. All property donated by individuals for like purposes, unless the terms of the donation otherwise provide.

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A.R.S. §37-524. Agricultural and mechanical colleges land fund and school of mines land fund; composition; use (Concl'd)

3. The sale of timber, mineral, gravel, or other natural products or property from lands granted or donated for such purposes.

- B. The funds provided for in this section shall be and remain perpetual funds for the benefit and support of the agricultural and mechanical colleges and the schools of mines at the universities and distributions from the funds pursuant to article X, section 7, Constitution of Arizona together with the money derived from the rental of lands and property, including interest and accrued rent for that year credited pursuant to §37-295, shall be used.

A.R.S. §37-525. Other land fund; composition; use

- A. The legislative, executive, and judicial public buildings land fund, the penitentiary land fund, the Arizona state hospital land fund, the state charitable, penal and reformatory institutions land fund, the schools and asylum for the deaf, dumb and blind land fund, the miners' hospital for disabled miners land fund, and the military institutes land fund shall separately consist of:

1. The proceeds of all lands granted to this state by the United States for the respective purposes named.
2. All property donated by individuals for like purposes, unless the terms of the donation otherwise provide.
3. The sale of timber, mineral, gravel, or other natural products or property from lands granted or donated for such purposes.

- B. The funds shall be and remain perpetual funds for the benefit and support of institutions corresponding to the purposes for which the funds are established, except as otherwise provided in the enabling act and §37-295 and distributions from the funds pursuant to article X, section 7, Constitution of Arizona together with the monies derived from the rental of the lands and property, shall be used. Monies in the state charitable, penal and reformatory institutions land fund are subject to legislative appropriation.

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A.R.S. §37-724. Receipts from lease of public lands

All monies received from leases of public lands within any county shall be placed to the credit of the school district within the county in which the land lies. If the lands do not lie within a school district, the monies shall be placed to the credit of the general school fund of the county.

A.R.S. §37-725. Receipts from grazing district fees; district treasurer; duties

- A. All monies received from grazing fees of a grazing district regularly established and including public lands within the county shall be placed to the credit of a special fund designated the range improvement fund of the grazing district which shall be given a number.
- B. The county treasurer of the county in which such public lands are located shall be the ex-officio district treasurer of any federal grazing district located wholly or in part within the county, and shall be liable upon his official bond for the proper care and distribution of the monies. He shall collect, receive, receipt, and account for all monies from such source, and shall pay it upon the warrant of the grazing district signed by the chairman of the board of district advisors and countersigned by the vice chairman thereof and the regional grazer in administrative charge of the district.

A.R.S. §37-741. Public roads and public education fund; purposes; approval of expenditures by legislature; distribution

- A. There is created a special fund known as the state public roads and public education fund. There shall be deposited in the fund all monies received by the state as its distributive shares of the amounts collected by the United States government under the provisions of the act of Congress of February 25, 1920, chapter 85 (41 Stat. 437) and acts amendatory thereof, entitled, "an act to promote the mining of coal, phosphate, oil, oil shale, gas and sodium on the public domain."
- B. No monies shall be expended from the fund created by subsection A of this section without prior approval therefore by an act of the legislature. The legislature may authorize expenditures from the fund for any of the following purposes:
 - 1. The construction and maintenance of public roads.
 - 2. The support of public schools or other public educational institutions.

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A.R.S. §37-741. Public roads and public education fund; purposes; approval of expenditures by legislature; distribution (Concl'd)

- C. At the beginning of each fiscal year, one-half of the balance in the state public roads and the public education fund shall be transferred to the state highway fund to be expended for secondary roads and one-half shall be transferred to the permanent state school fund and shall be administered as provided by §37-521.