



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Federal Land Payments Report

State of Arizona

Statement of Federal Land Payments

October 1, 2009 through September 30, 2010



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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Independent Accountants' Report

Members of the Arizona State Legislature

State of Arizona, Department of Administration

We have examined the accompanying Statement of Federal Land Payments of the State of Arizona for the period October 1, 2009 through September 30, 2010. This statement is the collective responsibility of the managements of the counties. Our responsibility is to express an opinion on this statement based on our examination.

We conducted our examination in accordance with the attestation standards established by the American Institute of Certified Public Accountants. Accordingly, an examination includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The accompanying Statement of Federal Land Payments was prepared to present the payments that the State of Arizona made to qualified local governmental subdivisions under 31 United States Code (U.S.C.) 6901 et seq.

In our opinion, the Statement of Federal Land Payments referred to above presents, 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, 2009 through September 30, 2010, in accordance with the regulatory requirements and on the basis of accounting described in Note 1.

In connection with our examination, we identified deficiencies in certain counties' internal control over the distribution of federal land payments that are described in the accompanying Schedule of Findings and Recommendations.

This report is intended solely for the information and use of the addressees, and counties' management, 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.

Jay Zsorey, CPA
Financial Audit Director

December 17, 2010

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Federal Agency Making Payment and Payment Type*

Local Unit	USFS/MMS	USFS Secure Schools Title III	USFS Bankhead- Jones	BLM/MMS	BLM		BLM Bankhead- Jones	BLM	FERC Power Sales	FWS Refuge Revenue Sharing	Total Retained
	Timber and Secure Schools Title I (A.R.S. §11-497)			Mineral Leasing (A.R.S. §37-741(B))	Taylor Grazing			Sale of Materials (A.R.S. §37-521)			
					§3 (A.R.S. §§37-723 & 725)	§15 (A.R.S. §37-724)					
Apache County											\$ 263,155
Cochise County	\$ 263,155										\$ 263,155
Coconino County	2,350,648	\$342,317									2,692,965
Gila County	233,500										233,500
Graham County	50,000										50,000
Greenlee County	250,000										250,000
La Paz County											
Maricopa County	487,725	40,166				\$ 328					528,219
Mohave County	8,252										8,252
Navajo County	25,000										25,000
Pima County	371,052	30,557									401,609
Pinal County	384,464	24,029									408,493
Santa Cruz County	267,614				\$7	1,180					268,801
Yavapai County	134,756	221,951				23,883			\$3,624		384,214
Yuma County											
Total	<u>\$4,826,166</u>	<u>\$659,020</u>			<u>\$7</u>	<u>\$25,391</u>			<u>\$3,624</u>		<u>\$5,514,208</u>

Abbreviations Used:

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

*These amounts represent the monies the county retained.

See accompanying notes to statement.

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Note 1 - Basis of Accounting

The Statement of Federal Land Payments (Statement) was prepared on the basis of cash disbursements that the State of Arizona made to qualified local governmental subdivisions during the period October 1, 2009 through September 30, 2010, under 31 U.S.C. 6901 et seq, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. This report is prepared in accordance with the provisions of the October 16, 1978, Comptroller General of the United States Decision B-167553. The amounts reported on this statement include only the monies the counties received and retained during the period October 1, 2009 through September 30, 2010.

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, 2009 through September 30, 2010:

Timber and Secure Schools, Title I and Title III

The State received \$16,688,162 of Timber and Secure Schools receipts, which were disbursed to the counties. Subsequently, the counties distributed \$11,202,976 for the benefit of the school districts (including accommodation schools) and retained \$5,485,186.

Bankhead-Jones

Monies the State received from the Bankhead-Jones Act are retained by the State and credited to the University of Arizona in compliance with the Enabling Act. The State received no amounts from either the USFS Bankhead-Jones or BLM Bankhead-Jones programs during the period October 1, 2009 through September 30, 2010.

Mineral Leasing

The State received \$864,774 of Mineral Leasing receipts during federal fiscal year 2010. These funds are retained by the State and are not distributed to any of the counties; as such, they are not recorded on the Statement.

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Taylor Grazing, Sections 3 and 15

The State disbursed \$55,594 and \$75,941 of Taylor Grazing monies, Sections 3 and 15, respectively, to the counties. Subsequently, the counties distributed \$55,396 to federal grazing districts, \$191 to accommodation schools, and retained \$7 of Section 3 monies. Further, the counties distributed \$50,550 for the benefit of school districts and retained \$25,391 of Section 15 monies.

Sale of Materials

The State received \$56,228, which was retained in the State's permanent land funds to be applied in accordance with their respective purposes; as such, they are not recorded on the Statement.

Power Sales

During the period October 1, 2008 through September 30, 2009, the State received \$3,624 of power sales revenue; however, the revenue was not distributed to Yavapai County until October 2009, and therefore, is being reflected as revenue received and retained by the county during the period October 1, 2009 through September 30, 2010.

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; as such, they are not recorded on the Statement. The counties received \$86 from this program during the period October 1, 2009 through September 30, 2010.

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Arizona Revised Statutes

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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. §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 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 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.

A.R.S. §37-723. Distribution of money received from United States; appropriations to counties

A. 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 June 28, 1934, known as the Taylor grazing act, and acts amendatory thereof, shall be deposited with the state treasurer. The treasurer shall distribute the funds to the several counties of the state in which the public lands are located.

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A.R.S. §37-723. Distribution of money received from United States; appropriations to counties (Concl'd)

- B. The state treasurer shall ascertain from the proper United States officers having the records of receipts from grazing permits and leased public lands the amount of receipts from sources in this state for each year for which money is received by the state. A separate account shall be kept of the amount received from each grazing district and lease of public lands, and the state treasurer shall pay the county in which the grazing district or leased public land is located. If the grazing district or leased land lies in more than one county, each county shall receive the proportional part of the amount as the area of the grazing district or leased public land included within the boundary of the county bears to the total area of the grazing district or lease.
- C. For purposes of this section the monies deposited with the state treasurer as provided by subsection A are appropriated to the several counties of the state in the proportions in which the counties are entitled thereto, as shown by the records of the United States officers and transmitted to the state treasurer.

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.

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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.
- C. At the beginning of each fiscal year, one-half of the balance in the state public roads and 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.

Schedule of Findings and Recommendations

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In planning and performing our examination, we considered the counties' internal control as a basis for designing our testing procedures for the purpose of expressing our opinion on the Statement of Federal Land Payments, but not for the purpose of expressing an opinion on the effectiveness of the counties' internal control. Accordingly, we do not express an opinion on the effectiveness of the counties' internal control.

As a result of our examination, we noted certain deficiencies in internal controls that the counties' management should correct to ensure that they fulfill their responsibility to establish and maintain adequate internal controls over federal land payments. Our findings and recommendations are described below.

10-01

The counties should distribute forest reserve monies in accordance with Arizona Revised Statutes §11-497

Criteria: Arizona Revised Statutes (A.R.S.) §11-497 require the counties' share of pass-through forest reserve monies from the United States to be disbursed for the benefit of public schools and public roads as the board of supervisors directs. Further, a county may allocate a disproportionate amount of forest reserve monies between public schools and public roads as long as both categories receive a real benefit.

Condition and context: Forest reserve monies for two counties were not properly disbursed for the benefit of public schools and public roads in accordance with A.R.S. §11-497. Apache County disbursed the entire amount of forest reserve monies received of \$1,371,662 to public schools and Pinal County disbursed the entire amount of forest reserve monies received of \$408,493 to public roads.

Effect: The counties were not in compliance with A.R.S. §11-497.

Cause: The Apache County Board of Supervisors decided that there was a greater need for the public schools and the Pinal County Board of Supervisors decided to allocate all the monies to public roads.

Recommendation: To help ensure compliance with A.R.S. §11-497, Apache and Pinal Counties should distribute forest reserve monies to benefit both public schools and public roads.

10-02

The counties should distribute Taylor Grazing, Sections 3 and 15, monies in accordance with A.R.S. §§37-724 and 37-725

Criteria: In accordance with A.R.S. §§37-724 and 37-725, all monies received from leases of public lands within any county shall be credited to the school district in which the land lies. If the lands do not lie within a school district, the monies shall be credited to the County's general school fund. Also, all monies received from grazing fees of a grazing district shall be credited to a special fund designated the range improvement fund of the grazing district.

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Condition and context: The counties did not distribute receipts from Taylor Grazing, Sections 3 and 15, monies in accordance with A.R.S. §§37-724 and 37-725. Specifically, auditors noted that Pima County disbursed \$191 of Taylor Grazing Section 3 monies to the accommodation schools, and Santa Cruz County disbursed \$7 of Taylor Grazing Section 3 monies to the County School Superintendent instead of disbursing the monies to the grazing district. In addition, Santa Cruz and Yavapai counties disbursed \$1,180 and \$23,883, respectively, of Taylor Grazing Section 15 monies to the County School Superintendent instead of the school districts in which the public land lies.

Effect: The counties were not in compliance with A.R.S. §§37-724 and 37-725.

Cause: The counties were unaware they were receiving Taylor Grazing Section 3 monies and disbursed and comingled them with the Taylor Grazing Section 15 monies. In addition, the counties misunderstood the requirements for Taylor Grazing Section 15 monies.

Recommendation: To help ensure compliance with A.R.S. §§37-724 and 37-725, the counties should deposit Taylor Grazing Section 3 monies into a federal grazing district fiduciary fund. In addition, the counties should distribute Taylor Grazing Section 15 monies only for the benefit of the school districts in which the leased public lands lie or the county's general school fund if the leased public land does not lie within a school district.

