

State of Arizona

Statement of Federal Land Payments

Federal Land Payments
Report

October 1, 2016 through
September 30, 2017

A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





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Audit Staff

Jay Zsorey, Director

Victoria Fisher, Manager and Contact Person

Contact Information

Arizona Office of the Auditor General

2910 N. 44th St.

Ste. 410

Phoenix, AZ 85018

(602) 553-0333

www.azauditor.gov



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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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, 2016 through September 30, 2017. The counties' management is collectively responsible for presenting this statement in accordance with the criteria described in note 1. 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the statement of federal land payments is in accordance with the criteria in all material respects. An examination involves performing procedures to obtain evidence about the statement. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the statement, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the statement of federal land payments referred to above is presented in accordance with the criteria described in note 1, in all material respects.

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' managements, 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

January 23, 2018

State of Arizona

Statement of federal land payments

October 1, 2016 through September 30, 2017

Local unit	Federal agency making payment and payment type*												Total
	USFS Timber Payment Title I	USFS Timber Payment Title III	USFS Timber 25% payment (A.R.S. §11-497)	USFS/ONRR Timber Payment	USFS Bankhead- Jones	ONRR/BLM	BLM		BLM Bankhead- Jones	BLM Sale of Materials (A.R.S. §37-521)	FERC Power Sales	FWS Refuge Revenue Sharing	
						Mineral Leasing (A.R.S. §37-741(B))	\$3 (A.R.S. §§37-723 & 725)	\$15 (A.R.S. §37-724)					
Apache County													
Cochise County			\$ 36,698										\$ 36,698
Coconino County			341,075										341,075
Gila County			26,843										26,843
Graham County			5,000										5,000
Greenlee County			22,166										22,166
La Paz County													
Maricopa County			103,573					\$ 323					103,896
Mohave County			235										235
Navajo County													
Pima County			39,886										39,886
Pinal County			34,705										34,705
Santa Cruz County			62,752				\$13	1,402					64,167
Yavapai County			15,751										15,751
Yuma County													
Total			\$688,684				\$13	\$1,725					\$690,422

Abbreviations used:

USFS—U.S. Forest Service
A.R.S.—Arizona Revised Statutes
ONRR—Office of Natural Resource Revenue
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.

State of Arizona

Notes to statement of federal land payments

October 1, 2016 through September 30, 2017

Note 1 - Basis of accounting

The statement of federal land payments was prepared on the basis of cash disbursements that the State of Arizona (State) made to qualified local governmental subdivisions during the period October 1, 2016 through September 30, 2017, under 31 United States Code 6901 et seq., and 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 retained during the period October 1, 2016 through September 30, 2017.

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, 2016 through September 30, 2017:

Forest Service Timber (Timber)

The State received \$1,425,469 of Timber receipts, which were disbursed to the counties. Subsequently, the counties distributed \$736,785 for the benefit of the school districts (including accommodation schools) and retained \$688,684.

Bankhead-Jones

The State retains monies received from the Bankhead-Jones Act and credits them 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, 2016 through September 30, 2017.

Mineral Leasing

The State received \$99,969 of Mineral Leasing receipts during the period October 1, 2016 through September 30, 2017. 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.

Taylor Grazing, Sections 3 and 15

The State disbursed \$72,607 and \$111,915 of Taylor Grazing monies, Sections 3 and 15, respectively, to the counties. Subsequently, the counties distributed \$60,043 to federal grazing districts, deposited \$12,551 in a special range improvement fiduciary fund, and retained \$13 of Section 3 monies. Further, the counties distributed \$110,190 for the benefit of school districts and retained \$1,725 of Section 15 monies.

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Sale of materials

The State received \$59,760 of sale of materials receipts, which was retained in the State's permanent land funds to be applied in accordance with their respective purposes; as such, these monies are not recorded on the statement.

Power sales

The State received no revenue from FERC power sales during the period October 1, 2016 through September 30, 2017.

Refuge revenue sharing

The State received no revenue from the Federal Wildlife Service Refuge Revenue Sharing during the period October 1, 2016 through September 30, 2017.

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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 section 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. After any appropriation pursuant to section 37-527, 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 five per cent 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.
- 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.

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- C. For the 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.

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 therefor 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 section 37-521.



SCHEDULE OF FINDINGS AND RECOMMENDATIONS

In planning and performing our examination, we considered the counties' internal control to design procedures that are appropriate in the circumstances 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 identified 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 finding and recommendation is described below.

2017-01

The counties should distribute forest reserve monies in accordance with The Twenty-Five Percent Fund Act of 1908 and Arizona Revised Statutes §11-497

Criteria—The Twenty-Five Percent Fund Act of 1908 (1908 Act) requires the counties' monies received from the U.S. Forest Service to be used for roads and schools in the manner provided for by state statute. Arizona Revised Statutes (A.R.S.) §11-497 requires 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 Apache County, Coconino County, and Navajo County were not properly disbursed for the benefit of both public schools and public roads in accordance with the 1908 Act and A.R.S. §11-497. Specifically, Apache County and Navajo County disbursed \$30,264 and \$40,483, the entire amount of forest reserve monies received, respectively, to public schools, and Coconino County retained \$341,075, the entire amount of forest reserve monies received.

Effect—The counties were not in compliance with the 1908 Act and A.R.S. §11-497.

Cause—The Apache County Board of Supervisors decided that there was a greater need for the public schools, the Navajo County Board of Supervisors decided there were not enough monies to distribute to the Road Fund, and the Coconino County Board of Supervisors was unaware of the requirement under the 1908 Act and A.R.S. §11-497 to distribute the monies for the benefit of both public schools and public roads.

Recommendation—To help ensure compliance with the 1908 Act and A.R.S. §11-497, Apache County, Coconino County, and Navajo County should distribute forest reserve monies to benefit both public schools and public roads.

This finding is similar to prior-year finding 2016-01.

