



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Performance Audit Division

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Performance Audit

# State Parks Board

Heritage Fund

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JULY • 2002  
REPORT NO. 02 – 04



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**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

July 3, 2002

Members of the Arizona Legislature

The Honorable Jane Dee Hull, Governor

Mr. Ken Travous, Executive Director  
Arizona State Parks Board

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona State Parks Board—Heritage Fund conducted pursuant to A.R.S. §41-504 and under the authority vested in the Auditor General by A.R.S. §41-1279.03. I am also transmitting with 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 plans to implement 6 of 7 recommendations addressed to it and reports it will not implement 1 recommendation.

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

This report will be released to the public on July 5, 2002.

Sincerely,

Debbie Davenport  
Auditor General

Enclosure

# PROGRAM FACT SHEET

## Arizona State Parks Board Heritage Fund Program

### Services:

A.R.S. §41-503 specifies that Heritage Fund monies be distributed among the following program areas:

- **Local, regional, or state parks**—For the acquisition and development of land and facilities for outdoor recreation and open space;
- **Acquisition of natural areas**—For acquiring parcels of land or water containing unique terrestrial or aquatic ecosystems, rare species of plants and animals, or unusual or outstanding geologic or hydrologic features;
- **Local, regional, and state historic preservation projects**—Provides funding assistance to local, regional, and statewide historic and prehistoric preservation projects;
- **State parks acquisition or development**—For acquiring and developing state park lands, sites, and facilities;
- **Environmental education**—Develops and promotes educational processes, programs, and activities;
- **Local, regional, and state trails**—Provides funding for the acquisition and improvement of Arizona's nonmotorized trails;
- **Maintenance, operation, and management of natural areas**—For the operation and management of natural areas administered by the Board.

### Mission:

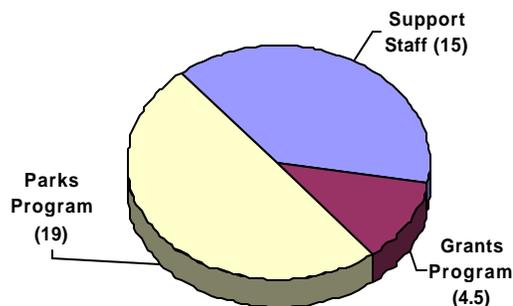
According to A.R.S. §41-511.03, the Board's general mission is to select, acquire, preserve, establish, and maintain areas of natural features, scenic beauty, historical and scientific interest, and zoos and botanical gardens, for the education, pleasure, recreation, and health of the people, and for such other purposes as may be prescribed by law.

### Fixed asset purchases:

Since its inception in 1990, the Board has received over \$101 million in Heritage Fund monies. Most of these monies have been used to award competitive grants to various

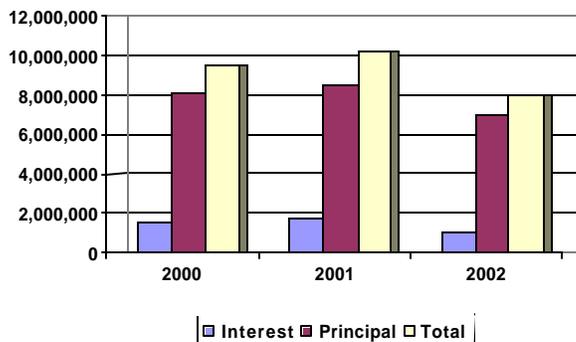
### Program staffing:

38.5 (fiscal year 2002, estimated)



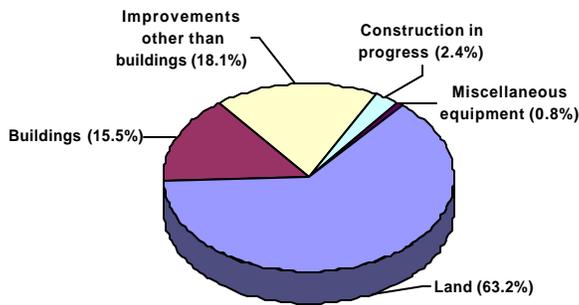
### Program revenue:

\$8 million (fiscal year 2002, estimated)



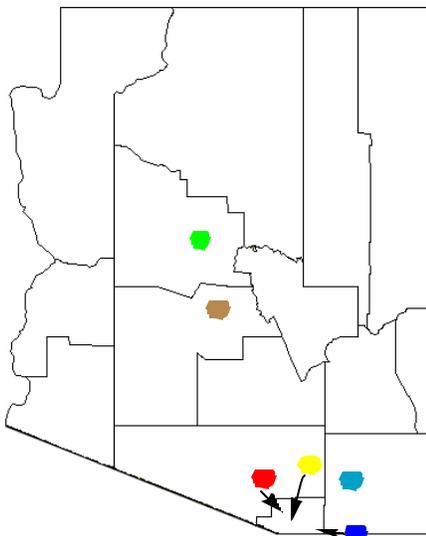
governmental entities, such as cities, towns, counties, tribal governments, and state and federal agencies for park and trail development and historic preservation projects. Additionally, more than \$35.5 million of Heritage Fund monies have been used to purchase various fixed assets for the State Parks Board, as shown at left.

### Fixed asset purchases:



### Heritage Fund purchased properties:

(fiscal years 1999 through 2002)



- Verde River Greenway (4 properties)
- Post Property
- Rojas Property
- Sonoita Creek State Natural Area (3 properties)
- San Rafael Ranch
- Spur Cross Ranch

### Board goals:

While most Board goals are not specific to the Heritage Fund, the following goals are applicable to Fund activities:

1. To effectively provide the right services and information by involving our customers and partners in our programs, parks, and planning efforts.
2. To improve the efficiency of grants administration.
3. To offer technical assistance, educational opportunities, written guidance, grants, and other financial incentives for our partners.

### Adequacy of performance measures:

The Board should consider adding additional performance measures for its Heritage Fund program areas. Currently, the Board has established only three performance measures specifically related to Heritage Fund activities. These performance measures track the percentage of Trails, Local, Regional, or State Parks (LRSP), and Historic Preservation grant projects funded as high priority. Within each of these grant categories, the Board strives to fund grant applications meeting or exceeding a minimum score.

The Board should consider developing additional performance measures for its Heritage Fund activities. For example:

- For its Heritage Fund grant programs, the Board could adopt output measures that report the number of applications approved, an outcome measure that reports the percentage of grant projects completed within the time frames specified, and a quality measure to reflect customer satisfaction with the Board's granting process.
- For Heritage Fund acquisitions, the Board could adopt output measures to report the number of natural areas and parks acreage acquired and the monies expended to purchase and develop these acquisitions for public use.

# SUMMARY

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The Office of the Auditor General has conducted a performance audit of the Heritage Fund program areas at the Arizona State Parks Board (Board) pursuant to Arizona Revised Statutes (A.R.S.) §41-504. This audit was conducted under the authority vested in the Auditor General by A.R.S. §41-1279.03.

Approved by Arizona voters in 1990, the Heritage Fund sets aside up to \$10 million annually from Lottery revenues for the State Parks Board to preserve, protect, and enhance Arizona's natural and scenic environment, and its historical and cultural heritage. Recent declines in Lottery revenues to the Heritage Fund have lowered this amount to nearly \$8.5 million in fiscal year 2001, and the Board estimates that revenues to the Fund will total only about \$7 million in fiscal year 2002. Statute specifies how these monies are to be distributed among seven program areas, including the acquisition and development of parks, acquisition of natural areas with unique features or ecosystems, the acquisition and preservation of historic buildings, and the development of trails.

## Recent acquisitions generally appropriate, but process could be improved (see pages 9 through 15)

The Board has acquired 11 properties since fiscal year 1999, at a cost of nearly \$14.5 million. These purchases include the acquisition of two new natural areas and the expansion of properties near four existing parks. However, most of these purchases were related to two large projects, the Verde River Greenway adjacent to Dead Horse State Park in central Arizona and the Sonoita Creek State Natural Area in southeast Arizona. For example, the Board originally acquired property along Sonoita Creek in 1994, but the property acquired was inadequate to protect the area's natural features. In fiscal year 2001, the Board acquired three additional properties at Sonoita Creek and is negotiating with a developer to acquire another large parcel in this area.

In some cases, the Board is extending its purchasing power through the use of conservation easements. Conservation easements give the Board the ability to preserve and control the property's development, allowing it to protect the property at less cost than purchasing the property outright. For example, in 1999, the Board acquired land and a

### Facts:

- Since fiscal year 1999, the Board has spent approximately \$14.5 million acquiring 11 Heritage Fund properties
- Most purchases relate to two large projects—the Verde River Greenway and Sonoita Creek State Natural Area

conservation easement at San Rafael Ranch, a unique, semi-desert grassland located in southeastern Arizona. The Board actually purchased 3,557 acres of the ranch, while it acquired a conservation easement over the property's remaining 17,574 acres.

For the most part, the steps taken to acquire these properties complied with statute and the Board's acquisition guidelines and processes; however, there were exceptions. Specifically, while the Board mostly followed its acquisition procedures for its 11 acquisitions, including obtaining property appraisals and surveys and conducting environmental studies, acquisition files contained limited evidence that necessary management and advisory committee reviews had occurred. For example, seven of the natural areas acquisition files did not contain evidence that the Natural Areas Program Advisory Committee, which reviews proposed natural areas acquisitions, made a recommendation related to the property acquisitions. The Board's acquisition processes can also be improved by instituting additional reviews that are currently not required, such as an independent review of property appraisals.

Finally, with the continued reduction in Heritage Fund monies available for property acquisition, the Board should enhance its planning efforts for future acquisitions. While evaluating and prioritizing future properties for acquisition is an important part of the acquisition process, the Board has only done this on a limited basis. Therefore, the Board should develop criteria and establish procedures for evaluating and prioritizing properties.

#### Facts:

- In fiscal year 2002, the Board awarded 30 grants
- Grants totaled \$3.7 million

### Board has established a comprehensive grants program (see pages 17 through 20)

The Board has established an effective grants program that distributes Heritage Fund monies to qualifying local, regional, and state parks; trails; and historic preservation projects. Heritage Fund grants offer benefits throughout the State by awarding matching grant monies to cities, towns, counties, tribal governments, and state and federal agencies to fund a variety of recreation and resource-enhancing projects. In fiscal year 2002, the Board awarded 30 grants totaling \$3.7 million. These included a \$172,400 grant for the Town of Clarkdale to develop a new park and a grant of nearly \$74,600 for the City of Glendale to continue rehabilitating historic buildings. The Board has established comprehensive policies and procedures governing the review, approval, award, and monitoring of project grants and it generally follows these policies and procedures. However, for 5 of 10 grant files reviewed that lacked documentation showing that the Board received quarterly reports, the Board did not follow up on the missing reports. Therefore, the Board should follow its monitoring procedures to ensure that grant projects are proceeding appropriately. Further, the Board should adopt administrative rules formalizing the granting process.

## Board should more accurately allocate expenditures to its Heritage Fund (see pages 21 through 24)

The Board should adopt a mechanism to more accurately track the time that employees spend on Heritage Fund activities and then appropriately allocate these salaries and related expenditures to the Heritage Fund. According to statute, Heritage Fund monies can only be spent on Heritage Fund activities or for administering the Fund. The Board currently funds 38.5 of its positions from the Heritage Fund, but can provide no assurance that this allocation of salary and related expenditures accurately reflects the work performed agency-wide by its staff on Heritage Fund-related activities or projects. For example, based on estimates provided by nine staff currently charged to the Fund, only one of these staff work full-time on Heritage Fund activities, while the other eight report working from 10 to 66 percent of their time on these activities. Other state agencies with similar needs to allocate expenditures across various programs or projects have developed time-reporting systems, while the Department of Administration is currently developing a statewide payroll and benefits system that will provide state agencies with the ability to track employee time and activity. The Board should develop more reliable estimates of the time its employees spend on Heritage Fund activities and allocate expenditures accordingly. Further, the Board should work with the Department of Administration to determine if the State's new system scheduled for implementation in 2003 will allow it to track employee time spent on various activities and, if so, implement this component of the new system.



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# INTRODUCTION & BACKGROUND

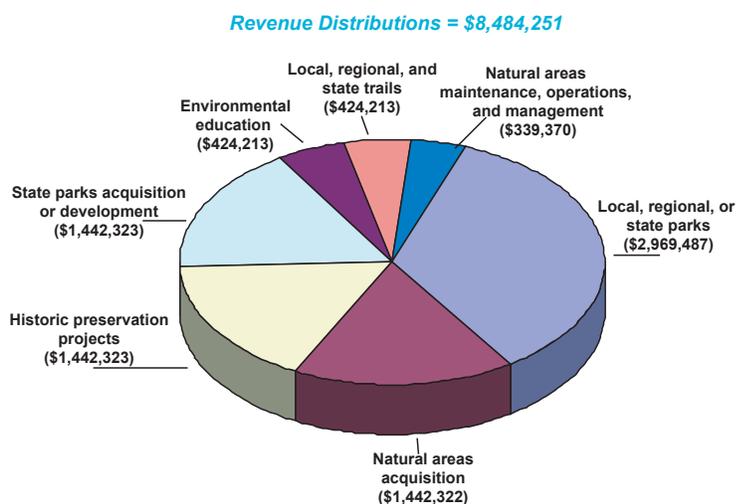
The Office of the Auditor General has conducted a performance audit of the Heritage Fund programs at the Arizona State Parks Board (Board) pursuant to Arizona Revised Statutes (A.R.S.) §41-504. This audit was conducted under the authority vested in the Auditor General by A.R.S. §41-1279.03.

## Heritage Fund history and purpose

The Heritage Fund ballot initiative, approved by Arizona voters in 1990, sets aside up to \$20 million annually from Lottery revenues for preserving, protecting, and enhancing Arizona's natural and scenic environment, and its historical and cultural heritage. The Heritage Fund monies are divided evenly between the Arizona Game and Fish Commission and the Board, with each receiving up to \$10 million annually. Since the Heritage Fund's inception, the Board has received slightly more than \$101 million in Lottery revenues for the Heritage Fund. A.R.S. §41-503 specifies how these monies are to be distributed among the Board's seven program areas:

- **Local, regional, or state parks for outdoor recreation and open space**—Thirty-five percent of the Board's Heritage Fund monies are designated for the acquisition and development of land and facilities for outdoor recreation and open space.
- **Acquisition of natural areas**—Seventeen percent of Heritage Fund

Figure 1: Allocation of Heritage Fund Monies<sup>1</sup>  
Year Ended June 30, 2001  
(Unaudited)



<sup>1</sup> Heritage Fund monies consist solely of Lottery revenue distributions, which totaled \$8,484,250 for the year ended June 30, 2001. These monies are allocated for the indicated purposes based on percentages defined in A.R.S. §41-503.

Source: Auditor General staff analysis of the Arizona Financial Information System's *Revenue and Expenditure by Fund, Program, Organization and Object* for the year ended June 30, 2001.

Fact:

- The Board has received more than \$101 million since 1990
- Monies are divided among seven programs

monies are designated for acquiring parcels of land or water containing unique natural terrestrial or aquatic ecosystems, rare species of plants and animals, or unusual or outstanding geologic or hydrologic features.

- **Local, regional, and state historic preservation projects**—Seventeen percent of Heritage Fund monies are designated to provide funding assistance to local, regional, and statewide historic and prehistoric preservation projects.
- **State parks acquisition or development**—Seventeen percent of Heritage Fund monies are designated for acquiring and developing state park lands, sites, and facilities.
- **Environmental education**—Five percent of Heritage Fund monies are designated for educational processes, programs, and activities.
- **Local, regional, and state trails**—Five percent of Heritage Fund monies are designated for trail acquisitions and existing trail improvements for Arizona’s nonmotorized trails within the State Trails System.
- **Maintenance, operation, and management of natural areas administered by the Board**—Four percent of Heritage Fund monies are designated for the operation and management of natural areas administered by the Board.

Although the Board can receive up to \$10 million in Heritage Fund monies annually, the actual amount depends on total Lottery revenues. As illustrated in Figure 1, page 1, the Heritage Fund program areas received nearly \$8.5 million from Lottery revenues in fiscal year 2001.

## Heritage Fund accomplishments

The Board has used Heritage Fund monies for a wide variety of projects and activities, as highlighted below:

- **Acquisition and protection of natural areas**—In the past several years, the Board has used Heritage Fund monies to acquire property and pursue alternative protection strategies, such as conservation easements. For example, the Board purchased 3,557 acres of rolling short-grass prairie on the southern section of the San Rafael Valley in Santa Cruz County. The Board also purchased a conservation easement on 17,574 acres of land over the northern portion of the Valley, protecting a unique ecosystem. Additionally, in partnership with Maricopa County and the Town of Cave Creek, the Board purchased a second conservation easement at Spur Cross Ranch, preserving 2,134 acres in northern

Courtesy of Arizona State Parks Board's External Affairs Division



San Rafael Grassland

Maricopa County. These purchases represent the Board's initial efforts to protect natural areas in the State through the purchase of conservation easements.

- **Environmental education**—In recent years, the Board has used Heritage Fund monies to create various educational materials used at state parks. These include individual park curriculum guides; hike planning, trail, and natural history brochures; and agency-wide newsletters. For example, an interpretive training handbook on Kartchner Caverns was created to help Board staff educate park visitors and increase their awareness and appreciation of the caverns. Heritage Fund monies have also provided school field trip opportunities and support public presentations to service organizations, schools, church groups, professional organizations, and nonprofit organizations.
- **Competitive grant programs**—In fiscal years 2001 and 2002, the Board awarded over \$8 million in matching Heritage Fund monies for 68 projects in various municipalities and counties throughout the State. In these 2 years, Heritage-funded projects included the acquisition, preservation, rehabilitation, and restoration of 22 historic preservation projects, the acquisition and improvement of 20 trails, and the acquisition and development of 26 parks.

### Conservation easement:

As defined in statute, a conservation easement conveys a nonownership interest in real property. The easement imposes limitations or obligations on the property for conservation purposes. For example, a landowner wishing to limit the use of his land could convey some of the rights to the land, such as residential or commercial development, in the form of a conservation easement, but retain the right to grow crops or graze cattle. Conservation easements are usually less expensive than purchasing the property outright and allow the land to remain taxable for local governments.

## Heritage Fund-related advisory committees

Four citizen-based advisory committees assist the Board with Heritage Fund-related activities. The volunteers who serve on these committees provide expertise and knowledge and may review, recommend, and advise staff on the competitive grant process or other state projects. In addition, these advisory committees assist the Board in planning and implementing numerous programs.

- **Arizona Outdoor Recreation Coordinating Committee (AORCC)**—This Governor-appointed seven-member committee recommends criteria and policies for trails and local, regional, and state parks grant programs. It also reviews grant applications and provides funding recommendations to the Board.
- **Arizona State Committee on Trails**—This Board-appointed 25-member committee provides technical advice to AORCC and the Board on trails grant criteria and project requests. Its main mission is to promote, develop, and preserve nonmotorized trail opportunities throughout the State.

- **Historic Preservation Advisory Committee**—This Board-appointed seven-member committee recommends criteria and policies for the Historic Preservation grant program. The committee also reviews and comments on staff recommendations to the Board regarding historic preservation grant applications, grant policies, and funding priorities.
- **Natural Areas Program Advisory Committee**—This Board-appointed seven-member committee evaluates and recommends natural areas for potential acquisition and provides assistance with natural area management plans.

## Budget and Staffing

Because of a decrease in Lottery revenues to state programs, payments to the Heritage Fund have decreased since fiscal year 1999 and are projected to decrease again in fiscal year 2002. For example, while the Board received approximately \$8.5 million in lottery revenues in fiscal year 2001, it estimates the Heritage Fund will receive only \$7 million in fiscal year 2002. The amount of Heritage Fund monies received and expended by each of the seven program areas for fiscal years 1998 through 2001 is shown in Table 1 (see page 5).

By statute, the Board cannot spend more than the funding allocations it receives for its Heritage Fund program areas, but if it does not spend its full annual allocation, it can carry these monies forward to fund future projects. As Table 1 (see page 5) shows, the Board had a \$30 million balance in Heritage Fund monies at the end of fiscal year 2001. However, about \$25 million of this amount has already been designated for specific projects and only \$5 million remains undesignated.

According to statute, the Board can use Heritage Fund monies only for specified purposes. While the Board has over 340 full-time equivalent employees (FTEs), it currently uses Heritage Fund monies to pay for 38.5 of these positions. These positions include park rangers, park planners, and administrative and technical support staff.

## Future distributions to the Heritage Fund

A June 2002 Auditor General performance audit of the Arizona State Lottery Commission (Report No. 02-02) reported that the Lottery was incorrectly distributing revenues to the Heritage Fund. Specifically, the Lottery Commission incorrectly distributed revenues from two games to the Local Transportation Assistance Fund and the County Assistance Fund until they received their statutorily allowed amounts, and only then began to distribute these game revenues to the Heritage Fund. While this practice had no effect on the total amount of money the Heritage Fund received in each fiscal year, it did result in delayed payments to the Fund, and lost interest revenue. The report recommended that the Arizona State Lottery Commission distribute these monies consistent with statutory requirements. The Lottery indicated that it will do so.

### Fact:

Payments to the Heritage Fund have decreased to approximately \$7 million in fiscal year 2002

Table 1: Schedule of Revenues, Expenditures, and Accumulated Fund Balance by Program Area  
 Years Ended June 30, 1998 through 2001  
 (Unaudited)

	Acquisition or Development	Environmental Education	Historic Preservation	Local, Regional, and State Parks	Natural Areas Acquisition and Operation	Natural Areas Maintenance and Operation	Local, Regional, and State Trails	Administration	Total
Fund balance, June 30, 1997	\$4,210,751	\$826,119	\$5,466,546	\$ 8,631,438	\$7,910,755	\$1,711,160	\$1,672,638	\$2,357,060	\$32,786,467
<b>Fiscal year 1998:</b>									
Revenues <sup>1</sup>	1,700,000	500,000	1,700,000	3,500,000	1,700,000	400,000	500,000	1,675,744	11,675,744
Expenditures	(1,514,955)	(503,379)	(1,592,758) <sup>2</sup>	(4,258,907)	(48,786)	(267,436)	(315,210)	(1,115,447)	(9,616,878)
Fund balance, June 30, 1998	4,395,796	822,740	5,573,788	7,872,531	9,561,969	1,843,724	1,857,428	2,917,357	34,845,333
<b>Fiscal year 1999:</b>									
Revenues <sup>1</sup>	1,416,618	416,653	1,416,619	2,916,567	1,416,618	333,322	416,652	1,570,368	9,903,417
Expenditures	(1,150,741)	(451,445)	(1,411,645)	(2,098,306)	(9,072,388)	(207,449)	(223,807)	(1,345,770)	(15,961,551)
Fund balance, June 30, 1999	4,661,673	787,948	5,578,762	8,690,792	1,906,199	1,969,597	2,050,273	3,141,955	28,787,199
<b>Fiscal year 2000:</b>									
Revenues <sup>1</sup>	1,439,900	423,500	1,439,900	2,964,500	1,439,900	338,800	423,500	1,453,975	9,923,975
Expenditures	(948,179)	(383,200)	(1,646,133)	(2,548,351)	(182,169)	(391,216)	(399,914)	(1,365,785)	(7,864,947)
Fund balance, June 30, 2000	5,153,394	828,248	5,372,529	9,106,941	3,163,930	1,917,181	2,073,859	3,230,145	30,846,227
<b>Fiscal year 2001:</b>									
Revenues <sup>1</sup>	1,442,323	424,213	1,442,323	2,969,487	1,442,322	339,370	424,213	1,735,177	10,219,428
Expenditures	(649,783)	(398,535)	(3,967,729)	(1,865,011)	(1,695,321)	(306,958)	(216,808)	(1,345,582) <sup>2</sup>	(10,445,727)
Fund balance, June 30, 2001 <sup>3</sup>	\$5,945,934	\$853,926	\$2,847,123	\$10,211,417	\$2,910,931	\$1,949,593	\$2,281,264	\$3,619,740	\$30,619,928

<sup>1</sup> Revenues for each program area except administration are Lottery proceeds. Administration revenue is interest earned on investments.

<sup>2</sup> Includes \$105,691 of operating transfers out for Historic Preservation in fiscal year 1998 and \$5,454 of operating transfers out for Administration in fiscal year 2001.

<sup>3</sup> Includes approximately \$25.1 million designated for grants, land acquisitions, and other operating costs.

Source: Auditor General staff analysis of the Arizona Financial Information System Revenue and Expenditures by Fund, Program, Organization, and Object and Trial Balance by Fund reports for the years ended June 30, 1998 through 2001.

## Audit scope and methodology

This audit focused on Heritage Fund-supported program areas at the Arizona State Parks Board. Specifically, auditors reviewed the Board's land acquisition process, acquisition planning efforts, Heritage Fund-supported grant programs, and the Board's practices for allocating personnel and other expenses to the Heritage Fund. This audit also reviewed concerns identified in the Auditor General's 1997 performance audit (Report No. 97-23) related to land acquisitions and Heritage Fund expenditures. This audit includes three findings, as follows:

- While the Board has acquired several properties and generally follows its acquisition procedures, it needs to improve certain aspects of its acquisition process and strengthen planning for future acquisitions, in light of decreasing revenues;
- While the Board has established a comprehensive process for awarding and administering grants, it needs to follow the monitoring procedures it has established; and
- The Board needs to more accurately allocate personnel costs and other expenditures to the Heritage Fund.

Auditors used a variety of methods for this review, including interviewing Board management and staff, Board members, committee members from the four advisory committees, and officials from the Heritage Alliance, a nonprofit organization created to advocate for Arizona's Heritage Fund. Auditors also reviewed statutes, rules, policies and procedures, and selected Board and Committee minutes from November 1997 through November 2001. The following methods were also used:

- To assess the Board's Heritage Fund land acquisition process, auditors reviewed all 11 acquisitions purchased using Heritage Fund monies in fiscal years 1999, 2000, and 2001, and through March of fiscal year 2002. Auditors reviewed the Board's land acquisition policies and procedures and reviewed and analyzed various acquisition documents, including acquisition plans, financial reports, management plans, environmental site assessments, title documents, and appraisals. In addition, auditors interviewed other states and jurisdictions to learn about their land acquisition and planning processes.<sup>1</sup>
- To assess whether the Board follows its policies and procedures for reviewing, approving, and monitoring Heritage Fund-supported competitive grant programs, auditors reviewed a random sample of a total of 45 approved and unapproved grant applications from the 1997, 1998, 1999, and 2000 grant cycles. Auditors also contacted five grant applicants to discuss their perceptions of the grant process.
- To assess whether the Board appropriately accounts for Heritage Fund expenditures, auditors reviewed the Board's expenditure allocation process and surveyed 13 staff to estimate the time they spend on Heritage Fund activities.

<sup>1</sup> Auditors interviewed land acquisitions administrators at the National Park Service and the City of Phoenix since both these jurisdictions purchase land for parks. Auditors also interviewed State Parks Department officials in California, Colorado, Missouri, Nevada, and Oregon because of their geographic similarity to Arizona.

Auditors also reviewed the Board's fiscal year 2001 budget and the Arizona Financial Information System (AFIS) Revenue and Expenditures by Fund, Program, Organization, and Object Code Reports for fiscal years 1997 through 2001.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Arizona State Parks Board members, executive director, and staff for their cooperation and assistance throughout the audit.



# FINDING 1

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## Recent acquisitions generally appropriate, but process could be improved

While recent acquisitions generally complied with requirements, the Board needs to improve its planning and procedures for land acquisitions to ensure it effectively spends its limited Heritage Fund monies. The Board has acquired 11 properties at a cost of nearly \$14.5 million since fiscal year 1999. For the most part, the steps taken to acquire these properties complied with statutory requirements and with the Board's established guidelines. However, the Board can do more to improve compliance with requirements and to provide better review of key components in the process. Additionally, with the continued reduction of monies available for acquisitions, the Board needs to enhance its planning for future acquisitions.

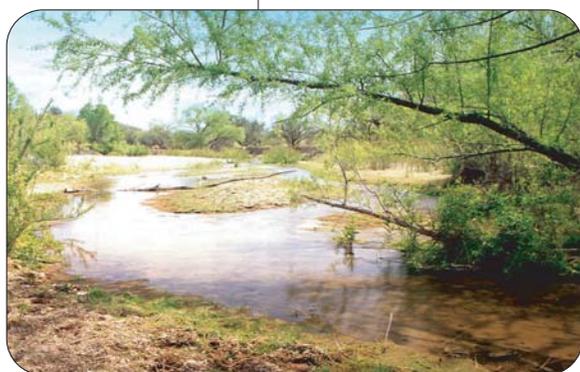
### Monies designated for acquisitions

The Heritage Fund provides the Board up to \$3.4 million annually for land acquisition. Statute designates 17 percent or a maximum of \$1.7 million of Heritage Fund revenue annually for state park acquisition or development, and another 17 percent for the acquisition of natural areas. However, in fiscal year 2001, due to a decrease in Lottery revenues available for state programs, the Board received only \$2.9 million for land acquisition, instead of \$3.4 million. The Board does have an additional source of revenue for acquisitions, in that it has authority to use part of the Heritage Fund's historic preservation monies to acquire land containing cultural resources. For example, in addition to using natural areas monies, the Board set aside a total of \$2.4 million of historic preservation monies in 1999, 2000, and 2001 to help acquire a conservation easement at Spur Cross Ranch in Maricopa County. The Board used historic preservation monies because the Spur Cross Ranch property contains over 90 archaeological sites.

## Many properties acquired

The Board has acquired 11 properties using Heritage Fund monies since fiscal year 1999, at a cost of approximately \$14.5 million. As illustrated in Table 2 (see page 11), the Board purchased parcels of land near four existing parks and conservation easements at two new natural areas. The majority of these purchases were made as part of two large projects that the Board began earlier: the Verde River Greenway, which is adjacent to Dead Horse State Park in central Arizona, and the Sonoita Creek State Natural Area near Patagonia Lake State Park in southeast Arizona. The following examples illustrate the types of properties acquired with Heritage Fund monies.

- **Sonoita Creek State Natural Area**—In fiscal year 1994, the Board established Arizona's first "State Natural Area," Sonoita Creek State Natural Area, when it acquired 4,914 acres in Santa Cruz County. Sonoita Creek and the associated shallow ground water sustain a lush riparian environment that supports an extensive and diverse wildlife population. However, the property the Board originally purchased was inadequate to protect the area's natural features. In its 1997 report, the Auditor General suggested that the Board obtain additional properties, conservation easements, or other agreements from landowners owning parcels that border the creek to adequately and effectively protect the natural area (see Report No. 97-23). In fiscal year 2001, the Board purchased three additional parcels, or 111 acres, at a cost of \$527,708 and is negotiating with a developer to acquire another large parcel.



Sonoita Creek State Natural Area

Courtesy of Arizona State Parks Board

- **San Rafael Ranch**—In 1999, the Board purchased its first conservation easement at San Rafael Ranch. The ranch, located in southeastern Arizona, is semi-desert grassland, which stretches from the Santa Cruz River to the foothills of the Patagonia and Huachuca mountains and has a largely intact native plant community. The Board purchased 3,557 acres of the parcel and purchased a conservation easement over the remaining 17,574 acres. The conservation easement gives the Board the right to block the use of the property in ways that would be detrimental to its environmental, historical, or related aspects. For example, the easement prohibits the property owner from subdividing the property, and from engaging in any activity requiring excessive use of water, such as irrigated crops or a golf course. This right allows the Board to protect the property at less cost than purchasing it outright, while also leaving the property on the county tax rolls.

The number of properties acquired since the 1997 Auditor General's report has increased significantly and thereby reduced the natural areas fund balance. The Auditor General report noted that the Board had acquired only two natural areas properties and had accumulated a balance of nearly \$8.8 million in Heritage Fund money designated for

### Fact:

- As of 1997, the Board had acquired 2 natural areas
- The Board has acquired an additional 11 properties since fiscal year 1999

Table 2: Schedule of Real Estate Acquisitions  
for Period July 1, 1998 through March 31, 2002  
(Unaudited)

Property	Date Acquired	Cost <sup>1</sup>	Approximate Acreage	Reason for Acquisition
<b>Verde River Greenway</b>				
Valley Concrete	August 1998	\$ 367,071	62	These four properties were acquired to expand the Greenway
Indian Hill Ranch	September 2001	609,050	69	
Harrington property	December 2001	96,759	11	
Mattos property	March 2002	139,583	14	
<b>Kartchner Caverns State Park</b>				
Post property	September 1999	181,472	5	Protect Kartchner Caverns
<b>Tubac Presidio Historical State Park</b>				
Rojas property	September 1999	109,882	0.3	Acquire a private property within the Park's boundary
<b>Sonoita Creek State Natural Area</b>				
Lot 62	June 2001	175,142	38	These three properties were acquired to more adequately protect Sonoita Creek
Lot 63	April 2001	173,032	37	
Lot 65	April 2001	179,535	36	
<b>Conservation Easement at San Rafael Ranch</b>				
	January 1999	8,713,009	21,131 <sup>2</sup>	Preserve the area's natural resources
<b>Conservation Easement at Spur Cross Ranch</b>				
	January 2001	3,723,009	2,134	Preserve an area near the Town of Cave Creek

<sup>1</sup> Cost includes purchase price and due diligence expenses, such as appraisals, surveys, and title reports.

<sup>2</sup> Acquired 3,557 acres along with a conservation easement on 17,574 acres.

Source: Auditor General staff analysis of the Board's fund summary ledgers for the period July 1, 1998 through March 31, 2002, generated from the Board's internal accounting records, and acquisition files maintained for each project.

natural area acquisitions. However, with the acquisitions it has made since then, the Board has reduced the natural areas acquisition fund balance to \$2.9 million as of the end of fiscal year 2001.

## Acquisitions process generally followed, but improvements needed

The Board's acquisitions have been consistent with the Heritage Fund mandate to preserve, protect, and enhance Arizona's natural and scenic environment, have also satisfied statutory requirements, and for the most part, have complied with the Board's acquisition process. Specifically the 11 properties acquired with Heritage Fund monies since fiscal year 1999 met statutory requirements. In addition, although acquisition procedures were generally followed, the Board needs to strengthen its review by ensuring that existing review requirements are carried out and by adding new review requirements.

**Acquisitions met statutory requirements**—Acquisitions made with Heritage Fund monies since fiscal year 1999 have complied with statutory requirements. Specifically, the Board appears to have appropriately designated the 11 properties it acquired for purchase with Heritage Funds. For example, the San Rafael Property, which was purchased using natural areas monies, has a unique ecosystem that qualifies it as a natural area, and the Rojas Property, which was purchased with historic preservation monies, is listed in the National Register of Historic Places.

**Board generally follows its acquisition process**—In addition to complying with statutory requirements, the Board completed most of the required steps in its acquisition process for the 11 properties it acquired. As illustrated in Item 2, this process requires the Board to complete a variety of steps, ranging from conducting environmental and feasibility studies to obtaining appraisals and title reports. These steps are similar to the basic acquisitions procedures followed by the National Parks Service and the City of Phoenix, and the states of California, Colorado, and Oregon. For the 11 properties, the Board reviewed and approved all acquisitions; obtained required appraisals, property surveys, and title insurance policies for these acquisitions; and properly documented the real estate transaction and purchase agreement. Additionally, the Board conducted feasibility studies on every parcel prior to acquisition.

**Limited evidence of required reviews**—Despite following these guidelines for its acquisitions, the acquisition files contained limited evidence of management or advisory committee review. Specifically:

- The acquisition process specifies periodic management review of proposed acquisitions to obtain approvals for continuing with the acquisition process. However, these reviews were not documented for any of the 11 properties acquired.

- According to the acquisition guidelines, each potential land acquisition should be evaluated by a screening committee consisting of designated Board staff, but only one file contained a property evaluation.
- The acquisitions process also specifies that the Natural Areas Program Advisory Committee (NAPAC) review and make a recommendation related to all natural areas properties proposed for acquisition by Board staff. NAPAC's recommendation is advisory only in that the Board does not have to follow its recommendation. However, seven of the natural areas acquisition files did not contain evidence that NAPAC made a recommendation related to the property acquisitions. While meeting minutes indicate that NAPAC discussed these properties, minutes do not indicate whether NAPAC made recommendations related to these acquisitions.

For future acquisitions, the Board should ensure that it completes all the steps outlined in its acquisition process, including submitting acquisition information to the screening and NAPAC committees for review and recommendation, or documenting why certain steps do not need to be completed.

**Additional review steps needed**—In addition to completing the reviews already required as part of the acquisition process, the Board should establish specific review procedures of critical acquisition steps to ensure these steps are appropriately completed and the information gathered is accurate. For example, the Board contracts out much of its acquisition work, including environmental site assessments, property appraisals, property surveys, and title work. However, the Board's acquisition procedures do not require a qualified review of this work. Additionally, the management reviews of ongoing acquisitions do not focus on verifying the thoroughness and accuracy of this information. Adding review steps, to be conducted by qualified Board staff or a contractor, to its process would provide additional confirmation that required information is accurate. Further, the Board should determine the threshold or triggers that would require acquisitions to undergo the various reviews.

Adding these review steps would also be consistent with practices used by various other agencies auditors

#### Acquisitions process key components:

- **Feasibility studies**—Conducted before the Board negotiates with a landowner. These studies include boundary surveys, engineering, water rights, and environmental assessments.
- **Cultural, biological, and natural resource reviews**—Confirm the location of the site and the species that occupy the site, assess the value of the site's resources, and identify resource management conflicts.
- **Due diligence**—Steps associated with a real estate purchase, including the appraisal, survey, title report, title insurance, and the purchase agreement.
- **Board and committee approval**—An acquisition must be presented to one or more groups for review and/or approval.
  - ◆ **Screening committee**—Evaluates all proposed acquisitions using site selection criteria and identifies available funding sources.
  - ◆ **Management reviews**—Conducted before and after property studies are completed to determine whether to proceed with acquisitions.
  - ◆ **Advisory committees**—Specialists in natural areas and cultural preservation review the appropriateness of using designated funds for acquisition. For example, the Natural Areas Program Advisory Committee evaluates potential acquisitions using natural areas monies.
  - ◆ **Board**—The full Board must review and approve all acquisitions.

Source: Arizona State Parks Board's land acquisition process.

## The Board should:

- Adopt additional review procedures for critical acquisition steps
- Enhance planning efforts for future acquisitions

contacted. Auditors contacted five states and the National Parks Service regarding their land acquisition processes, and several indicated the need for qualified reviewers, including outside third-party reviewers, to ensure acquisitions are appropriately completed.<sup>1</sup> Specifically, the California Parks Department requires the state's Department of General Services to review and approve all outside appraisals, while Oregon's Parks and Recreation Department requires an independent review of property appraisals valued at over \$250,000, and may obtain two appraisals and an independent review of both appraisals for properties valued at over \$1 million. Additionally, the National Parks Service requires a legal review of all title reports, an outside environmental specialist review of any environmental site assessments completed, and an independent review of all appraisals.

## The Board should improve planning efforts

With the continued reduction in Heritage Fund monies available for property acquisition, the Board should enhance its planning efforts for future acquisitions. The Board last received its full \$3.4 million share of Heritage Fund Revenues to acquire property in fiscal year 1998. Since that time, Heritage Fund revenues have decreased and are estimated to reach only \$2.4 million for property acquisition in fiscal year 2002. Reduced revenues translate into less money available to acquire properties in the future.

The National Parks Service and several states auditors contacted emphasized the need for planning by having processes in place for identifying, evaluating, and prioritizing properties. For example, the National Parks Service uses a land acquisition ranking system that ranks parcels according to established criteria. These criteria assess such items as threats to the resource, the preservation of the resource, and the involvement of partners, nonprofit groups, or available matching funds. The National Parks Service then tries to obtain the parcels based on their evaluation and priority ranking, but will skip a property if it cannot be acquired. Further, Oregon's Parks and Recreation Department is statutorily required to develop criteria for evaluating potential land acquisitions, while the Nevada legislature mandates that its Parks Department identify and prioritize acquisitions. Nevada's prioritization system has seven specific rating criteria, such as the relative need for the property and the property's availability, that it uses to prioritize potential property acquisitions at both new sites and additions to existing areas.

To make the most effective use of its limited Heritage Fund monies, the Board should enhance its planning efforts, specifically focusing on developing procedures in the following areas:

- **Expanding existing parks**—The Board currently lacks a process to evaluate and plan future acquisitions at its existing parks. A 1997 Auditor General report noted that the Board planned to focus available acquisition and development resources on completing development at ten existing state parks (see Report No. 97-23). The Board's strategy continues to focus on completing and developing its parks. In its

<sup>1</sup> Auditors contacted California, Colorado, Missouri, Nevada, and Oregon.

report, *2000 State Parks Capital Needs*, the Board identified a number of parcels adjacent to six existing parks it would like to acquire. However, the Board has not formulated plans to acquire these properties, identified funding sources, evaluated the parcels, or prioritized the properties for acquisition.

- **Natural area acquisitions**—The Board also lacks an adequate process for evaluating and prioritizing new natural area parcels for potential acquisition. A list of potential natural area acquisitions was developed in the early 1990s, but the properties have not been evaluated or prioritized. The Board could use the Natural Areas Program Advisory Committee (NAPAC) as a resource since NAPAC members have indicated they intend to develop criteria for evaluating and prioritizing natural areas, although this effort is in the very preliminary stages.

## Recommendations

1. The Board should ensure that it follows its acquisition process and documents compliance with its written procedures, including submitting the acquisitions to the screening and appropriate advisory committees for review and recommendation. If the Board does not complete a specific step, it should document the reason in its files.
2. The Board should add procedures to its land acquisition process that require qualified individuals to review completed feasibility studies and due diligence work, including property appraisals and surveys. As part of these procedures, the Board should determine the thresholds or triggers that would require acquisitions to undergo these various reviews.
3. The Board should develop procedures for evaluating and prioritizing both park and natural area parcels for future acquisition.



# FINDING 2

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## Board has established a comprehensive grants program

The Board has established an effective grants program for distributing Heritage Fund monies to qualifying local, regional, and state parks, trails, and historic preservation projects. To ensure limited funding is appropriately and most effectively used, the Board has implemented comprehensive internal policies and procedures governing the review, approval, award, and monitoring of project grants. These procedures were generally being followed, except for monitoring some grants after they have been made. The Board should ensure that it consistently follows these monitoring procedures. The Board should also put its process into formal administrative rules, giving them more visibility with the public.

### Grants offer benefits throughout Arizona

A substantial amount of Heritage Fund monies are distributed in the form of grants. Annually, 57 percent, or up to \$5.7 million, of Heritage Fund monies are allocated by the Board to the three grant programs. In fiscal year 2002, the Board awarded 30 project grants that totaled nearly \$3.7 million. Heritage Fund grants provide money to governmental entities such as cities, towns, counties, tribal governments, and state and federal agencies to fund a variety of recreation and resource-enhancing opportunities throughout the State.

The Board receives more grant applications for monetary assistance than it can fund. Table 3 (see page 18), illustrates the number of eligible and approved grant applications filed in the 2001 grant cycle for each program, funding requests, and the amount of money awarded to each program.

The Board awards Heritage Fund monies through competitive grants to support three programs: Local, Regional, and State Parks (LRSP); Trails; and Historic Preservation.

#### Fact:

The Board awarded 30 grants totaling nearly \$3.7 million in fiscal year 2002

Table 3: Eligible and Approved Grant Applications  
Year Ending June 30, 2002

Grant Program	Number of Eligible Applications	Amounts Requested	Number of Approved Applications	Amounts Awarded
Local, Regional, and State Parks	30	\$7,484,938	14	\$2,978,216
Trails	8	403,766	7	333,536
Historic Preservation	<u>15</u>	<u>501,041</u>	<u>9</u>	<u>370,068</u>
Total	<u>53</u>	<u>\$8,389,745</u>	<u>30</u>	<u>\$3,681,820</u>

Source: Auditor General Staff Analysis of selected fiscal year 2002 minutes of Arizona State Parks Board meetings.

- Local, Regional, and State Parks (LRSP)**—These grants support land acquisition and facility development for state parks, outdoor recreation, and open space preservation. Funded projects include playgrounds, ball fields, and picnic areas. In fiscal year 2002, the Board approved 14 projects totaling more than \$2.9 million. For example, the town of Clarkdale was awarded a \$172,400 grant to purchase two acres of privately owned land and to develop a new park including a multi-use field, playground, picnic area, and a natural area.
- Trails**—These grants support nonmotorized trail acquisition, construction, and improvement for trails on the State Trails System. In fiscal year 2002, the Board approved seven projects totaling more than \$333,500. The City of Phoenix received one of these grants for almost \$66,000 to create trails at the South Mountain Environmental Education Center.
- Historic Preservation**—These grants support historic preservation efforts consistent with the Secretary of the Interior’s Standards of Preservation. Grantees must be listed in the Arizona or the National Register of Historic Places, the nation’s official list of properties worthy of preservation, or determined eligible for listing by the State Historic Preservation Officer. Grant awards are used for local, regional, and statewide historic preservation projects. In fiscal year 2002, the Board approved nine projects totaling just more than \$370,000. For example, the City of Glendale was awarded a grant of nearly \$74,600 to continue the rehabilitation of the Saguaro Ranch buildings by restoring the wood porch system. The Ranch, owned by the City, is used for educational and recreational purposes.

Grants are awarded on a matching grant basis, meaning that the grantee must provide a certain percentage of the total project cost. For LRSP and trails grants, grantees must provide at least 50 percent of the total project cost, while historic preservation grantees must provide at least 40 percent. Private and nonprofit agencies may also receive grant monies, but only

as a third party through an eligible sponsoring organization.<sup>1</sup> For example, the City of Bisbee sponsored a historic preservation grant for the Southwestern Institute for Culture and Art, Inc. Third-party grants must also meet matching requirements.

## Board has thorough policies and procedures

The Board has implemented comprehensive policies and procedures covering all aspects of its grants program. A review of 15 grant applications from the 2000 grant cycle confirmed that the Board followed these policies and procedures when receiving, reviewing, and approving applications. However, grant monitoring needs to be improved.

**Internal policies and procedures for Heritage Fund grants**—The Board has developed detailed internal procedures for its grant process, and describes them in its grant manuals and guidelines.

- **Grant manuals**—The Board develops grant manuals annually for each grant program. These manuals provide applicants with detailed step-by-step application instructions, as well as descriptions of the individual rating criteria for each grant program. Additionally, the Board holds annual grant workshops to help potential applicants.
- **Internal administrative guidelines**—These policies and procedures provide grantees direction for administering grant projects. These guidelines describe participant agreement terms and conditions, project management standards, required documentation, and progress reporting requirements.
- **Grant coordinator guidelines**—These step-by-step guidelines provide guidance to Board grant coordinators for maintaining grant files and monitoring grant projects. These internal guidelines also highlight key dates and deadlines, and describe procedures for monitoring, tracking, and closing grants.

**Board follows policies and procedures for issuing grants**—The Board follows its policies and procedures for reviewing, approving, and awarding grants. Auditors examined a random sample of seven approved and eight unapproved grant applications from the 2000 grant cycle—five from each of the three programs. This review found that each approved grant application met applicant and proposal eligibility requirements, while funding requests met specified guidelines. Additionally, the Board conducted on-site inspections of these proposed projects as needed. Finally, eligible grant applications were appropriately evaluated based on rating criteria and rank-ordered and approved according to the score achieved.

Grant applicants also commented favorably on the Board's process for awarding grants. Auditors contacted three approved and two unapproved grant applicants, who gave positive feedback regarding the granting process. For example, applicants commented that the application packet was easy to follow, the grant workshops Board staff offered were very helpful, and the process was fair.

<sup>1</sup> Nonprofit agencies can apply directly to receive historic preservation grants.

## The Board should:

- Follow its procedures for monitoring ongoing grants
- Adopt administrative rules for its grant process

## Board does not always follow its procedures for monitoring grants—

The Board's procedures for monitoring ongoing grant projects are not followed as consistently as procedures for issuing grants. The Board has specific monitoring procedures intended to assist in ensuring that grant monies are spent appropriately. These procedures require that grantees submit various documents, such as payment requests, detailed expenditure records, and quarterly reports detailing project status. Auditors examined a random sample of 30 grants approved during the 1997, 1998, and 1999 grant cycles. This review found that monitoring requirements are not always followed. For example, although policy requires Board staff to contact grantees if more than two consecutive quarterly reports are missed, for 5 of 10 grant files with missing reports, there was no evidence in the file to indicate that Board staff followed up on the missing quarterly reports.

## The Board should adopt grant rules

In order to strengthen its internal policies and to provide more information to the public, the Board should adopt administrative rules for its grant process. Currently, the Heritage Fund granting process is not included in Board statutes or in its administrative rules. While A.R.S. §41-2702 generally governs granting processes, this statute does not contain any specifics regarding the Board's grants process, such as grant application submission requirements, review and approval guidelines, and grant project funding and monitoring requirements. These requirements are currently detailed in the Board's internal policies. Adopting rules for the granting process provides the public with access to and input on any formal grant procedures, and provides specific information to potential grant applicants that can improve the public's perception of fairness and may reduce the likelihood of the Board being sued for discrimination or other legal violations.

Putting this process into rules is both recommended and has precedent. The Governor's Regulatory Review Council recommends that the Board adopt rules for its grant process. Further, the Arizona Game and Fish Commission, which administers the other half of the Heritage Fund, already has such rules in place. Developed in 1996, these rules include specific grantee procedures and responsibilities, such as fulfilling participatory agreements and meeting established reporting requirements.

## Recommendations

1. The Board should consistently follow its grant monitoring procedures, including ensuring that grantees submit timely quarterly reports and following up with them when they do not.
2. The Board should adopt rules for its Heritage Fund granting process.

# FINDING 3

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## Board should more accurately allocate expenditures to its Heritage Fund

The Board needs a method to more accurately track the time that employees spend on Heritage Fund activities. According to statute, the Board can use Heritage Fund monies only for expenditures directly related to Heritage Fund activities. The Board currently allocates salary and related expenditures for 38.5 of its more than 340 full-time equivalent (FTE) positions to the Heritage Fund, but does not know if the level of effort expended agency-wide on Heritage Fund activities equals the amount allocated for the 38.5 positions. Therefore, the Board should develop a system to more accurately track the time that employees spend on Heritage Fund activities.

### Inexact method used to allocate expenditures

The Board's current approach for allocating salary and related expenditures to the Heritage Fund limits its ability to comply with statutory requirements that Heritage Fund monies be spent only for authorized purposes. Many staff who work in positions wholly funded by the Heritage Fund work on other projects or activities unrelated to the Fund. Additionally, the Board allocates other operating expenditures to the Heritage Fund based on the inexact allocation of its salary and related expenditures.

### Amount of staff time spent on Heritage Fund activities is unknown—

The Board uses an inexact method to allocate salary and related expenditures and other operating expenditures to the Heritage Fund. A.R.S. §41-503 requires that Heritage Fund monies can only be spent on Heritage Fund programs in statutorily specified percentages. The statute further states that interest earned on these monies can be spent only for administering the Fund or on the Heritage Fund programs in statutorily specified percentages. The Board does not have a system for tracking and reporting, by project type, how its employees spend their time. Instead, the Board currently allocates the salaries and related expenditures of 38.5 positions to the Heritage Fund, regardless of

#### Fact:

- Statute limits how Heritage Fund monies may be spent
- The Board inaccurately allocates salary and related expenditures to the Heritage Fund

how much time these staff actually devote to Heritage Fund activities. However, other persons who also spend time on Fund activities are not allocated to the Fund.

Auditors asked staff in 9 of the 38.5 positions to estimate the percentage of time they spend on Heritage Fund activities. Only one of these staff reported working full-time on Heritage Fund activities. The other eight staff reported working on Heritage Fund activities from 10 to 66 percent of their time. The salaries and related expenditures allocated to the Heritage Fund for these nine positions totaled an estimated \$489,000 for fiscal year 2002. However, based on the estimates provided by these 9 staff, only \$198,000 of this amount represented time actually spent on Heritage Fund activities. For example:

- **Information Technology Manager**—Responsibilities of this position include information technology planning and oversight, application development, and network operations and security. The Information Technology Manager estimates spending 35 percent of his time on Heritage Fund activities.
- **Personnel Analyst**—Responsibilities of this position include personnel reclassification and administrative tasks for the entire agency. The Personnel Analyst estimates spending 10 percent of her time on Heritage Fund activities.

On the other hand, there are other staff beside the 38.5 positions currently allocated to the Heritage Fund who may also spend time on Heritage Fund activities, but the Fund is not charged for their efforts. Auditors asked four staff whose positions are not funded through the Heritage Fund, but who spend a portion of their time on Heritage Fund activities, to estimate the percentage of time they spend on these activities. These four staff reported working on Heritage Fund activities 12 to 100 percent of their time. Based on these estimates, over \$91,000 in salaries and related costs should have been charged to the Heritage Fund in fiscal year 2002. For example,

- **Assistant Director of Administrative Services**—This position oversees agency-wide human resources, budget, fiscal services, and computer support. The Assistant Director estimates spending 34 percent of his time on Heritage Fund activities, even though this position is funded through the General Fund.

A 1997 Auditor General report also found that the Board incorrectly allocated staff salaries to the Heritage Fund (see Report No. 97-23). The report found that some positions performed activities unrelated to the Heritage Fund, yet were fully supported by Heritage Fund interest, and recommended that the Board comply with statutory requirements for allocating salaries and related expenditures to the Heritage Fund; however, the Board took no action on the recommendation.

**Other expenditure allocations are incorrect**—The inexact allocation of salaries and related expenditures to the Heritage Fund affects other operating expenditure allocations. Currently, the Board allocates operating expenditures, such as risk management and telecommunications, to its various funds based on the allocation of salaries and related expenditures to these funds. For example, while the Information Technology Manager position is allocated to the Heritage Fund, any additional operating

expenditures associated with this position are also charged to the Heritage Fund. While this method for allocating other operating expenditures appears reasonable, it is based on the inaccurate allocation of salaries and related expenditures. As a result, the allocation of other operating expenditures is also inaccurate.

## Board needs to track activities

The Board should implement a mechanism, such as a time accounting system, which would more accurately capture the time staff spend on Heritage Fund activities. Such a mechanism would enable employees to report by project the time they spend on each activity, allow the Board to more accurately allocate salaries and related expenditures and other operating expenditures to the Heritage Fund and its other funds, and would be consistent with practices at other state agencies.

**Other state agencies have developed similar systems**—Several state agencies have developed systems to track time and activity. While some systems have proved costly to develop because of their complexity, others have cost relatively little to develop. For example:

- The Arizona Department of Veterans' Services has developed an in-house mechanism using a Microsoft Excel spreadsheet to track employee time by program. Veterans' Services staff developed this spreadsheet at virtually no cost.
- The Office of the Attorney General developed its own time-accounting system to allow staff to divide their time among different court cases. An Office official reports that this system was also developed at minimal cost.

Further, the Arizona Department of Administration is currently developing a new statewide system that will allow state agencies to track employee time and activity. Scheduled for implementation in early 2003, the Human Resource Information Solution will provide a single system for administering payroll, personnel benefits, and other related needs. According to a Department official, this system will include a component that will allow state agencies to track employee time and activity. While this component will not be implemented until late 2003, this system may satisfy the Board's needs.

**System could have other applications**—In addition to allowing the Board to more appropriately allocate Heritage Fund expenditures, a time accounting system would enable the Board to better comply with restrictions imposed by other funding sources. The Board receives funding from a variety of sources, other than the Heritage Fund, that require monies to be spent only as prescribed by statute. For example, statutes establishing the Off-Highway Vehicle Recreation Fund and State Lake Improvement Fund state that money from the funds should be used only to support their respective programs. However, similar to the Heritage Fund, the Board charges the salaries and related expenditures of a designated number of staff to these funds, even if these staff work on other projects or other staff work on activities related to these funds.

### Fact:

Other agencies have systems to track employee time and activity

Board needs to determine its specific time reporting needs—The Board should determine its time reporting needs and implement a more reliable system. Specifically, the Board should develop reliable estimates on the time its employees spend on Heritage Fund activities. These estimates could then serve as the basis for allocating salary and related expenditures and other operating expenditures to the Fund. However, with this method, the Board should revisit the estimates throughout the year and make necessary adjustments to the allocation. Finally, the Board should review the time reporting capabilities of the new statewide system to determine if these capabilities will meet its needs, and if so, implement this component of the new system.

## Recommendations

1. The Board should develop reliable estimates of the time employees spend on Heritage Fund activities to use as a basis for allocating salary and related expenditures and other operating expenditures. Using this method, the Board needs to revisit these estimates throughout the year and make necessary adjustments.
2. In conjunction with the implementation of the new statewide payroll system, the Board should work with the Department of Administration to evaluate whether the new statewide payroll system will allow it to track employee time spent on various activities, and if so, implement this component of the new system.

# AGENCY RESPONSE

June 28, 2002

Ms. Debra K. Davenport, CPA  
Auditor General  
2910 N. 44<sup>th</sup> Street, Ste. 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

Enclosed is the Agency Response to the Auditor General Report of June 21, 2002 regarding the Arizona State Parks Heritage Fund. While we quibble with some of the nuances of the findings and do not concur with a few of the recommendations, we find the assessment to be thorough, fair, and to be a platform for making a good program even better.

Thanks to you and your staff.

Sincerely,

Kenneth E. Travous  
Executive Director

KET:dab

Enclosure

cc: Ms. Suzanne Pfister

**AGENCY RESPONSE TO  
AUDITOR GENERAL REPORT ON  
STATE PARKS BOARD HERITATE FUND  
JUNE 21, 2002**

PAGE 15

Recommendation 1: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 2: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 3: The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

Arizona State Parks contends that it does have a process for evaluating and prioritizing acquisitions. We will, however, update that process in response to strategic planning process recommendations.

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Recommendation 1: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 2: The finding of the Auditor General is not agreed to and the recommendation will not be implemented.

The Auditor General reasons that Rule adoption will open access for public input. The public input into this process is remarkable. Beyond the two statutorily-recognized public bodies (AORCC and the Parks Board) that function under the Open Meeting Law, there is a host of advisory committees with yearly-appointed ad hoc committees that review grant procedures and guidelines to meet the needs of the grant recipients.

PAGE 24

Recommendation #1: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation #2: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

## Performance Audit Division reports issued within the last 12 months

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<b>01-17</b>	Arizona Board of Dispensing Opticians		Criminal Information Services Bureau, Access Integrity Unit, and Fingerprint Identification Bureau
<b>01-18</b>	Arizona Department of Corrections—Administrative Services and Information Technology	<b>01-29</b>	Department of Public Safety—Sunset Factors
<b>01-19</b>	Arizona Department of Education—Early Childhood Block Grant	<b>01-30</b>	Family Builders Program
<b>01-20</b>	Department of Public Safety—Highway Patrol	<b>01-31</b>	Perinatal Substance Abuse Pilot Program
<b>01-21</b>	Board of Nursing	<b>01-32</b>	Homeless Youth Intervention Program
<b>01-22</b>	Department of Public Safety—Criminal Investigations Division	<b>01-33</b>	Department of Health Services—Behavioral Health Services Reporting Requirements
<b>01-23</b>	Department of Building and Fire Safety		
<b>01-24</b>	Arizona Veterans' Service Advisory Commission	<b>02-01</b>	Arizona Works
<b>01-25</b>	Department of Corrections—Arizona Correctional Industries	<b>02-02</b>	Arizona State Lottery Commission
<b>01-26</b>	Department of Corrections—Sunset Factors	<b>02-03</b>	Department of Economic Security—Kinship Foster Care and Kinship Care Pilot Program
<b>01-27</b>	Board of Regents		
<b>01-28</b>	Department of Public Safety—		

## Future Performance Audit Division reports

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Arizona Health Care Cost Containment System—Division of Member Services