



A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Performance Audit

Arizona Game and Fish Commission Heritage Fund

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Debra K. Davenport
Auditor General

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December 27, 2011

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Mr. Larry D. Voyles, Director
Arizona Game and Fish Department

Mr. Robert R. Woodhouse, Chair
Arizona Game and Fish Commission

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Arizona Game and Fish Commission Heritage Fund*. This report is in response to Arizona Revised Statutes (A.R.S.) §17-298.01 and was conducted under the authority vested in the Auditor General by A.R.S. §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona Game and Fish Department agrees with all of the findings and plans to implement or implement in a different manner all of the recommendations.

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

This report will be released to the public on December 28, 2011.

Sincerely,

Debbie Davenport
Auditor General

Attachment

cc: Arizona Game and Fish Commission Members

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

The Arizona Game and Fish Commission (Commission) Heritage Fund was created by a 1990 voters' initiative for the purpose of preserving, protecting, and enhancing Arizona's natural environment. Although the Arizona Game and Fish Department (Department) has policies and procedures to direct the use of Heritage Fund monies, the Department should strengthen these policies and procedures to ensure that monies are used appropriately, particularly with regard to administrative costs, contracts, and escrow accounts. A major purpose of the Heritage Fund is to purchase land to conserve wildlife habitat, and the Department needs to improve the management of these properties.



2011

Heritage Fund used to protect species and acquire sensitive habitat

Statute establishes five Heritage Fund program areas and the specific allocation of monies to those areas. The largest part, 60 percent, is to be used for the identification, inventory, acquisition, protection, and management of sensitive habitat, including habitat for endangered and threatened wildlife species.

Heritage Fund monies have been used to restore the endangered Sonoran pronghorn, the California condor, and many other species around the State. The Heritage Fund is also used for

program areas that address education, urban wildlife, and habitat and to provide access to public lands.

Heritage Fund program areas and statutory allocations

- Identification, inventory, acquisition, protection, and management of sensitive habitat (IIAPM)—60 percent
- Urban wildlife and habitat—15 percent
- Habitat evaluation and protection—15 percent
- Environmental education—5 percent
- Public access—5 percent

Policies need strengthening to ensure appropriate use of the Heritage Fund

Department policies and procedures help guide Heritage Fund expenditures—The Department has policies to ensure that Heritage Fund monies are spent for the purposes prescribed by statute. For example, the Department has policies and procedures to ensure it pays only appropriate payroll costs to employees who perform Heritage Fund work and awards grants to entities such as the state universities for Heritage Fund purposes.

Policies and procedures needed for allocating administrative and shared costs—In fiscal year 2011, the Department used Heritage Fund monies to pay more than \$761,000 of the Department's administrative costs, including the salaries and benefits of 12 positions. In addition, the Department uses Heritage Fund monies to pay some shared costs. For example, in fiscal year 2010, the Department used Heritage Fund

monies to pay for \$15,389 of the \$82,227 used to publish its *Arizona Wildlife Views* magazine. Although this magazine featured articles on all Heritage Fund program areas, the Department used only public access and urban wildlife monies to pay the shared costs.

Although it may be appropriate to allocate administrative and shared costs to the Heritage Fund, the Department could not support the amounts allocated to the Heritage Fund or among its program areas for the expenditures reviewed.

Procedures needed for monitoring contracts paid with Heritage Fund monies—In one contract, the Department paid a private landowner \$6,700 to restore nearly 670 acres of grassland habitat and in another, the Department funded the position of an employee at the Department of Water Resources for Heritage Fund-related work. However, the

Department does not have procedures to monitor these contracts.

Department should report accurate financial information and establish policies and procedures for managing land acquisition monies in escrow—The Department deposits money into an escrow account held with a title company prior to purchasing property with Heritage Fund monies. The land acquisition process can take a long time. For example, monies were held in escrow from December 2009 until March 2011 for the purchase of one property.

At June 30, 2011, the Department held approximately \$5.3 million in escrow with a title company for a potential land acquisition. However, the Department recorded the monies as a capital expenditure on the State's accounting system instead of cash on deposit. The Department also lacks written policies and procedures for spending

and monitoring land acquisition monies held in escrow. Because expenditures of the monies held in escrow are not processed through the State's accounting system, such policies and procedures are important to safeguard these monies.

Recommendations:

The Department should:

- Implement policies and procedures for allocating administrative and shared costs to the Heritage Fund.
- Implement procedures to monitor all Heritage Fund-supported contracts.
- Appropriately record and/or report financial transactions pertaining to escrow accounts for land acquisitions.
- Implement policies and procedures for spending and monitoring land acquisition monies held in escrow.

Department should improve management of Heritage Fund properties

Commission has purchased several Heritage Fund properties—Statute requires that at least 24 percent of the Heritage Fund monies be used to purchase sensitive habitat for endangered or threatened wildlife. As of June 30, 2011, the Commission had spent nearly \$31 million in Heritage Fund monies to purchase 24 properties comprising more than 14,000 acres. For example, the nearly 200-acre Horseshoe Ranch was purchased in March 2011 to protect and restore habitat that supports endangered species such as the yellow-billed cuckoo bird and the Gila chub fish.

Some management plans not completed—Although department policy requires management plans for each Heritage Fund property, this policy does not set time frames for completing these plans. In addition, as of October 2011, the Department had not yet completed plans for three properties.

Management plan implementation and effectiveness not monitored—The Department also does not have policies to monitor the implementation and effectiveness of its management plans. Although the Department indicated that it may be difficult to assess the

impact of specific land purchases on wildlife species because species restoration can take many years and because of circumstances such as flooding and disease, staff may already collect data that may be helpful in assessing the impact of its property management.

Management plans not updated—As of October 2011, management plans for 16 of the 24 Heritage Fund properties had not been updated for 8 to 15 years. Periodically reevaluating and updating management plans could help the Department consider changing property conditions. The Department's Lands Council has requested that all management plans be updated by April 2012.

Recommendations:

The Department should:

- Complete management plans for all Heritage Fund properties.
- Establish time frames for finalizing management plans for future properties.
- Monitor the implementation and effectiveness of management plans.
- Update management plans by April 2012.

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INTRODUCTION

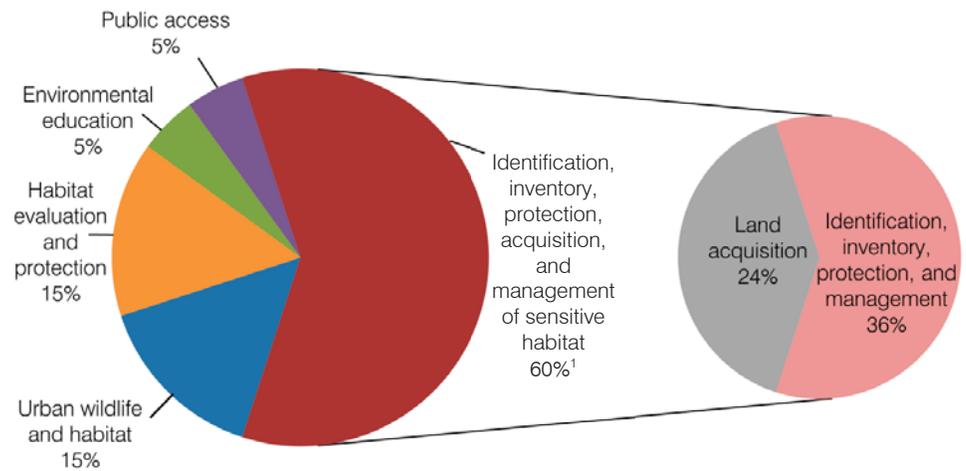
Scope and Objectives

The Office of the Auditor General has conducted a performance audit of the programs and expenditures of the Arizona Game and Fish Commission (Commission) Heritage Fund pursuant to Arizona Revised Statutes (A.R.S.) §17-298.01. This performance audit addresses (1) the Arizona Game and Fish Department's (Department) policies and procedures for ensuring that Heritage Fund expenditures were for purposes allowed by statute; and (2) the Department's management of properties acquired with Heritage Fund monies.

Arizona Game and Fish Commission Heritage Fund

The Heritage Fund was created through a November 1990 ballot initiative to provide monies to the Commission for preserving, protecting, and enhancing Arizona's natural and scenic environment. According to statute, the Commission may receive up to \$10 million of lottery revenues annually. A.R.S. §17-298 requires the Commission's Heritage Fund monies to be divided in specific percentages between five general program areas, including a specific designation for land acquisition within one of the program areas (see Figure 1). These program areas are integrated throughout the Department, which administers the Heritage Fund under the direction of the Commission, and are discussed in more detail in the next section. Interest earned on Heritage Fund monies may be used for these programs or for the costs of administering the Heritage Fund. In addition, A.R.S. §17-298 requires that the Commission submit an annual report to the Legislature that includes a summary of projects, activities, and expenditures related to the five program areas.

Figure 1: Statutory Allocation of Heritage Fund Monies Since November 1990



¹ A.R.S. §17-298 requires that at least 40 percent of these monies, or 24 percent of the total, be used to acquire sensitive habitat.

Source: Auditor General staff review of A.R.S. §17-298.

Heritage Fund programs

A.R.S. §17-298 establishes the following five Heritage Fund program areas:

Identification, inventory, acquisition, protection, and management of sensitive habitat (IIAPM)—According to statute, 60 percent of the Heritage Fund monies are designated for the identification, inventory, acquisition, protection, and management, including maintenance and operations, of sensitive habitat. At least 40 percent of the IIAPM monies, or 24 percent of the total, are dedi-

cated to acquiring sensitive habitat for endangered, threatened, and candidate species (see textbox).¹ As shown in Table 1 (see page 6), a significant portion of IIAPM monies are used to acquire land and fund employees. For example, in fiscal year 2011, nearly \$1.6 million in Heritage Fund monies were used to acquire the Horseshoe Ranch property (see Finding 2, pages 13 through 19, for additional information on Heritage Fund land acquisitions). The Department also spent approximately \$1.6 million in fiscal year 2011 for IIAPM personnel who carry out a variety of conservation activities, such as implementing management plans, surveying wildlife, and implementing projects that promote and restore wildlife and their habitats. According to the Department's 2010 Heritage Fund report, IIAPM activities included:

Endangered species—A species or subspecies of native Arizona wildlife whose population has been reduced due to any cause whatsoever to such levels that it is in imminent danger of elimination from its range in Arizona, or has been eliminated from its range in Arizona.

Threatened species—A species or subspecies of native Arizona wildlife that, although not presently in imminent danger of being eliminated from its range in Arizona, is likely to become an endangered species in the foreseeable future.

Candidate species—A species or subspecies of native Arizona wildlife for which habitat or population threats are known or suspected but for which substantial population declines from historic levels have not been documented.

Source: A.R.S. §17-296.

- **Restoration efforts for endangered Sonoran pronghorn**—The Department continued its restoration efforts for the endangered Sonoran pronghorn through population monitoring and captive breeding programs (see Photo 1). According to the Department, the total U.S. population of Sonoran pronghorn has grown from 21 pronghorn before the Department instituted its management program to at least 137 pronghorn as of fiscal year 2010.

- **Recovery efforts for endangered California condor**—The Department has continued its efforts to monitor and manage released and wild-hatched California condors. For example, IIAPM monies were used to educate hunters about potential lead poisoning of condors that can result from hunters using lead ammunition when hunting animals that condors could potentially eat and to provide free, non-lead ammunition to hunters within the condor's range to reduce incidents of lead poisoning. The Department reported that its efforts have resulted in an increase in the number of free-flying condors from 59 in June 2007 to 73 in July 2010.

Photo 1: Sonoran pronghorn released into the wild



Source: Courtesy of the Arizona Game and Fish Department.

¹ The Department reported that it determines the status of Arizona wildlife using the U.S. Fish & Wildlife Service's lists of endangered, threatened, and candidate species.

- **Collaborative fence construction project on riparian land**—The Department collaborated with a private landowner and the Natural Resources Conservation Service to construct fencing that protects more than 250 acres of riparian habitat and three miles of streams on the Babacomari River, which are used by several native Arizona fish species, from overuse by cattle.
- **Heritage Data Management System**—The Department used IAPM monies to support the ongoing development and maintenance of a Heritage Data Management System. This system contains information on the location and status of sensitive plant and animal species that is available to the public for various purposes such as assessing proposed land and water development, management, and conservation projects.

Urban wildlife and habitat—Statute requires that 15 percent of the Heritage Fund monies be used to address issues related to wildlife within or close to urban areas that receive significant impact from human use. As shown in Table 1 (see page 6), the majority of urban wildlife expenditures are used to pay for employees. These employees work to minimize human-wildlife conflict in urban areas through activities such as public education, law enforcement, and helping local authorities handle wildlife encounters in urban areas. For example, the Department reported that in fiscal year 2010 it worked with Navajo County officials to develop and enact a county ordinance to address food provision to nuisance wildlife such as bears, coyotes, and javelina. The Department also reported that it conducted wildlife-viewing programs including five bat-watching workshops in central Phoenix attended by more than 600 people. Additionally, it collaborated with numerous community partners on annual nature festivals and workshops such as the Tres Rios Nature Festival, Payson Wildlife Fair, Verde Valley Birding and Nature Festival, and Yuma Birding Festival. Urban wildlife staff also enforce laws related to urban fishing and hunting and illegal pets such as venomous vipers.

Habitat evaluation and protection—Statute requires that 15 percent of the Heritage Fund monies be used for habitat evaluation and protection. Habitat evaluation includes assessing the status, condition, and ecological value of habitat and recommending management, conservation, or other protection measures, such as making recommendations to developers whose projects might affect the habitats. In fiscal years 2010 and 2011, the Department annually used nearly \$900,000 of the habitat evaluation and protection monies to meet matching requirements for federal grant monies for habitat projects. In addition, the Department reported that staff performed a variety of habitat evaluation and protection activities in fiscal year 2010, including:

- Reviewing and/or commenting on 253 commercial and residential development plans;

- Continuing work with the Arizona Department of Transportation and Federal Highway Administration to identify wildlife movement corridors and to review highway projects to develop mitigation measures to limit impacts to wildlife;
- Developing wind and solar energy guidelines to mitigate the impact of these energy sources on wildlife such as bats and birds; and
- Developing policies, initiatives, and/or plans to address invasive species such as the quagga mussel.

Photo 2: Department staff presentation to a fourth-grade class



Source: Courtesy of the Arizona Game and Fish Department.

Environmental education—Statute requires that 5 percent of the Heritage Fund monies be spent on environmental education that enhances public awareness of basic ecological principles and the importance of safeguarding natural resources. As shown in Table 1 (see page 6), the Department primarily spends environmental education monies to pay for employees. These employees conduct state-wide public outreach and wildlife education at fairs, festivals, schools, and other forums. For example, the Department reported that in fiscal year 2010, it provided wildlife education and hands-on learning experiences to more than 100,000 people at over 90 events, workshops, expos, and fairs. The Department also reported that it conducted wildlife education presentations to almost 8,200 fourth-grade students in 281 classrooms across Arizona (see Photo 2). Environmental education monies are also used for the Department's Adobe Mountain Wildlife Center, which provides immediate triage and care for sick, injured, or orphaned wildlife.

Public access—According to statute, 5 percent of the Heritage Fund monies are designated for public access or for providing entry to publicly held lands for recreational use. According to the Department, these monies are used to identify and open land or water areas that are closed to the public or that do not have sufficient access in order to provide opportunities for the public to enjoy wildlife and wildlife-related recreation. As shown in Table 1 (see page 6), the majority of the Department's public access expenditures are used to pay for employees. These employees work to strengthen landowner relations and negotiate agreements with landowners and government entities to allow the public to cross or use private lands for recreation (see textbox, page 5).

Heritage Fund budget and staffing

The Department received the full \$10 million from lottery revenues for its Heritage Fund programs in both fiscal years 2010 and 2011 and allocated these monies to the five programs as required by statute. As shown in Table 1 (see page 6), Heritage Fund expenditures totaled approximately \$7.5 million in fiscal year 2010 and nearly

Example public access agreements Fiscal year 2010

Babbitt Ranches—The Department entered into an agreement with Babbitt Ranches near Flagstaff that guaranteed recreational access to nearly 1.5 million acres of land. In exchange for this access, the Department reported that it contributed \$50,000 to clean out 50 dirt tanks to improve water availability for wildlife on more than 500,000 acres of rangeland. This funding was matched by \$125,000 in Arizona Department of Agriculture grant funding and a \$125,000 landowner contribution.

Yellow Pine Ranch—The Department entered into an agreement with Yellow Pine Ranch near Kingman to provide funding to upgrade a windmill to a solar pumping system that will provide year-round water to wildlife and ensure recreational access to 45,000 acres of land managed by the Bureau of Land Management. The Department reported that its funding was matched by a \$3,000 landowner contribution and in-kind efforts in exchange for 2 years of hunter access to the ranch.

Source: Auditor General staff review of the *Arizona Game and Fish Department Heritage Fund 2010 Report to the Arizona Legislature*.

\$9.8 million in fiscal year 2011. The largest Heritage Fund expenditures are for land acquisition and personnel. For example, in fiscal year 2011, the Department spent approximately \$4.3 million on land acquisition and approximately \$3.8 million on personal services and related benefits. Further, the Department was required to transfer a total of nearly \$1.5 million in Heritage Fund monies during fiscal years 2010 and 2011 to the State General Fund in accordance with laws.

As of October 2011, the Department reported funding 61 full-time equivalent positions with Heritage Fund monies, of which 8.5 positions were vacant. In addition, the Department uses Heritage Fund monies to match federal funding. For fiscal year 2011, the Department reported that it received nearly \$4.9 million in federal funding through matched Heritage Fund monies. As of June 30, 2011, the Heritage Fund's fund balance totaled more than \$3.2 million. In addition, the Department had approximately \$5.3 million on deposit with a title company for a planned land acquisition.

**Table 1: Schedule of Revenues, Expenditures, and Changes in Fund Balance, by Program
Fiscal Years 2010 and 2011
(Unaudited)**

Fiscal Year	IIAPM Program							Total
	Environmental Education	Public Access	Urban Wildlife	Habitat Evaluation	Land Acquisition	General	Administration ¹	
2010								
Fund balance (deficit), July 1, 2009	\$ 213,944	\$ 70,552	\$ 602,259	\$ 156,001	\$ 2,014,059	\$ 666,912	\$ (55,668)	\$ 3,668,059
Revenues ²	500,003	500,000	1,513,330	1,500,000	2,430,628	3,601,538	78,254	10,123,753
Expenditures:								
Personal services and related benefits	338,202	227,441	722,356		18,913	1,848,476	685,976	3,841,364
Professional services, aid, travel, and other	56,289	72,817	220,545		15,628	549,622	136,367	1,051,268
Land, buildings, furniture, and equipment	11,671	1,942	6,484		2,531,201	44,907	2,260	2,598,465
Total expenditures	406,162	302,200	949,385	-	2,565,742	2,443,005	824,603	7,491,097
Transfers:								
Transfers to other funds ³				(890,000)	(1,339,900)	(17,958)		(2,247,858)
Transfers to the administration program	(40,400)	(40,400)	(121,200)	(121,200)	(193,920)	(290,880)	808,000	
Total transfers	(40,400)	(40,400)	(121,200)	(1,011,200)	(1,533,820)	(308,838)	808,000	(2,247,858)
Net change in fund balance	53,441	157,400	442,745	488,800	(1,668,934)	849,695	61,651	384,798
Fund balance, June 30, 2010	267,385	227,952	1,045,004	644,801	345,125	1,516,607	5,983	4,052,857
2011								
Revenues ²	500,000	500,005	1,520,626	1,500,583	2,400,000	3,621,266	50,807	10,093,287
Expenditures:								
Personal services and related benefits	303,137	226,571	870,963	117,039	18,601	1,594,114	625,093	3,755,518
Professional services, aid, travel, and other	75,734	116,137	194,356	6,943	2,865	697,576	131,337	1,224,948
Land, buildings, furniture, and equipment	16,696	33,449	115,825		4,257,801	365,510	4,714	4,793,995
Total expenditures	395,567	376,157	1,181,144	123,982	4,279,267	2,657,200	761,144	9,774,461
Transfers:								
Transfers to other funds ³				(890,974)	(140,400)	(127,076)		(1,158,450)
Transfers to the administration program	(36,250)	(36,250)	(108,750)	(108,750)	(174,000)	(261,000)	725,000	
Total transfers	(36,250)	(36,250)	(108,750)	(999,724)	(314,400)	(388,076)	725,000	(1,158,450)
Net change in fund balance	68,183	87,598	230,732	376,877	(2,193,667)	575,990	14,663	(839,624)
Fund balance (deficit), June 30, 2011 ⁴	\$ 335,568	\$ 315,550	\$ 1,275,736	\$ 1,021,678	\$ (1,848,542)	\$ 2,092,597	\$ 20,646	\$ 3,213,233

¹ Represents the administrative activities paid by the Heritage Fund, including department administrative costs allocated to the Heritage Fund.

² Primarily consists of lottery proceeds except for administration revenues. Administration revenues and miscellaneous revenues for the other programs include interest earnings, donations, charges for publications and reproductions, and proceeds from the sale of assets.

³ Transfers for the IIAPM land acquisition program include \$1,339,900 and \$140,400 transferred in fiscal years 2010 and 2011, respectively, to the State General Fund to provide adequate support to state agencies in accordance with Laws 2008, Ch. 285, §46; Laws 2009, Ch. 11, §110, and 5th S.S., Ch. 1, §2; and Laws 2010, 7th S.S., Ch. 1, §148, and Ch. 3, § 7. The remaining transfers were primarily to other department programs to meet matching requirements of federal grants.

⁴ The IIAPM land acquisition program and total ending fund balance excludes approximately \$5.3 million that the Department had on deposit with a title company for a planned land acquisition. See Finding 1, page 11, for additional information.

Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS) Accounting Event Transaction File, the AFIS Management Information System Status of General Ledger-Trial Balance screen, and department-provided financial information for fiscal years 2010 and 2011.

FINDING 1

Statute restricts use of Heritage Fund monies to five specific program areas. The Arizona Game and Fish Department (Department) has established and generally follows policies and procedures to ensure these monies are spent according to statute, and Heritage Fund expenditures reviewed by auditors were for purposes allowed by statute. However, the Department should develop and implement additional policies and procedures to ensure that all Heritage Fund monies are spent appropriately. Specifically, the Department should ensure that administrative and shared costs are appropriately allocated to the Heritage Fund and among the Heritage Fund program areas and ensure that contracts paid with Heritage Fund monies are monitored to ensure the appropriate expenditure of these monies. Finally, the Department should report accurate financial information and establish policies and procedures to monitor land acquisition monies in escrow.

Department should strengthen policies and procedures to ensure appropriate use of all Heritage Fund monies

Department has established policies and procedures to help ensure Heritage Fund monies spent for statutory purposes

The Department has established policies and procedures to help ensure that Heritage Fund monies are spent for statutory purposes. Auditors reviewed 76 expenditures and the job duties of 9 department employees paid with Heritage Fund monies and found these monies were used for purposes allowed by statute.

Department policies and procedures help guide the expenditure of Heritage Fund monies—As discussed in the Introduction (see pages 1 through 6), Arizona Revised Statutes (A.R.S.) §17-298 restricts the use of Heritage Fund monies to five specific program areas (see text-box). To help ensure that monies are spent according to statutory requirements, the Department has established written policies and procedures that define allowable costs from the Heritage Fund. It has also established procedures for ensuring expenditures are appropriate such as requiring supporting documentation for expenditures, matching invoices to receiving reports and purchase orders, and supervisory review for appropriateness. For example:

Heritage Fund program areas and statutory percentage allocations

- Identification, inventory, acquisition, protection, and management of sensitive habitat (IIAPM)—60 percent
- Urban wildlife and habitat—15 percent
- Habitat evaluation and protection—15 percent
- Environmental education—5 percent
- Public access—5 percent

Source: A.R.S. §17-298.

The Department uses a biennial budgeting process to determine which employees can be paid from the Heritage Fund.

- **Department has policies and procedures to ensure only appropriate payroll costs are paid with Heritage Fund monies**—The Department uses a biennial budgeting process to determine from which fund to pay department employees in accordance with priorities and fund restrictions. Through this process, the Department determines which employee positions can be appropriately paid from the Heritage Fund. In addition, department employees use time codes to report time spent on Heritage Fund program area activities to ensure their salaries and other personnel costs are paid from the appropriate Heritage Fund program area. Further, the Department has established policies and procedures to ensure payroll transactions are appropriate such as requiring supervisors to approve timesheets.
- **Department has established policies and procedures for awarding Heritage Fund grants**—The Department uses some Heritage Fund monies for grants to organizations such as the three state universities, federal agencies, local governments, and school districts for Heritage Fund-related projects. For example, the Department awarded \$10,000 in environmental education monies to the City of Flagstaff to produce standards-based lesson plans and activities for schools that visit Frances Short Pond located in Flagstaff. The lesson plans include topics such as water use in Flagstaff and aquatic plants and insects. The Department has established administrative rules and policies and procedures that it follows for awarding and monitoring the grants. Specifically, the Department awards grants by establishing goals and objectives for each Heritage Fund program area and then determining the eligibility of each applicant and project using a scoring system based on the established goals and objectives. The Department monitors grants through required financial and performance reports. The use of close-out reports helps ensure the grant was spent according to each project's approved objectives.

Heritage Fund expenditures reviewed were for purposes allowed by statute—Auditors reviewed 76 Heritage Fund expenditures from fiscal years 2010 and 2011 through April 2011 to assess whether these expenditures were for purposes allowed by statute.¹ In addition, auditors reviewed the job duties of nine department employees funded with Heritage Fund monies to assess whether these positions performed work related to purposes allowed by statute. Overall, auditors determined that these expenditures were for purposes allowed by statute. For example, in fiscal year 2010, the Department used \$5,000 of IIAPM monies toward the purchase of two used snowmobiles to provide staff with access during winter to a monitoring and feeding site for captive-reared California condors. Similarly, in fiscal year 2010, the Department awarded Arizona State University an \$8,148 grant using environmental education monies to publish a children's book that educates children about the endangered Chiricahua leopard frog. In addition,

¹ Auditors selected expenditures from each of the five Heritage Fund program areas and Heritage Fund expenditures in the following areas for review: administration, grants, contracts, and a land acquisition. See Appendix B, pages b-i through b-ii, for additional information on how auditors selected these expenditures.

one department employee funded with Heritage Fund IIAPM monies in fiscal year 2011 was responsible for surveying, monitoring, and reporting on bat roosts and marsh birds living in one of the Department's six regions. Further, auditors tested 37 of the 76 expenditures for compliance with department policies and procedures for expending these monies and found that the Department generally followed its policies and procedures.

Auditors found that the Department generally complied with its policies and procedures for the expenditures tested.

Department should establish policies and procedures for allocating administrative and shared costs and monitoring Heritage Fund contracts

Although the expenditures auditors reviewed were for purposes allowed by statute, the Department could not support expenditure amounts allocated to the Heritage Fund for administrative and shared costs. Additionally, the Department does not formally document monitoring of contracts paid with Heritage Fund monies. As a result, to further ensure that Heritage Fund monies are appropriately spent, the Department should develop and implement policies and procedures for allocating administrative and shared costs to the Heritage Fund and for monitoring contracts paid with Heritage Fund monies.

Policies and procedures needed for allocating administrative and shared costs—The Department allocates both administrative and shared costs to the Heritage Fund. Specifically:

- **Administrative costs**—The Department used Heritage Fund monies to pay more than \$761,000 in department administrative costs in fiscal year 2011. As shown in Table 1 (see page 6), the Department spent approximately \$625,000, or 82 percent, of this amount for personal services and related benefits. Specifically, the Department used Heritage Fund monies to pay for 12 department administrative positions.¹ For fiscal year 2012, the Department reported that it budgeted Heritage Fund monies to fund 10.5 of its 92.5 administrative full-time equivalent positions.
- **Shared costs**—In addition, the Department allocates some costs among multiple department funds or multiple Heritage Fund program areas. For example, in fiscal year 2010, the Department used Heritage Fund monies to pay \$15,389 of the \$82,227 paid to the publisher of its *Arizona Wildlife Views* magazine.² Although the 2010 magazines featured articles on all of the Heritage Fund program areas, the Department used only public access and urban wildlife monies to pay the \$15,389.

¹ According to the Department, one of these positions was no longer paid for by Heritage Fund monies as of October 2010, and one position was vacant as of January 2011.

² The balance of the publisher costs was paid from other department funds.

The Department could not support expenditure amounts allocated to the Heritage Fund for administrative and shared costs.

Although it may be appropriate to allocate administrative and shared costs to the Heritage Fund, the Department could not support the amounts allocated to the Heritage Fund or among its program areas for the expenditures auditors reviewed. As a result, the administrative costs and shared costs allocated to the Heritage Fund or among its program areas may be too large or too small. Allocating too much of these costs to the Heritage Fund or among its program areas may result in spending that is not consistent with the statutory purposes for each program area.

Further, the Department should reevaluate its method for paying administrative costs allocated to the Heritage Fund. The Department uses monies from each of the five Heritage Fund program areas to help pay for these administrative costs using the statutory percentages for these program areas. For example, since statute requires that 60 percent of the total Heritage Fund revenues be allocated to the IIAPM program area, the IIAPM program area contributed 60 percent of the amount needed to pay the administrative costs. Table 1 (see page 6) shows the amounts used from each of the Heritage Fund program areas as transfers to the Administration program. However, to ensure compliance with statute, the amounts used from each program area toward administrative costs should be in proportion to the benefit that each program area receives. For example, if the IIAPM program area pays for 60 percent of the amount needed for the administrative costs allocated to the Heritage Fund, it should receive 60 percent of the benefit. If not, then the IIAPM program area could be subsidizing administrative costs incurred by other program areas, which may lead to spending that is inconsistent with statutory requirements for each program area.

Therefore, to ensure statutory compliance, the Department should develop and implement policies and procedures for allocating administrative and shared costs to the Heritage Fund and among the Heritage Fund program areas. In developing these policies and procedures, the Department could consider cost allocation principles provided by the U.S. Office of Management and Budget.¹ For example, administrative costs such as processing payroll or administering benefits could be allocated based on the percentage of department employees that are paid from the Heritage Fund. Other costs, such as telephone costs, could be allocated based on the percentage of department telephones used by Heritage Fund employees. In addition, the Department should review and consider revising its method for determining the amounts that the five program areas should pay for administrative costs to better reflect the benefit that each program area receives. It should also document this method in its policies and procedures.

Department should monitor contracts paid from Heritage Fund—The Department should ensure that it monitors contracts paid with Heritage Fund monies. Auditors reviewed several contracts in which the Department provided Heritage Fund monies to private landowners or another state agency. For example, in one contract, the Department provided \$6,700 to a private landowner to

¹ See Office of Management and Budget Circular A-87.

restore nearly 670 acres of grassland habitat to improve range conditions and water supply for wildlife. In another contract, the Department agreed to fund one full-time equivalent position at the Arizona Department of Water Resources for Heritage Fund-related work. Department policy requires that it monitor contract performance to identify actual or potential deviations from the agreed terms, conditions, and scope. Further, some of the contracts auditors reviewed also require the Department to monitor project progress and effectiveness. However, although department staff reported that some monitoring activities occur, the Department does not have formal procedures for documenting contract monitoring activities, and auditors found no evidence that the Department monitored these contracts. In order to ensure that Heritage Fund monies are used in accordance with contract terms, the Department should develop and implement procedures for ensuring that all contracts paid with Heritage Fund monies are monitored and the monitoring activities are appropriately documented.

Department should report accurate financial information and establish policies and procedures to manage land acquisition monies in escrow

The Department deposits money into an escrow account held with a title company prior to purchasing a property. The monies are held in the account during the land acquisition process, which can take a long time to complete. For example, the Department created an account with a title company to purchase the Horseshoe Ranch property in December 2009, and the land was not acquired until March 2011. However, the Department should report accurate financial information and improve its policies and procedures for land acquisition accounts. Specifically:

- **Financial reporting**—The Arizona General Accounting Office (GAO) relies on financial information that it receives from the Department in order to prepare Arizona's state-wide financial statements, and decision-makers rely on this information to help make financial decisions for the State. Consequently, it is important that the Department provide accurate and complete financial information to the GAO. However, auditors noted that the Department did not properly record information regarding monies held in escrow on the State's financial accounting system or alternatively report this information to the GAO for fiscal years 2010 and 2011. For example, the Department held approximately \$5.3 million at June 30, 2011, in an account with a title company for a potential land acquisition. The monies were recorded as a capital expenditure on the State's accounting system instead of cash on deposit, and the Department did not notify the GAO of the monies. As a result, the monies were not properly reported in Arizona's June 30, 2011, state-wide financial statements.

The Department did not properly record information regarding monies held in escrow on the state's financial accounting system.

- **Land acquisition escrow account policies and procedures**—The Department has also not established written policies and procedures for spending or monitoring land acquisition monies held in escrow. Because the expenditure of these monies is not processed through the State’s accounting system, the expenditures are not subject to the State’s or Department’s established accounting policies and procedures such as ensuring expenditures are properly authorized. In addition, although department staff reported that they monitor the escrow account, the Department does not have formal procedures for documenting its monitoring activities, and auditors found no evidence that the Department monitored the land acquisition monies. Although auditors did not identify any inappropriate expenditures based on a review of two escrow accounts, written policies and procedures would help to properly safeguard monies held in escrow.

To help ensure that the Department’s financial information is accurately reported in the State’s financial information system and appropriately reflected in Arizona’s state-wide financial statements, the Department should appropriately record and/or report to the GAO financial transactions pertaining to escrow accounts for land acquisitions. In addition, the Department should develop and implement written policies and procedures for spending and monitoring land acquisition monies held in escrow.

Recommendations:

- 1.1 The Department should develop and implement policies and procedures for allocating administrative and shared costs to the Heritage Fund and among the Heritage Fund program areas.
- 1.2 The Department should review and consider revising its method for determining the amounts used from the five Heritage Fund program areas for paying administrative costs to better reflect the benefit that each program area receives. It should also document this method in its policies and procedures.
- 1.3 The Department should develop and implement procedures for monitoring all contracts paid with Heritage Fund monies and appropriately documenting its monitoring activities to ensure that Heritage Fund monies are used in accordance with contract terms.
- 1.4 The Department should appropriately record and/or report to the Arizona General Accounting Office financial transactions pertaining to escrow accounts for land acquisitions.
- 1.5 The Department should develop and implement written policies and procedures for spending and monitoring land acquisition monies held in escrow.

FINDING 2

As required by statute, the Arizona Game and Fish Commission (Commission) acquires land with Heritage Fund monies as part of its efforts to promote wildlife conservation goals, but the Arizona Game and Fish Department (Department) should improve its management of these properties. As of June 30, 2011, the Commission had used nearly \$31 million in Heritage Fund monies to purchase more than 14,000 acres of land in Arizona. These properties are managed regionally through property management plans with oversight provided by the Department's Lands Council. However, actions are needed to improve the Department's management of these properties. Specifically, the Department should establish policies and procedures to ensure that management plans are completed for all properties and that the implementation and effectiveness of these plans are monitored. Additionally, the Department should ensure that the management plans are periodically reevaluated and updated as needed.

Department should improve management of Heritage Fund properties

Department manages several Heritage Fund properties

As of June 30, 2011, the Commission had purchased 24 properties with Heritage Fund monies. These properties are managed by department regional staff with oversight provided by the Department's Lands Council.

Commission has purchased several Heritage Fund properties—The Commission uses a significant portion of its Heritage Fund monies to acquire land to conserve wildlife habitat in Arizona. As discussed in the Introduction (see pages 1 through 6), Arizona Revised Statutes (A.R.S.) §17-298(B) requires at least 24 percent of the Heritage Fund monies to be spent on the acquisition of sensitive habitat used by endangered, threatened, and candidate species (see Introduction, page 2, textbox). As of June 30, 2011, the Commission had used nearly \$31 million in Heritage Fund monies to purchase 24 properties throughout the State, consisting of more than 14,000 acres of land (see Table 2 in Appendix A, page a-i, for a listing of these properties). Several of the properties include riparian habitat, which is targeted because of its importance to Arizona wildlife and fisheries (see textbox). Examples of properties that the Commission has purchased include:

Riparian Habitat—Distinct vegetation and land shape that occur typically along land bordering lakes, rivers, and streams.

Source: Auditor General staff review of Arizona Game and Fish Department Operating Manual.

- **Upper Verde River Wildlife Area**—The Commission purchased about 800 acres of land near Chino Valley, Arizona, in June 1996 and another 293 acres of nearby land in February 2008 that form the Upper Verde River Wildlife Area (see Photo 3, page 14). According to department records, this land was purchased to protect riparian habitat along the Verde River. The objectives for acquiring this property include improving riparian habitat suitability for various species such as the spinedace and razorback sucker fishes; protecting and enhancing other habitat on the property; managing human access to protect sensitive habitat; and promoting public education.

Photo 3: Upper Verde River Wildlife Area



Source: Arizona Office of the Auditor General.

- **Horseshoe Ranch**—In March 2011, the Commission purchased the Horseshoe Ranch property, which consists of nearly 200 acres of land located within the Agua Fria National Monument (see Photo 4). According to department records, this land was purchased to protect and restore riparian and grassland habitats that support endangered species such as the yellow-billed cuckoo bird and the Gila chub and Gila topminnow fishes. The purchase of this property included water rights and grazing rights to nearby federal grazing lands that will allow the Department to protect instream flow to Silver Creek and control livestock grazing along Silver Creek.¹

Photo 4: Horseshoe Ranch



Source: Arizona Office of the Auditor General.

Heritage Fund properties managed regionally—The Heritage Fund properties are managed regionally with oversight provided by the Department's Lands Council. Staff within each of the Department's six regions are responsible for developing and implementing management plans for Heritage Fund properties in their respective regions. These management plans outline the conservation goals and objectives for which the land was acquired and include specific activities for meeting the objectives (see textbox, page 15). Management of these properties is

¹ The Assistant Attorney General for the Department has informally opined that Heritage Fund monies cannot be used to purchase grazing permits. Other department funds and stakeholder contributions were used to pay for the Horseshoe Ranch grazing permit.

Department staff are responsible for developing and implementing management plans for Heritage Fund properties.

Example objectives and associated activities from the Upper Verde River Wildlife Area management plan

Objective: Conduct periodic biological inventory and monitoring to evaluate long-range habitat and species management.

- Conduct inventories of each wildlife species group.
- Coordinate and conduct native fish inventories.
- Survey and inventory all habitats on the property to identify species presence, habitat condition, and management potential.

Objective: Implement access management which provides for the protection of biological, physical, and cultural resources.

- Develop a pipe fence to restrict motorized access into the riparian areas.
- Develop a parking area for 10 vehicles.
- Develop designated camping areas.

Objective: Improve habitats on the wildlife area.

- Identify or control invasive, non-native species.
- Install cattle guards on main road to prevent livestock trespass.
- Monitor for potential contaminants from upstream sources.

Source: Auditor General staff review of the Upper Verde River Wildlife Area management plan.

overseen by the Department's Lands Council, an internal leadership and advisory body created in 2010 to provide strategic oversight and direction to the planning, evaluation, development, and resourcing of all department properties including Heritage Fund properties. Lands Council membership includes the Department's regional supervisors and management from the Department's operational divisions and the director's office.

Actions needed to improve management of Heritage Fund properties

The Department's 2006 State Wildlife Action Plan adopts a management approach that requires monitoring the effectiveness of conservation actions, such as land acquisition and habitat restoration projects, and implementing new actions as needed. This management approach includes (1) setting management goals; (2) implementing management actions; (3) monitoring and analyzing responses of species and habitats to management; and (4) revising management actions, goals, or monitoring strategies

as necessary. However, the Department has not managed its Heritage Fund properties consistent with this approach and should develop and implement policies and procedures to ensure management plans are completed, monitored, and periodically reevaluated and revised as needed.

Some management plans not completed—Department policy requires that management plans be developed for Heritage Fund properties, but does not specify a time frame for when they should be completed. As of October 2011, the Department did not have a management plan for one property, had an incomplete plan for a second property, and was developing the plan for a third property. Specifically, the Department did not have a management plan for the Buck Springs property, which was purchased in March 2009. According to the Department, this property did not have a management plan because it was purchased primarily to obtain a grazing permit that allowed the Department to restrict cattle grazing on other land. In addition, the Department had a draft management plan for the Cibola Valley Conservation and Wildlife Area purchased in September 2007. Although the plan had not been finalized, department documentation indicated that the Department had begun implementing the activities included in the draft plan. Lastly, the Department was in the process of completing the management plan for the Horseshoe Ranch property purchased in March 2011. According to the Department, the management plan for Horseshoe Ranch is still in progress because the Department is piloting a new Commission-directed planning process for developing management plans that involves many stakeholders.

Many of the Heritage Fund properties are adjacent to or near an existing Heritage Fund or other commission property.

In addition, many of the Heritage Fund properties purchased by the Commission are adjacent to or near an existing Heritage Fund or other commission property but were acquired at a later date (see Table 2 in Appendix A, page a-i). The Department indicated that it typically uses the management plan for the initially purchased property for any additional adjacent or nearby properties. According to the Department, preexisting management plans were being used to manage at least six of the Heritage Fund properties that were purchased at a later date. However, none of these management plans specifically address these six properties and in three cases, the properties were purchased several years after the plans were developed. Although it seems reasonable that existing management plans could cover adjacent or nearby properties purchased at a later date, without updating the plans to specifically address the additional properties, it is not clear that the existing management plans will address the goals or objectives of purchasing the additional properties.

Since developing management plans is the first step in managing its Heritage Fund properties, the Department should complete these plans for the Buck Springs and Cibola Valley Conservation and Wildlife Area properties, and continue its effort to complete the management plan for the Horseshoe Ranch property. For future properties, it should also establish a time frame for finalizing management plans and develop policies and procedures for ensuring this time frame is met. These policies and procedures should include guidance on whether staff should

develop a new management plan or update an existing plan when the Commission purchases additional properties that are adjacent to or near an existing Heritage Fund property.

Management plan implementation and effectiveness not monitored—

As stated in the State Wildlife Action Plan, the Department should monitor the implementation and effectiveness of its management plans. However, the Department does not have policies and procedures for monitoring the implementation of its management plans. Although the Department does not have such policies and procedures, the Department's Lands Council decided in September 2011 that all management plans should include an activity matrix by April 2012, which could potentially be used to track the status of management plan activities. For example, department regional staff have previously used an activity matrix to track the status of management plan activities for at least one property auditors reviewed.

In addition, the Department has not established policies and procedures for monitoring the effectiveness of its management plans and, thus, cannot ensure that it is achieving the conservation goals that served as the basis for acquiring the properties. According to department staff, assessing the impact of specific land acquisitions is difficult because restoration of species can take many years and wildlife numbers are influenced by circumstances outside of the Department's control. These circumstances include flooding, population migration, or species illness. Despite these potential difficulties, department staff may already be collecting some data that could be used to assess the impact of Heritage Fund property management. For example, many of the Department's management plans specify that staff should conduct periodic wildlife inventories that may indicate trends in the species' use of the property as a habitat.

Therefore, the Department should develop and implement policies and procedures for monitoring the implementation and effectiveness of its management plans. For example, the Department's policies and procedures might require including criteria in its management plans for monitoring the properties. Further, positive impacts that result from department efforts could be reported to the Legislature through the Department's annual Heritage Fund report.

Management plans not updated—

As stated in the State Wildlife Action Plan, management plans should be evaluated and revised as needed based on monitoring results. According to department land acquisition guidelines developed in 2009, management plans should be reevaluated relative to property goals and objectives every 6 years. However, the Department has not updated its management plans for the Heritage Fund properties it manages in several years, suggesting that the Department may not be reevaluating the plans. As of October 2011, management plans for 16 of the 24 Heritage Fund properties had not been updated in between 8 and 15 years. As discussed earlier, three of the eight remaining properties, Buck Springs, Cibola Valley Conservation and Wildlife Area, and Horseshoe Ranch, either did not have a management plan or a completed plan. The other five properties are

As of October 2011, several management plans had not been updated in between 8 and 15 years.

managed by the Arizona State Parks Board and the Yuma Crossing National Heritage Area. The Department does not require any sort of reporting for the four properties managed by the Arizona State Parks Board to ensure that the original purposes for the acquisition have been met.

Further, periodically reevaluating management plans helps to ensure that they address changing property conditions. According to the Department, property conditions could be affected by wildlife, invasive species, human activities, and natural events. For example, auditors observed several fallen trees in the Upper Verde River Wildlife Area's riparian habitat because of beaver activity (see Photos 5 and 6). Department staff indicated that although the presence of beavers could be an integral part of a riparian habitat, they would need to monitor the beaver activity to determine whether the beavers' presence negatively impacted the riparian area and wildlife for which the property was initially acquired. The Department should document additional actions needed to manage Heritage Fund properties in response to changing conditions in its management plans.

Photo 5: Beaver damage in the Upper Verde River Wildlife Area



Source: Arizona Office of the Auditor General.

Photo 6: Beaver damage in the Upper Verde River Wildlife Area



Source: Arizona Office of the Auditor General.

In September 2011, the Department's Lands Council approved a new management plan template and requested that all management plans be reviewed to determine if they all are still appropriate and be updated using the new template by April 13, 2012. The updated management plans will then be presented to department executive staff for approval. The Department should implement these actions for updating the management plans. In addition, although department guidelines recommend that management plans be reevaluated every 6 years, the Department should establish policies and procedures for ensuring that management plans are periodically reevaluated and revised as needed in accordance with its guidelines. Lastly, the Department should develop and implement policies and/or procedures to establish oversight of properties managed by other organizations to ensure the goals and objectives for the properties are accomplished.

The Department's Lands Council requested that all management plans be reviewed and updated by April 2012.

Recommendations:

- 2.1 The Department should complete the management plans for the Buck Springs and Cibola Valley Conservation and Wildlife Area properties, and continue its efforts to complete the management plan for the Horseshoe Ranch property.
- 2.2 The Department should establish a time frame for finalizing management plans for future properties and develop policies and procedures for ensuring this time frame is met. These policies and procedures should include guidance on whether staff should develop a new management plan or update an existing plan when the Commission purchases additional properties that are adjacent to or near an existing Heritage Fund property.
- 2.3 The Department should develop and implement policies and procedures for monitoring the implementation and effectiveness of its management plans. For example, the Department's policies and procedures might require including criteria in its management plans for monitoring the properties
- 2.4 The Department should implement its plans for updating its existing management plans by April 13, 2012.
- 2.5 The Department should establish policies and procedures for ensuring that management plans are periodically reevaluated and revised as needed in accordance with its land acquisition guidelines.
- 2.6 The Department should develop and implement policies and/or procedures to establish oversight of properties managed by other organizations to ensure the goals and objectives for the properties are accomplished.

APPENDIX A

Heritage Fund land acquisitions

**Table 2: Heritage Fund Land Acquisitions
Fiscal Years 1993 through 2011
(Unaudited)**

Property	Acquisition Date	Acres	Purchase Price	Funding Source		
				Heritage Fund	Federal ³	Other ³
Wenima Wildlife Area	February 1993	205	\$ 894,500	\$ 795,500		\$ 99,000
Wenima Wildlife Area	March 1995	152	555,120	555,120		
Sipes White Mountain Wildlife Area	October 1993	1,362	3,795,301	2,995,301	\$ 500,000	300,000
Arlington Wildlife Area	June 2008	158	2,600,000	2,600,000		
Arlington Wildlife Area	December 2009	171	1,469,184	1,469,184		
Upper Verde River Wildlife Area	June 1996	809	4,688,325	4,688,325		
Upper Verde River Wildlife Area	February 2008	293	4,675,108	4,675,108		
Whitewater Draw Wildlife Area	January 1997	1,448	896,339	246,339	400,000	250,000
Quigley Wildlife Area	September 1997	61	266,461	133,231		133,230
Picacho Reservoir	February 1998	49	50,199	50,199		
Robbins Butte Wildlife Area	November 1998	610	2,132	2,132		
Grasslands Wildlife Area	June 1999	1,713	1,824,300	1,824,300		
Grasslands Wildlife Area	August 2000	1,137	2,292,640	2,292,640		
Grasslands Wildlife Area	August 2002	10	61,500	61,500		
Becker Lake Wildlife Area	January 2002	292	1,610,000	1,610,000		
Becker Lake Wildlife Area	August 2003	1	10,000	10,000		
Coal Mine Springs and Canyon ¹	December 2004	2,629	2,345,422	1,500,000	750,000	95,422
Coal Mine Springs and Canyon ¹	July 2006	874	2,250,000	1,500,000	750,000	
Coal Mine Springs and Canyon ¹	February 2008	795	2,250,000	1,500,000	750,000	
Coal Mine Springs and Canyon ¹	July 2009	9	19,800	19,800		
Cibola Valley Conservation and Wildlife Area	September 2007	1,309	59,450	59,450		
Headstream & McVey ²	November 2007	21	125,000	125,000		
Buck Springs	March 2009	40	680,000	568,436		111,564
Horseshoe Ranch	March 2011	199	3,300,000	1,590,000	1,000,000	710,000
Total		14,346	\$ 36,720,781	\$ 30,871,565	\$ 4,150,000	\$ 1,699,216

¹ The Coal Mine Springs and Canyon properties were purchased in phases and are managed by the Arizona State Parks Board as part of its Sonoita Creek State Natural Area.

² The Headstream & McVey property is part of a federally designated National Heritage Area that is managed by the Yuma Crossing National Heritage Area.

³ In addition to using Heritage Fund monies, the Department reported that other funding sources were used to purchase some properties including U.S. Fish and Wildlife Service grant monies; other department funds such as the Waterfowl Conservation Fund; and monies contributed by conservation and stakeholder groups such as the National Wild Turkey Association, Arizona Elk Society, and Rocky Mountain Elk Foundation.

Source: Auditor General staff analysis of unaudited department information and property management plans.

APPENDIX B

Methodology

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

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express appreciation to the Arizona Game and Fish Department's (Department) Director and his staff for their cooperation and assistance throughout the audit.

Auditors used various methods to study the issues in this report. These methods included reviewing Heritage Fund statutes and rules and the Department's policies and procedures, strategic plan, *Arizona Game and Fish Department Heritage Fund 2010 Report to the Arizona Legislature*, State Wildlife Action Plan, and other department documentation and information. In addition, auditors compiled and analyzed financial information from the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* and the AFIS Management Information System *Status of General Ledger-Trial Balance* screen for fiscal years 2010 and 2011. Further, auditors interviewed department officials and staff.

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

- To determine whether the Department spent Heritage Fund monies for purposes allowed by statute, auditors reviewed Heritage Fund expenditure and transfer transactions for fiscal years 2010 and 2011 through April 2011 and selected 70 of the 38,971 transactions for further review. Transactions were selected from each of the five Heritage Fund program and administration areas and from various expenditure categories based on vendor name and transaction description. Auditors then obtained and reviewed additional information, such as invoices and purchase orders, related to these transactions. Auditors also selected 1 of the 3 land acquisitions during fiscal years 2010 and 2011, 2 of the 16 grants awarded in fiscal years 2010 and 2011 and open as of June 2011, 1 of the 17 grants closed during fiscal year 2011, and 2 of the 6 contracts awarded during fiscal years 2010 and 2011 as other aid to individuals using Heritage Fund monies. The land acquisition, grants, and contracts were reviewed for statutory appropriateness.
- To determine whether the Department's Heritage Fund personnel costs complied with statute, auditors reviewed Human Resources Information System data for employees who were either fully or partially funded by Heritage Fund monies in fiscal year 2011 through April 2011, and selected 9 of 116 department employees, including employees from each of the 5 Heritage Fund program areas and administration, for further review. Auditors interviewed these employees, reviewed documentation supporting position duties, and observed some of the selected employees to determine whether these positions performed work for purposes allowed by statute.

- To assess the Department's management of Heritage Fund properties, auditors reviewed the Department's management plans for these properties, attended the Department's September 2011 Lands Council meeting, and conducted site visits at two Heritage Fund properties—the Upper Verde River Wildlife Area purchased in June 1996 and the Horseshoe Ranch property purchased in March 2011. In addition, auditors reconciled the Department's listing of land acquisitions to a listing of Heritage Fund land acquisitions obtained from the Arizona General Accounting Office (GAO).
- Auditors' work on internal controls focused on reviewing department policies and procedures for expenditures and transfers, land acquisitions, contracts, biennial budgeting process, and Heritage Fund grants. Auditors also tested the Department's compliance with its policies and procedures for 37 of the 70 expenditure and transfer transactions reviewed for statutory compliance; the 1 land acquisition, 3 grants, and 2 contracts reviewed for statutory compliance; and some May 2011 payroll records. Further, auditors reviewed an April 2010 letter prepared by the GAO reporting on its review of certain department internal controls and accounting procedures.¹ Auditors' conclusions on these internal controls are reported in Findings 1 and 2 of the report.

¹ The GAO specifically reviewed agency level controls, bidding and procurement card, disbursements, inventories, and capital and noncapital assets.

AGENCY RESPONSE



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December 16, 2011

Ms. Debra K. Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

We have reviewed the revised preliminary report draft of the performance audit of the Arizona Game and Fish Commission – Heritage Fund.

In reference to your letter of December 12, 2011, we have attached our written response regarding the audit findings and recommendations as outlined in the report draft.

Our response includes the required statements regarding each audit recommendation in the report as well as comments for each recommendation where applicable.

Our Department appreciates the time and effort involved in helping to develop positive recommendations to assist us to collectively improve the management of the Arizona Game and Fish Commission – Heritage Fund.

Sincerely,

Larry D. Voyles
Director

**Department Response to the
Audit Report by the Auditor General’s Office
of the Arizona Game and Fish Commission – Heritage Fund**

Agency Response To Findings and Recommendations

FINDING 1: *“The Department should strengthen policies and procedures to ensure appropriate use of all Heritage Fund monies.”*

Recommendation 1.1: *“The Department should develop and implement policies and procedures for allocating administrative and shared costs to the Heritage Fund and among the Heritage Fund program areas.”* The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 1.2: *“The Department should review and consider revising its method for determining the amounts used from the five Heritage Fund program areas for paying administrative costs to better reflect the benefit that each program area receives. It should also document this method in its policies and procedures.”* The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 1.3: *“The Department should develop and implement procedures for monitoring all contracts paid with Heritage fund monies and appropriately documenting its monitoring activities to ensure that Heritage Fund monies are used in accordance with contract terms.”* The finding of the Auditor General is agreed to and the audit recommendation will be implemented. All future Heritage Fund contract agreements will include stipulation guidelines that spell out both timeline and content requirements for the documentation and monitoring activities associated with implementation, administration and management of each contract.

Recommendation 1.4: *“The Department should appropriately record and/or report to the Arizona General Accounting Office financial transactions pertaining to escrow accounts for land acquisitions.”* The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department handled the movement of the funds to escrow as the only means possible for us to do so. The Department contacted the General Accounting Office to clarify how to ensure the general ledger reflected that funds were “on-deposit” versus reflecting that a capital expenditure had been made when funds were moved into escrow. We learned from the GAO that there is no current method for doing so. The General Accounting Office is now creating a method for the Department to accomplish this. The Department will update written policies and procedures to reflect any new guidelines established and implemented by the General Accounting Office relative to this recommendation.

Recommendation 1.5: *“The Department should develop and implement written policies and procedures for spending and monitoring land acquisition monies held in escrow.”* The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Procedures for disbursements including identification of the authorized personnel as well as requesting monthly statements for reconciliation will be requested upon opening of an escrow account. The current Department Acquisition Guidelines will be updated to reflect this new procedure.

FINDING 2: *“The Department should improve management of Heritage Fund Properties.”*

Recommendation 2.1: *“The Department should complete management plans for the Buck Springs, Cibola Valley Conservation and Wildlife Area and Horseshoe Ranch properties.”* The finding of the Auditor General is agreed to and the audit recommendation will be implemented. With regard to Buck Springs and Cibola Valley Conservation and Wildlife Area, we concur with the finding. The Lands Council has initiated management plan revisions and Regions will be rewriting management plans for all properties. Management plans will be completed for Buck Springs and Cibola Valley Conservation and Wildlife Area. With regard to Horseshoe Ranch Management Plan, which is in a Commission directed community based management planning pilot process; this may have a more protracted timeline. What we learn from this pilot process could provide feedback to modify our processes as they apply to future management plans and management plan revisions.

Recommendation 2.2: *“The Department should establish a time frame for finalizing management plans for future properties and develop policies and procedures for ensuring this time frame is met. These policies and procedures should include guidance on whether staff should develop a new management plan or update an existing plan when the Commission purchases additional properties that are adjacent to or near an existing Heritage Fund property.”* The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Lands Council has already started the process of updating existing management plans. At the next Lands Council meeting, a scheduled agenda item will be to discuss the current management plan revision process. The Council will discuss management plan timeframes and any procedural changes needed to ensure new acquisitions are either incorporated into existing management plans or new management plans are developed and implemented. The Department’s Acquisition Guidelines will be updated to reflect this new procedure.

Recommendation 2.3: *“The Department should develop and implement policies and procedures for monitoring the implementation and effectiveness of its management plans.”* The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Management Plan evaluation criterion is specific to each property and the beneficiary species/habitat. The Department proposes that the evaluation criteria to monitor implementation and effectiveness of each management plan be written into the operational portion of the management plan. The criteria could then be tailored to each specific property and species/habitat.

Recommendation 2.4: *“The Department should implement its plans for updating its existing management plans by April 13, 2012.”* The finding of the Auditor General is agreed to and the audit recommendation will be implemented. By April 2012, the Department will develop and implement an overall plan and timeline that specifies a target date when each existing management plan will be updated. Lands Council has already recommended management plan revisions and this is currently being implemented on a Regional level.

Recommendation 2.5: *“The Department should establish policies and procedures for ensuring that management plans are periodically reevaluated and revised as needed in accordance with its land acquisition guidelines.”* The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The operation plan and accompanying 2-year matrix within each management plan would address all the activities on the property. The operational plan would be revised following the process already recommended by the Lands Council. The Department’s Acquisition Guidelines will be updated to reflect this procedure.

Recommendation 2.6: *“the Department should develop and implement policies and procedures to establish oversight of properties managed by other organizations to ensure the goals and objectives for the properties are accomplished.”* The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented. Arizona State Parks and other organizations that we work with to manage some of the Department’s properties have planning processes of their own; with their own review and revision interval. We work directly with those land managers as they develop management plans and revise them. We believe that it would be inappropriate for the Department to, by modification of our agreements, force those managers to modify their planning processes. The Department will develop a procedure to ensure direct involvement by Department Personnel in any updates of any management plans for properties managed by other entities as they are revised to ensure that the Commission’s objectives for the property are reflected, accomplished, and monitored.

Performance Audit Division reports issued within the last 24 months

10-01	Office of Pest Management— Restructuring	11-03	Arizona Department of Veterans' Services—Fiduciary Program
10-02	Department of Public Safety— Photo Enforcement Program	11-04	Arizona Medical Board
10-03	Arizona State Lottery Commission and Arizona State Lottery	11-05	Pinal County Transportation Excise Tax
10-04	Department of Agriculture— Food Safety and Quality Assurance Inspection Programs	11-06	Arizona Department of Veterans' Services—Veteran Home
10-05	Arizona Department of Housing	11-07	Department of Corrections— Oversight of Security Operations
10-06	Board of Chiropractic Examiners	11-08	Department of Corrections— Sunset Factors
10-07	Arizona Department of Agriculture—Sunset Factors	11-09	Arizona Department of Veterans' Services—Veterans' Donations and Military Family Relief Funds
10-08	Department of Corrections— Prison Population Growth	11-10	Arizona Department of Veterans' Services and Arizona Veterans' Service Advisory Commission— Sunset Factors
10-L1	Office of Pest Management— Regulation	11-11	Arizona Board of Regents— Tuition Setting for Arizona Universities
10-09	Arizona Sports and Tourism Authority	11-12	Arizona Board of Regents— Sunset Factors
11-01	Department of Public Safety— Followup on Specific Recommendations from Previous Audits and Sunset Factors	11-13	Department of Fire, Building and Life Safety
11-02	Arizona State Board of Nursing		

Future Performance Audit Division reports

Arizona Health Care Cost Containment System—Coordination of Benefits