

Arizona Game and Fish Commission Heritage Fund

The Arizona Game and Fish Department spent Heritage Fund monies in accordance with statute but did not consider some Heritage Fund operations and maintenance expenses for compliance with statutory limit, increasing risk that these monies would be unavailable for their intended purpose

Performance Audit

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A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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December 16, 2021

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The Honorable Doug Ducey, Governor

Mr. Kurt Davis, Chairman
Arizona Game and Fish Commission

Mr. Ty Gray, Director
Arizona Game and Fish Department

Transmitted herewith is the Auditor General's report, *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 to provide a quick summary for your convenience.

As outlined in its response, the Arizona Game and Fish Department agrees with the finding and plans to implement all the recommendations. My Office will follow up with the Department in 6 months to assess its progress in implementing the recommendations.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Arizona Game and Fish Commission members

Arizona Game and Fish Commission Heritage Fund

The Arizona Game and Fish Department spent Heritage Fund monies in accordance with statute but did not consider some Heritage Fund operations and maintenance expenses for compliance with statutory limit, increasing risk that these monies would be unavailable for their intended purpose

Audit purpose

To determine if Heritage Fund monies were spent for the purposes and in the percentages outlined in statute.

Key findings

- The Heritage Fund was established through a 1990 ballot initiative to provide monies to the Arizona Game and Fish Commission for the purposes of preserving, protecting, and enhancing Arizona's natural and scenic environment, biological diversity, wildlife and wildlife habitat, endangered and threatened species, and for environmental education.
- Statute requires that 60 percent of Heritage Fund monies—or up to \$6 million annually—be spent for identification, inventory, acquisition, protection, and management (IIAPM), including operations and maintenance (O&M) of property with a sensitive habitat.
- Statute expressly states that not more than 20 percent of IIAPM monies be spent for the O&M of Heritage Fund acquired properties.
- Department allocated IIAPM monies to separate funds to help ensure compliance with statute, but did not consider all IIAPM O&M.
- Department reported it believed the plain meaning of the Heritage Fund statute was contrary to legislative intent and that it was not intended to limit all IIAPM monies from being used for O&M of acquired property. However, according to the Department, as of December 2021, it now agrees with the plain language of the statute and will revise its practices accordingly.

Key recommendations

The Department should:

- Develop and implement internal controls to monitor all IIAPM O&M expenses of Heritage Fund acquired properties.
- Ensure that not more than 20 percent of the IIAPM monies are used for O&M expenses, including infrastructure, of Heritage Fund acquired properties



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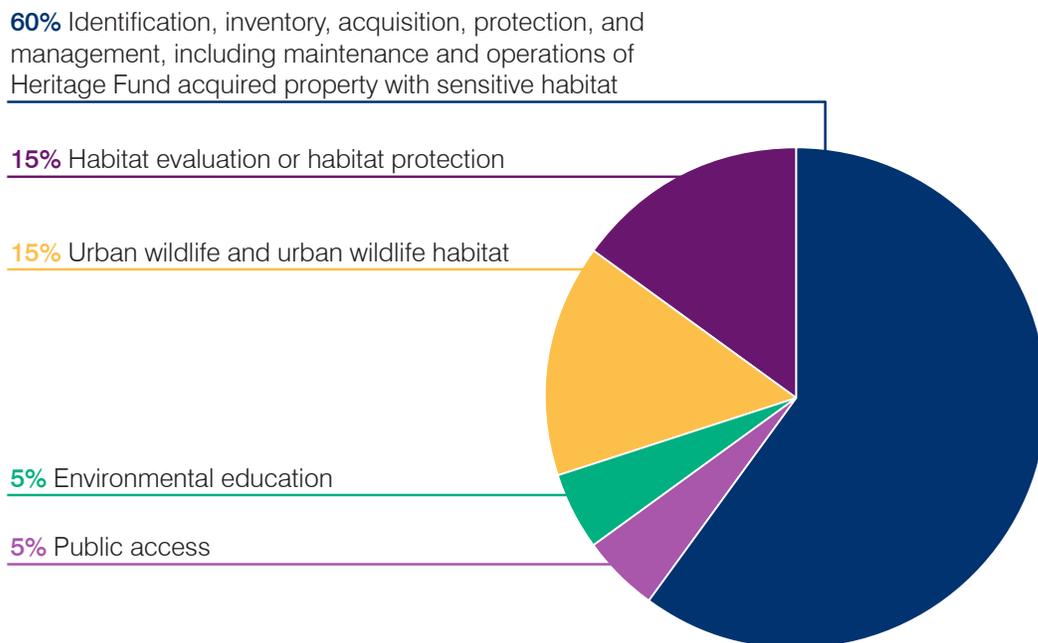


Pursuant to Arizona Revised Statutes (A.R.S.) §17-298.01, the Arizona Auditor General has completed a performance audit of the programs and expenditures of the Arizona Game and Fish Commission (Commission) Heritage Fund. This report addresses whether Heritage Fund monies were spent for the purposes and in the percentages outlined in statute.

Heritage Fund statutory requirements

The Heritage Fund was established through a November 1990 ballot initiative to provide monies to the Commission for the purposes of preserving, protecting, and enhancing Arizona’s natural and scenic environment, biological diversity, wildlife and wildlife habitat, endangered and threatened species, and for environmental education. The Heritage Fund consists of monies deposited, up to \$10 million annually, from the State Lottery Fund and interest earned on those monies.¹ Heritage Fund monies are required to be spent for the purposes and in the percentages outlined in statute (see Figure 1). However, statute does not specify that the monies must be spent in the year received. The Commission retains unspent Heritage Fund monies for future Heritage Fund projects consistent with their statutory purposes. Heritage Fund activities and projects are integrated throughout the Game and Fish Department (Department), which administers the Heritage Fund under the direction of the Commission. Interest earned on the monies can be used for the purposes outlined in statute or for the costs of administering the Heritage Fund.²

Figure 1
Statutory purposes and percentages of Heritage Fund monies



Source: A.R.S. §17-298(A).

¹ A.R.S. §§17-297 and 5-572.

² A.R.S. §17-298(B).

The Heritage Fund’s 5 purposes are described in more detail, as follows:

1. **Identification, inventory, acquisition, protection, and management (IIAPM), including operations and maintenance, of property with sensitive habitat**—According to statute, 60 percent of the Heritage Fund monies—or up to \$6 million, annually—shall be spent for IIAPM purposes. Of this \$6 million, at least 20 percent—or up to \$1.2 million—shall be spent to acquire property with sensitive habitat used by endangered, threatened, or candidate species (see textbox on page 3 for definitions). Additionally, not more than 20 percent of the \$6 million—or up to \$1.2 million—may be spent for the operation and maintenance (O&M) of the acquired property.³ As shown in Table 1, IIAPM monies were used as follows in fiscal years 2019 through 2021, the time frame we reviewed:

- **Property acquisition**—During fiscal years 2019 through 2021, the Department acquired 1 property and 1 conservation easement (see textbox on page 3 for definition) totaling \$7.4 million, which included Heritage Fund monies reserved for this purpose from prior years. The Department acquired the Cold Springs Ranch property for the conservation of native species and to develop a hatchery for native fish species, and the Gillette Ranch conservation easement to preserve native species on the surrounding habitat and to introduce native aquatic species in a river on the property.

For all acquired property, Department policies require an operation and management plan that includes a description of the property, the reason it was acquired, and the proposed management strategy. Prior to acquiring conservation easements, the Department obtains an environmental baseline report, which includes similar information as the operation and management plans. According to the Department, it uses the plans and baseline reports to track the success of its efforts to protect sensitive habitats (see textbox on page 3 for definition). We reviewed the acquisitions mentioned above and determined the Department completed an operation and management plan or obtained an environmental baseline report, as appropriate.

According to statute, the Department may dispose of acquired property if the species it serves no longer qualifies as an endangered, threatened, or candidate species but must do so in a manner consistent with the preservation of the species of concern.³ During fiscal years 2019 through 2021, the Department did not dispose of any property. However, according to the Department, in 2012 and 2015, it exchanged a portion of properties for development or accessibility issues.

- **O&M of Heritage Fund acquired properties**—The Department primarily used O&M monies to contract with professionals, such as engineers or hydrologists, and pay Heritage Fund property costs for improvements, such as building repairs, road maintenance, or water pipeline installation. For example, in fiscal years 2020 and 2021, the Department used O&M monies for improvements to the newly acquired Cold Springs Ranch property, which included contracting with specialists for a cultural resources survey and a boundary survey of the property, installing fences around the property to protect the habitat, and

Table 1
Summary of activity—IIAPM
Fiscal years 2019 through 2021
(Unaudited)

	Amount
Revenue	
Lottery revenue	\$18,000,000
Total revenues	18,000,000
Expenditures	
Property acquisitions	7,372,988
O&M	2,194,170
Identification, inventory, protection, and management projects	
Payroll and related benefits	5,334,873
Operating costs	4,086,782
Heritage Fund grants	421,944
Landowner agreements	282,608
Total expenditures	19,693,365
Net change in fund balance	(1,693,365)
Fund balance, beginning of period	10,241,944
Fund balance, end of period	\$ 8,548,579

Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS).

³ A.R.S. §17-298(A)(2).

Sensitive habitat—The specific areas within the geographical area historically or currently occupied by a species or community of species in which are found those physical or biological features essential to the establishment or continued existence of the species and which may require special management, conservation, or protection considerations.

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—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.

Conservation easement—A nonpossessory interest of a holder in real property imposing limitations or affirmative obligations for conservation purposes.

Source: A.R.S. §§17-296 and 33-271(1).

purchasing road materials to repair the roads around the property and provide access to the ranch. As noted on page 2, statute limits the percentage of Heritage Fund monies used for O&M of acquired property. However, as noted in Finding 1 on page 8, the Department did not consider all O&M costs for Heritage Fund acquired properties when ensuring compliance with statute.

- **Identification, inventory, protection, and maintenance projects**—As shown in Table 1 on page 2, the Department primarily used these monies for payroll and operating costs, such as project and indirect administrative costs.⁴ Staff perform various activities, such as surveys and collection of data for species or habitats, collaboration with conservation partners or landowners, and performing habitat improvements to assist with the management of species. Staff also analyze and enter data into the Department's Heritage Data Management System (HDMS)—a database of wildlife, plants, and geographic areas of concern in the State that is available to the public and is used for environmental planning and conservation measures both internally and externally. For example, prior to bidding on a project, a land developer may use the database when considering a construction project to ensure there are no wildlife or environmental concerns.

The Department used Heritage Fund monies along with other State and federal monies to implement projects outlined in its State Wildlife Action Plan (SWAP).⁵ For example, the Department has worked and continues to work with multiple organizations to implement species management and conservation initiatives for the Mexican wolf. The project's goal is to reestablish the population of Mexican wolves for the conservation of the species. The Department also has and continues to collect data on Arizona's bald eagle population through its nest watching program and other activities. According to the Department, this information is used by the U.S. Fish and Wildlife Service to help determine whether this species should be placed back on the endangered species list.

⁴ Indirect administrative costs are costs for centralized services, such as accounting and human resources, information technology support, and building costs. The Department charges indirect administrative costs to each Heritage Fund purpose as a percentage of payroll costs using the indirect cost rates approved by the U.S. Department of the Interior, which is the federal agency responsible for reviewing, negotiating, and approving indirect cost proposals. We included these costs as part of operating costs in the summary of activity for each Heritage Fund purpose that follows.

⁵ The SWAP is a 10-year plan focused on identifying and managing wildlife and habitats that are in the greatest need of conservation, which is required by the U.S. Fish and Wildlife Service to be eligible for certain federal grants.

2. **Habitat evaluation or habitat protection**—According to statute, 15 percent of the Heritage Fund monies—or up to \$1.5 million, annually—shall be spent for habitat evaluation or habitat protection. Habitat evaluation is the assessment of the status, condition, and ecological value of habitats to recommend management or improvement measures to the habitat; and habitat protection is protecting the quality, diversity, abundance, and serviceability of habitats to maintain or recover wildlife populations.⁶ As shown in Table 2, during fiscal years 2019 through 2021, these monies were used for a federal grant match, operating costs, and payroll. The federal grant has similar fish and wildlife habitat evaluation and protection objectives and according to the Department, provided \$7.65 million in additional monies for habitat evaluation and protection. Operating costs were HDMS technology costs and various other operating costs. For example, the Department contracted with a hydrological engineer to improve habitat for the benefit of threatened and endangered species and to provide excess water so a tribal community could maintain water and habitat for its wildlife. Finally, Department staff perform assessments of the status, condition, and ecological value of habitat on property being considered for acquisition and provide oversight and monitoring of Heritage Fund properties to ensure the properties continue to meet the purpose for which they were acquired.

Table 2
Summary of activity—habitat evaluation or habitat protection
Fiscal years 2019 through 2021
(Unaudited)

	Amount
Revenue	
Lottery revenue	\$4,500,000
Total revenue	4,500,000
Expenditures	
Federal grant match	2,550,000
Operating costs	1,039,276
Payroll and related benefits	889,873
Total expenditures	4,479,149
Net change in fund balance	20,851
Fund balance, beginning of period	1,016,983
Fund balance, end of period	\$1,037,834

Source: Auditor General staff analysis of AFIS.

3. **Urban wildlife and urban wildlife habitat**—According to statute, 15 percent of the Heritage Fund monies—or up to \$1.5 million, annually—shall be spent on programs that address issues related to wildlife within or close to urban areas that receive significant impact from human use.⁷ As shown in Table 3, during fiscal years 2019 through 2021, most of these monies were used for payroll and operating costs. Department staff performed various activities, such as providing education about how to live with wildlife; investigating reports of capture, injury, or killing of wildlife in urban areas; and addressing human-wildlife conflicts across the State. Operating costs included vehicles; tranquilizers used to capture and relocate wildlife and other supplies to care for animals in urban areas; educational materials for distribution to the public; and other expenses that support the program. The Department also awarded grants to various recipients such as conservation partners, cities and towns, and counties, for urban wildlife or urban wildlife habitat purposes. For example, during fiscal year 2020, the Department awarded a grant to the Southwest Wildlife Conservation Center for a study of bobcats living in urban areas to develop strategies, educational programs, and materials to reduce the risk of conflict between bobcats and humans.

Table 3
Summary of activity—urban wildlife and urban wildlife habitat
Fiscal years 2019 through 2021
(Unaudited)

	Amount
Revenue	
Lottery revenue	\$4,500,000
Total revenue	4,500,000
Expenditures	
Payroll and related benefits	2,543,216
Operating costs	1,206,134
Heritage Fund grants	217,182
Total expenditures	3,966,532
Net change in fund balance	533,468
Fund balance, beginning of period	1,123,258
Fund balance, end of period	\$1,656,726

Source: Auditor General staff analysis of AFIS.

⁶ A.R.S. §§17-296 and 17-298(A)(3).

⁷ A.R.S. §§17-296 and 17-298(A)(4).

4. **Environmental education**—According to statute, 5 percent of the Heritage Fund monies—or up to \$500,000, annually—shall be spent on educational programs dealing with basic ecological principles and the effects of natural and man-related processes on natural and urban systems and programs to enhance public awareness of the importance of safeguarding natural resources.⁸ As shown in Table 4, the Department primarily used environmental education monies for payroll, operating costs, and construction of a new wildlife center located next to the Department's main office in north Phoenix. Department staff provided wildlife education, including professional development for teachers and curriculum for use in schools; outreach at public events, such as taking wildlife to community events; and care for the animals that are housed at the wildlife center. During fiscal year 2021, due to the COVID-19 pandemic and the corresponding school restrictions, the Department provided resources to help educators make the transition to online instruction. This included creating a new webpage with curated lessons and activities that could be carried out by students whether they were in the classroom or at home. Operating costs included a variety of items that support environmental education, including food and other supplies for wildlife used in education programs. During fiscal years 2019 and 2020, the Department used Heritage Fund monies to construct a new wildlife center that houses animal ambassadors used as part of wildlife education outreach programs throughout the State. This center also houses sick, injured, or abandoned wildlife that may eventually be released into their native habitats. The wildlife center construction cost \$1.24 million and was funded with Heritage Fund and other State and federal monies.

Table 4
Summary of activity—environmental education
Fiscal years 2019 through 2021
(Unaudited)

	Amount
Revenue	
Lottery revenue	\$1,500,000
Total revenue	1,500,000
Expenditures	
Payroll and related benefits	534,229
Operating costs	476,640
Capital outlay - wildlife center	299,079
Heritage Fund grants	51,532
Total expenditures	1,361,480
Net change in fund balance	138,520
Fund balance, beginning of period	81,275
Fund balance, end of period	\$ 219,795

Source: Auditor General staff analysis of AFIS.

Photo 1
Wildlife center



Source: Auditor General staff photo.

⁸ A.R.S. §§17-296 and 17-298(A)(5).

5. **Public access**—According to statute, 5 percent of the Heritage Fund monies—or up to \$500,000, annually—shall be spent providing entry to publicly held lands for recreational use where such entry is consistent with the provisions of the land.⁹ As shown in Table 5, during fiscal years 2019 through 2021, almost half of the public access monies were used for payroll. Department staff performed activities to improve public access, such as adding signage and gates to properties or coordinating volunteers that help improve the properties. Department staff also identified potential public access projects—land and waters that are closed to the public or have insufficient recreational access—and evaluated them using recreational user estimates to determine if the benefit to public recreational users exceeds the cost.¹⁰ If the project is determined to be beneficial, the Department enters into an agreement with and compensates private landowners whose property must be traversed to gain access to the public land or waters, often combining Heritage Fund monies with other monies. For example, during fiscal year 2020, the Department entered into a landowner agreement to secure public access routes to federal Bureau of Land Management property. The 5-year agreement cost \$100,000, of which \$29,500 was paid with Heritage Fund monies. The remainder was paid using other State and federal monies. According to the Department, if public access funding was limited, it would prioritize projects using the recreational user estimates. However, according to the Department, for at least the last 7 years, it has funded all eligible public access projects it has been made aware of—using public access monies and State and federal grants—and continues to look for additional public access projects.

Table 5
Summary of activity—public access
Fiscal years 2019 through 2021
(Unaudited)

	Amount
Revenue	
Lottery revenue	\$1,500,000
Total revenue	1,500,000
Expenditures	
Payroll and related benefits	726,234
Operating costs	439,761
Landowner agreements	206,210
Heritage Fund grants	51,837
Total expenditures	1,424,042
Net change in fund balance	75,958
Fund balance, beginning of period	232,890
Fund balance, end of period	\$ 308,848

Source: Auditor General staff analysis of AFIS.

Heritage Fund staffing and budget

For fiscal year 2020, there were 48.5 full-time equivalent (FTE) positions assigned to the Heritage Fund programs, 7 of which were vacant. According to the Department, 82 additional Department employees and 20 interns assisted on Heritage Fund projects for hours equivalent to 7.5 additional FTE.

As mentioned on page 1, the Department receives up to \$10 million annually from the State Lottery Fund. As shown on Table 6 on page 7, the Department received the full \$10 million annually for fiscal years 2019 through 2021. Heritage Fund expenditures for the 3 years totaled \$31.3 million. As described previously, these expenditures were primarily for payroll, property acquisition, and operating costs. The ending fund balance totaled \$11.9 million and consisted of unspent Heritage Fund monies that are available to the Department for future Heritage Fund projects.

⁹ A.R.S. §§17-296 and 17-298(A)(1).

¹⁰ The Department uses the most recent (2016) U.S. Fish and Wildlife Service, National Survey of Fishing, Hunting, and Wildlife-Associated Recreation estimated amounts spent per recreational activity.

Table 6
Schedule of Heritage Fund revenues, expenditures, and changes in fund balances
Fiscal years 2019 through 2021
(Unaudited)

	2019	2020	2021
Revenues			
Lottery revenue ¹	\$10,000,000	\$10,000,000	\$10,000,000
Interest revenue ²	212,676	35,261	190,365
Total revenues	10,212,676	10,035,261	10,190,365
Expenditures			
Property acquisition		7,372,988	
O&M of acquired property	578,891	1,208,506	406,773
Payroll and related benefits	3,026,281	3,365,663	3,636,481
Operating costs	2,421,259	2,131,387	2,695,947
Federal grant match	850,000	850,000	850,000
Capital outlay - wildlife center	111,788	187,291	
Heritage Fund grants	139,781	201,056	401,658
Landowner agreements	94,094	171,240	223,484
Administration ³	112,456	96,111	129,648
Total expenditures	7,334,550	15,584,242	8,343,991
Net change in fund balances	2,878,126	(5,548,981)	1,846,374
Fund balances, beginning of year	12,727,451	15,605,577	10,056,596
Fund balances, end of year	\$15,605,577	\$10,056,596	\$11,902,970

¹ In accordance with A.R.S. §5-572(B), of the monies remaining in the State Lottery Fund, \$10 million is deposited into the Heritage Fund.

² Interest revenue earned on Heritage Fund cash balances is transferred to the Heritage Fund Administration Fund for use in administering the Heritage Fund, in accordance with A.R.S. §17-298(B).

³ Administration costs include personnel and operating costs directly related to the Heritage Fund program but not assigned to a specific fund, such as Department staff who administer the Heritage Fund grant award process.

Source: Auditor General staff analysis of AFIS.



Department did not consider some Heritage Fund operations and maintenance expenses for compliance with statutory limit, increasing risk that those monies would be unavailable for intended purpose

Statute expressly states not more than 20 percent of IIAPM monies may be spent for O&M of Heritage Fund acquired properties

As discussed in the Introduction, pages 1 through 7, the Department is required to spend Heritage Fund monies for the purposes and in the percentages outlined in statute. Statute requires that 60 percent of Heritage Fund monies—or up to \$6 million, annually—be spent for IIAPM purposes. Of that 60 percent, statute expressly states that at least 20 percent of IIAPM monies (or 12 percent of the total Heritage Fund monies allocated each year) shall be spent to acquire property with sensitive habitat used by endangered, threatened, or candidate species and not more than 20 percent of the IIAPM monies may be spent for O&M (or operation and maintenance), including infrastructure, of Heritage Fund acquired properties (see Figure 2).

Figure 2
Statutory allocation of IIAPM monies

Up to \$6 million, annually		
At least 20 percent of IIAPM monies (\$1.2 million) Acquisitions	No more than 20 percent of IIAPM monies (\$1.2 million) O&M	Remaining IIAPM monies Identification, inventory, protection, and management

Source: A.R.S. §17-298(A)(2).

Department allocated IIAPM monies to separate funds to help ensure compliance with statute, but did not consider all IIAPM O&M

The Department established separate funds for each Heritage Fund purpose and allocates Heritage Fund revenues to the funds according to the statutory percentages to help ensure it complies with the statutory limits. As shown in Figure 3 on page 9, the Department established 2 funds for the IIAPM purpose and allocates IIAPM monies as follows:

- Acquisitions Fund—40 percent of IIAPM monies for property acquisition and O&M of the acquired property.
- Other IIAPM Fund—60 percent of IIAPM monies for identification, inventory, protection, and management projects and activities.

Figure 3
Department’s IIAPM fund organization and allocations

Acquisitions Fund	Other IIAPM Fund
40 percent of IIAPM monies (up to \$2.4 million, annually) Acquisitions and O&M	60 percent of IIAPM monies (up to \$3.6 million, annually) Identification, inventory, protection, and management

Source: Arizona Auditor General staff analysis of AFIS and Department records.

The Department budgets for and monitors property acquisition and O&M of acquired property expenses in the Acquisitions Fund to ensure compliance with statute; however, the Department also records some O&M of acquired property expenses in the Other IIAPM Fund. For example, the Department recorded payroll for management of the Horseshoe Ranch to the Other IIAPM Fund. During fiscal years 2019 through 2021, the Department recorded a total of \$357,913 of O&M expenses of acquired property to the Other IIAPM Fund.

Although the Department budgeted for and monitored expenses in the Other IIAPM Fund, it did not consider O&M expenses of acquired property in the Other IIAPM Fund for compliance with the statutory limit, which increased the risk that those monies would be unavailable for the intended purpose. The Department did not acquire property with Other IIAPM Fund monies during the time frame we reviewed.

Department reported it believed the plain meaning of the Heritage Fund statute was contrary to the legislative intent

In 2016, Senate Bill 1361 amended A.R.S. §17-298, which included a revision to the statutory allocation of IIAPM monies (see Figure 4). Prior to the amendment, at least 40 percent of IIAPM monies—or up to \$2.4 million, annually—were required to be spent to acquire property. Senate Bill 1361 amended this requirement to at least 20 percent of IIAPM monies—or up to \$1.2 million annually—be spent to acquire property and added that no more than 20 percent of IIAPM monies—or up to \$1.2 million, annually—could be spent on operation and maintenance of the acquired property. Prior to the amendment, O&M expenses were not expressly limited in statute. Those expenses were paid with Other IIAPM Fund monies or other State or federal monies.

Figure 4
2016 change to A.R.S. §17-298 regarding allocation of IIAPM monies

Before 2016 change	
At least 40 percent of IIAPM monies (\$2.4 million, annually) Acquisitions	Remaining IIAPM monies Identification, inventory, protection, and management including O&M of sensitive habitat
After 2016 change	
At least 20 percent of IIAPM monies (up to \$1.2 million) Acquisitions	No more than 20 percent of IIAPM monies (up to \$1.2 million) O&M
Remaining IIAPM monies Identification, inventory, protection, and management	

Source: Arizona Auditor General staff analysis of Westlaw legal research database.

However, the Department reported that it understood the 2016 Heritage Fund statute amendment differently than the plain language. Despite the plain language of the statute, the Department did not believe the statute was intended to restrict other IIAPM monies from being used for O&M of acquired property. According to the Department, as of December 2021, it now agrees with the plain language of the statute and will revise its practices accordingly.

We reviewed the Department's use of IIAPM monies from both the Acquisitions and Other IIAPM funds and determined the Department did not exceed the statutory limit—\$1.2 million, annually—for O&M of Heritage Fund acquired properties for the years we reviewed. Specifically, during fiscal years 2019 through 2021, we found the Department spent a total of \$2.2 million for this purpose, which is below the limit for the period we audited. However, because the Department did not consider O&M expenses of acquired property in the Other IIAPM Fund for compliance with the statutory limit, it increases the risk that those expenditures would exceed the annual statutory limit—\$1.2 million—and be unavailable for the intended purpose in future years.

Recommendations

The Department should:

1. Develop and implement internal controls to monitor all IIAPM O&M expenses of Heritage Fund acquired properties.
2. Ensure that not more than 20 percent of the IIAPM monies are used for O&M expenses, including infrastructure, of Heritage Fund acquired properties.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 2 recommendations to the Department

The Department should:

1. Develop and implement internal controls to monitor all IIAPM O&M expenses of Heritage Fund acquired properties.
2. Ensure that not more than 20 percent of the IIAPM monies are used for O&M expenses, including infrastructure, of Heritage Fund acquired properties.



Scope and methodology

The Arizona Auditor General has conducted this performance audit of the programs and expenditures of the Heritage Fund pursuant to A.R.S. §17-298.01. This statute requires a performance audit to be conducted beginning in 2001 and every tenth year thereafter. This is the 3rd performance audit of the Heritage Fund since its establishment in 1990.

We used various methods to address the audit's objectives. These methods included reviewing applicable statutes, federal guidelines, and the Department's State Wildlife Action Plan, rules, policies, and website and interviewing Department staff. In addition, we used the following specific methods to meet the audit objectives:

- To determine whether the Department spent Heritage Fund monies for purposes and percentages required by statute, we:
 - Analyzed Heritage Fund revenues recorded in AFIS during fiscal years 2019 through 2021 and verified revenues were recorded in the statutory percentages.
 - Analyzed Heritage Fund nonpayroll expenditure and transfer transactions for fiscal years 2019 through 2021. We judgmentally selected 123 of the 14,752 transactions for further analysis from each Heritage Fund purpose and based on vendor name and transaction descriptions. We obtained and reviewed additional purpose documentation, such as invoices, purchase orders, contracts, agreements, and management plans to determine compliance with the statutory Heritage Fund purposes. Finally, we selected for review 3 of the 59 Heritage Fund grants issued by the Department from fiscal years 2018 through 2020, with payments made to grantees during fiscal years 2019 through 2021. We obtained and reviewed grant documentation, such as agreements, invoices, and monitoring documents.
 - Analyzed Heritage Fund payroll transactions for fiscal years 2019 through 2021 and the Department-provided staff listing by position description. In addition, we interviewed 17 of the 45 full-time staff members assigned to Heritage Fund activities and projects to obtain detailed project information throughout the audit.
- Our work on internal controls included reviewing the Department's policies and procedures and, where applicable, testing compliance with these policies and procedures. Our work included reviewing the following components and associated principles of internal controls:
 - Control activities, including the design and effectiveness of activities that help ensure Heritage Fund monies were used in compliance with statute.
 - Monitoring, including monitoring activities, such as the Department's review of completed projects or activities to ensure the project had the desired outcome.

We reported our conclusions on applicable internal controls in Finding 1 on page 8.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit of the Heritage Fund 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.

We express our appreciation to the Department's Director and staff for their cooperation and assistance throughout the audit.

DEPARTMENT RESPONSE



December 14, 2021

Lindsey A. Perry
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018-7271

Dear Ms. Perry:

This letter provides the Arizona Game and Fish Department's response to the December 10, 2021 revised preliminary draft of the AGFD Commission Heritage Fund Audit Report. We appreciate the diligence and hard work of the Auditor General's staff in completing this report and their consideration of our feedback on the previous draft.

The auditors identified 2 recommendations for improvement the department should address. Specifically:

Finding 1: Department did not consider some Heritage Fund operations and maintenance expenses for compliance with statutory limit, increasing risk that those monies would be unavailable for intended purpose

Recommendation 1: The Department should develop and implement internal controls to monitor all IIAPM O&M expenses of Heritage Fund acquired properties.

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

Response explanation: The Department agrees and is in the process of implementing internal controls to identify and monitor Heritage IIAPM O&M expenditures on Heritage acquired properties.

Recommendation 2: The Department should ensure that not more than 20 percent of the IIAPM monies are used for O&M expenses, including infrastructure, of Heritage Fund acquired properties.

Department response: The finding of the Auditor General is agreed to and will be implemented.

Response explanation: Standard work that outlines requirements for a project to be considered O&M is being developed and all O&M expenses for Heritage Acquired properties. The Department will utilize these controls to ensure that not more than 20 percent of the IIAPM monies will be used to pay for O&M.

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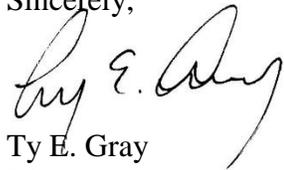
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December 14, 2021
Lindsey A. Perry
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On behalf of the Commission and AGFD, we appreciate having had this opportunity to respond to the above recommendations. Moreover, we appreciate the professionalism and cooperation of your audit team, Marcia Schweers and Adam Tillard, demonstrated in working with us throughout the performance audit process. We found the process and the results to be both informative and very beneficial for ensuring that the Commission Heritage Fund is meeting the purpose for which it was established, and we look forward to timely implementation of all the recommendations identified in your audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "Ty E. Gray". The signature is written in a cursive style with a large, sweeping initial "T".

Ty E. Gray
Director

