



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Federal Land Payments Report

State of Arizona

Statement of Federal Land Payments

October 1, 2014 through September 30, 2015



Debra K. Davenport
Auditor General

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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Independent Accountants' Report

Members of the Arizona State Legislature

State of Arizona, Department of Administration

We have examined the accompanying Statement of Federal Land Payments of the State of Arizona for the period October 1, 2014 through September 30, 2015. This statement is the collective responsibility of the counties' management. Our responsibility is to express an opinion on this statement based on our examination.

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

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

In our opinion, the Statement of Federal Land Payments referred to above presents, in all material respects, the payments that the State of Arizona made to qualified local governmental subdivisions under 31 U.S.C. 6901 et seq. for the period October 1, 2014 through September 30, 2015, based on the criteria described in Note 1.

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

This report is intended solely for the information and use of the addressees and counties' management, and for filing with the U.S. Department of the Interior, Bureau of Land Management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Jay Zsorey, CPA
Financial Audit Director

January 18, 2016

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Federal Agency Making Payment and Payment Type*

Local Unit	USFS Timber	USFS	USFS	ONRR/BLM	BLM		BLM	FERC	FWS	Total
	Title I (A.R.S. §11-497)	Secure Schools Title III**	Bankhead- Jones	Mineral Leasing (A.R.S. §37-741(B))	Taylor Grazing \$3 (A.R.S. §§37-723 & 725)	\$15 (A.R.S. §37-724)	Bankhead- Jones	Power Sales	Refuge Revenue Sharing	
Apache County										
Cochise County	\$ 186,299									\$ 186,299
Coconino County	2,007,891	\$284,823								2,292,714
Gila County	49,000									49,000
Graham County	50,000									50,000
Greenlee County	300,000									300,000
La Paz County										
Maricopa County	419,977	34,586				\$ 287				454,850
Mohave County	5,664									5,664
Navajo County	84,385	58,764								143,149
Pima County	189,114	20,765								209,879
Pinal County	325,469	20,342								345,811
Santa Cruz County	129,215				\$4	2,264				131,483
Yavapai County	97,760	171,080								268,840
Yuma County										
Total	<u>\$3,844,774</u>	<u>\$590,360</u>			<u>\$4</u>	<u>\$2,551</u>				<u>\$4,437,689</u>

Abbreviations Used:

USFS—U.S. Forest Service
A.R.S.—Arizona Revised Statutes
ONRR—Office of Natural Resource Revenue
BLM—Bureau of Land Management
FERC—Federal Energy Regulatory Commission
FWS—Federal Wildlife Service

* These amounts represent the monies the county retained.

** There is no State law that governs how the USFS Secure Schools Title III monies are to be used.

See accompanying notes to statement.

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Note 1 - Basis of Accounting

The Statement of Federal Land Payments (Statement) was prepared on the basis of cash disbursements that the State of Arizona made to qualified local governmental subdivisions during the period October 1, 2014 through September 30, 2015, under 31 USC 6901 et seq., and is prepared in accordance with the provisions of the October 16, 1978, Comptroller General of the United States Decision B-167553. The amounts reported on this Statement include only the monies the counties retained during the period October 1, 2014 through September 30, 2015.

Note 2 - Reconciliation of Federal Land Payments

The following presents a reconciliation of the amounts presented on the Statement of Federal Land Payments to the Bureau of Land Management's (BLM) Schedule of Prior Year Payments Received by State and Local Governments during the period October 1, 2014 through September 30, 2015:

Timber and Secure Schools, Title I and Title III

The State received \$12,424,854 of Timber and Secure Schools receipts, which were disbursed to the counties. Subsequently, the counties distributed \$7,989,720 for the benefit of the school districts, including accommodation schools, and retained \$4,435,134.

Bankhead-Jones

Monies the State received from the Bankhead-Jones Act are retained by the State and credited to the University of Arizona in compliance with the Enabling Act. The State received no amounts from either the USFS Bankhead-Jones or BLM Bankhead-Jones programs during the period October 1, 2014 through September 30, 2015.

Mineral Leasing

The State received \$159,983 of Mineral Leasing receipts during federal fiscal year 2015. These monies are retained by the State and are not distributed to any of the counties; as such, they are not recorded on the Statement.

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Taylor Grazing, Sections 3 and 15

The State disbursed \$48,967 and \$84,969 of Taylor Grazing monies, Sections 3 and 15, respectively, to the counties. Subsequently, the counties distributed \$38,359 to federal grazing districts, deposited \$10,604 in a special range improvement fiduciary fund, and retained \$4 of Section 3 monies. Further, the counties distributed \$82,418 for the benefit of school districts and retained \$2,551 of Section 15 monies.

Sale of Materials

The State received \$53,097 of sale of materials receipts, which was retained in the State's permanent land funds to be applied in accordance with their respective purposes; as such, these monies are not recorded on the Statement.

Power Sales

The State received no revenue from FERC power sales during the period October 1, 2014 through September 30, 2015.

Refuge Revenue Sharing

Federal Wildlife Service Refuge receipts are paid directly to the counties. There are no statutes governing the counties' use of these receipts. The State received \$26 from this program during the period October 1, 2014 through September 30, 2015.

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of Federal Land Payments—
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A.R.S. §11-497. Disbursement of forest reserve monies

The treasurer shall notify the clerk of the board of supervisors and the county school superintendent of the amount received from the state treasurer as the county share of pass through monies from the United States from forest reserves, as provided in section 41-736, and thereafter the money shall be disbursed for the benefit of public schools and public roads of the county as the board of supervisors may direct.

A.R.S. §37-521. Permanent state school fund; composition; use

- A. After any appropriation pursuant to section 37-527, the permanent state school fund shall consist of:
1. The proceeds of all lands granted to the state by the United States for the support of common schools.
 2. All property which accrues to the state by escheat or forfeiture.
 3. All property donated for the benefit of the common schools, unless the terms of the donation otherwise provide.
 4. All unclaimed shares and dividends of any corporation incorporated under the laws of this state.
 5. The proceeds of sale of timber, mineral, gravel or other natural products or property from school lands and state lands other than those granted for specific purposes.
 6. The residue of the lands granted for payment of the bonds and accrued interest issued by Maricopa, Pima, Yavapai and Coconino counties, after the purpose of the grant has been satisfied, and the five percent of the proceeds of sales of public lands lying within this state sold by the United States subsequent to admission of this state into the union, as granted by the enabling act.

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

- A. All monies received by the state as its distributive shares of the amounts collected by the United States government under the provisions of the act of Congress of June 28, 1934, known as the Taylor grazing act, and acts amendatory thereof, shall be deposited with the state treasurer. The treasurer shall distribute the funds to the several counties of the state in which the public lands are located.

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

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

A.R.S. §37-724. Receipts from lease of public lands

All monies received from leases of public lands within any county shall be placed to the credit of the school district within the county in which the land lies. If the lands do not lie within a school district, the monies shall be placed to the credit of the general school fund of the county.

A.R.S. §37-725. Receipts from grazing district fees; district treasurer; duties

- A. All monies received from grazing fees of a grazing district regularly established and including public lands within the county shall be placed to the credit of a special fund designated the range improvement fund of the grazing district which shall be given a number.
- B. The county treasurer of the county in which such public lands are located shall be the ex officio district treasurer of any federal grazing district located wholly or in part within the county, and shall be liable upon his official bond for the proper care and distribution of the monies. He shall collect, receive, receipt and account for all monies from such source, and shall pay it upon the warrant of the grazing district signed by the chairman of the board of district advisors and countersigned by the vice-chairman thereof and the regional grazier in administrative charge of the district.

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A.R.S. §37-741. Public roads and public education fund; purposes; approval of expenditures by legislature; distribution

- A. There is created a special fund known as the state public roads and public education fund. There shall be deposited in the fund all monies received by the state as its distributive shares of the amounts collected by the United States government under the provisions of the act of Congress of February 25, 1920, chapter 85 (41 Stat. 437) and acts amendatory thereof, entitled, “an act to promote the mining of coal, phosphate, oil, oil shale, gas and sodium on the public domain.”
- B. No monies shall be expended from the fund created by subsection A of this section without prior approval therefore by an act of the legislature. The legislature may authorize expenditures from the fund for any of the following purposes:
 - 1. The construction and maintenance of public roads.
 - 2. The support of public schools or other public educational institutions.
- C. At the beginning of each fiscal year, one-half of the balance in the state public roads and public education fund shall be transferred to the state highway fund to be expended for secondary roads and one-half shall be transferred to the permanent state school fund and shall be administered as provided by section 37-521.

Schedule of Findings and Recommendations

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

As a result of our examination, we identified deficiencies in internal control that Apache and Navajo County's management should correct to ensure that they fulfill their responsibility to establish and maintain adequate internal controls over federal land payments. Our findings and recommendations are described below.

2015-01

Apache County should distribute forest reserve monies in accordance with the Secure Rural Schools and Community Self-Determination Act of 2000 and Arizona Revised Statutes §11-497

Criteria: The Secure Rural Schools and Community Self-Determination Act of 2000 (SRS Act) requires the counties' Title I monies to be used for roads and schools in the manner provided for by state statute. Arizona Revised Statutes (A.R.S.) §11-497 requires the counties' share of pass-through forest reserve monies from the United States to be disbursed for the benefit of public schools and public roads as the board of supervisors directs. Further, a county may allocate a disproportionate amount of forest reserve monies between public schools and public roads as long as both categories receive a real benefit.

Condition and context: Forest reserve monies for Apache County (County) were not properly disbursed for the benefit of both public schools and public roads in accordance with the SRS Act and A.R.S. §11-497. Specifically, the County disbursed \$896,395, the entire amount of forest reserve monies received, to public schools.

Effect: The County was not in compliance with the SRS Act and A.R.S. §11-497.

Cause: The Apache County Board of Supervisors decided that there was a greater need for the public schools.

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

This finding is similar to prior-year finding 2014-01.

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2015-02

Navajo County should distribute forest reserve monies in accordance with the Secure Rural Schools and Community Self-Determination Act of 2000 and Arizona Revised Statutes §11-497

Criteria: The Secure Rural Schools and Community Self-Determination Act of 2000 (SRS Act) requires the counties' Title I monies to be used for roads and schools in the manner provided for by state statute. Arizona Revised Statutes (A.R.S.) §11-497 requires the counties' share of pass-through forest reserve monies from the United States to be disbursed for the benefit of public schools and public roads as the board of supervisors directs. Further, a county may allocate a disproportionate amount of forest reserve monies between public schools and public roads as long as both categories receive a real benefit. In addition, Section 302 of the SRS Act requires the counties to use Title III, County Fund, monies only (1) to carry out activities under the Firewise Communities program (provides homeowners education/assistance on protecting people and property from wildfires); (2) to reimburse the participating county for search and rescue and other emergency services, including firefighting; and (3) to develop community wildfire protection plans in coordination with the appropriate secretary concerned.

Condition and context: Forest reserve monies for Navajo County (County) were not properly disbursed for the benefit of public schools and public roads in accordance with the SRS Act and A.R.S §11-497. During federal fiscal year (FFY) 2015, the County disbursed \$939,596 of the \$998,981 reserve monies received for the benefit of public schools and public roads. The remaining \$59,385 was used to carry out activities under the Firewise Communities program in an effort to reimburse the program for Title III, County Fund, monies that had been incorrectly distributed to public schools in FFY 2014.

Effect: The County was not in compliance with the SRS Act and A.R.S. §11-497.

Cause: The County improperly distributed Title I monies to carry out Title III activities in an attempt to correct the non-compliance noted in the prior federal fiscal year.

Recommendation: To help ensure compliance with the SRS Act and A.R.S. §11-497, Navajo County should distribute Title I forest reserve monies for only the benefit of public schools and public roads.

This findings is similar to prior-year finding 2014-03.

