

State of Arizona

Statement of Federal Land Payments

Federal Land Payments
Report

October 1, 2020 through
September 30, 2021

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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LINDSEY A. PERRY
AUDITOR GENERAL

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Independent accountants' report

Members of the Arizona State Legislature

State of Arizona, Department of Administration

Arizona County Boards of Supervisors

We have examined the accompanying Statement of Federal Land Payments of the State of Arizona (Statement) for the period October 1, 2020 through September 30, 2021. All Arizona counties' management is collectively responsible for presenting this Statement in accordance with the criteria described in Note 1. Our responsibility is to express an opinion on this Statement based on our examination.

We conducted our examination in accordance with the attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Statement is in accordance with the criteria in all material respects. An examination involves performing procedures to obtain evidence about the Statement. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Statement, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Statement referred to above is presented in accordance with the criteria described in Note 1, in all material respects.

In connection with our examination, we identified deficiencies in counties' internal control over the distribution of federal land payments that are described in the accompanying schedule of findings and recommendations.

Donna Miller

Donna Miller, CPA
Director, Financial Audit Division

March 14, 2022

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Local government unit	Federal agency making payment and payment type*												Total
	USFS Timber and Secure Schools Payment Title I (A.R.S. §11-497)	USFS Timber and Secure Schools Payment Title III**	USFS Timber and Secure Schools 25% payment (A.R.S. §11-497)	USFS/ONRR Timber and Secure Schools Payment	USFS Bankhead-Jones	ONRR/BLM Mineral Leasing (A.R.S. §37-741 (B))	BLM Taylor Grazing		BLM Bankhead-Jones	BLM Sale of Materials (A.R.S. §37-521)	FERC Power Sales	FWS Refuge Revenue Sharing	
						\$3 (A.R.S. §§37-723 & 725)	\$15 (A.R.S. §37-724)						
Apache County													\$ -
Cochise County	\$ 159,529												159,529
Coconino County	1,023,223	\$168,238											1,191,461
Gila County	237,801												237,801
Graham County	50,000												50,000
Greenlee County	300,000												300,000
La Paz County													-
Maricopa County	303,275	24,976					\$ 276						328,527
Mohave County	4,177												4,177
Navajo County	23,836												23,836
Pima County	140,016	15,374											155,390
Pinal County	226,720	15,084											241,804
Santa Cruz County	7,500					\$5	962						8,467
Yavapai County	67,102	117,428											184,530
Yuma County													-
Total	\$2,543,179	\$341,100				\$5	\$1,238						\$2,885,522

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.

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Notes to Statement of Federal Land Payments

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Note 1 - Basis of accounting

The Statement of Federal Land Payments was prepared on the basis of cash disbursements that the State of Arizona (State) made to qualified local governmental subdivisions during the period October 1, 2020 through September 30, 2021, under 31 United States Code 6901 et seq., and is prepared in accordance with the provisions of the October 16, 1978, Comptroller General of the United States Decision B-167553. The amounts reported on this statement include only the monies the counties retained during the period October 1, 2020 through September 30, 2021.

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, 2020 through September 30, 2021:

Timber and Secure Schools, Title I and Title III

The State disbursed \$8,458,813 of Timber and Secure Schools monies to the counties. Subsequently, the counties distributed \$5,574,534 for the benefit of the school districts, including the counties' accommodation schools, and retained \$2,884,279.

Bankhead-Jones

The State retains monies received from the Bankhead-Jones Act and credits them to the University of Arizona in compliance with the Enabling Act. The State received no amounts from either the U.S. Forest Service Bankhead-Jones or BLM Bankhead-Jones programs during the period October 1, 2020 through September 30, 2021.

Mineral Leasing

The State received \$289,609 of Mineral Leasing receipts during the period of October 1, 2020 through September 30, 2021. The State retains these monies and does not distribute them to any of the counties; as such, they are not recorded on the Statement of Federal Land Payments.

Taylor Grazing, Sections 3 and 15

The State disbursed \$58,884 and \$72,498 of Taylor Grazing monies, Sections 3 and 15, respectively, to the counties. Subsequently, the counties distributed \$32,817 to federal grazing districts, deposited \$26,062 in a special range improvement fiduciary fund, and retained \$5 of Section 3 monies. Further, the counties distributed \$71,260 for the benefit of school districts and retained \$1,238 of Section 15 monies.

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Sale of materials

The State received \$623,888 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 of Federal Land Payments.

Power sales

The State received no revenue from Federal Energy Regulatory Commission power sales during the period October 1, 2020 through September 30, 2021.

Refuge revenue sharing

The State received no revenue from the Federal Wildlife Service Refuge Revenue Sharing during the period October 1, 2020 through September 30, 2021.

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A.R.S. §11-497. Disbursement of forest reserve monies

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

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

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

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

- A. All monies received by the state as its distributive shares of the amounts collected by the United States government under the provisions of the act of Congress of June 28, 1934 known as the Taylor grazing act, and acts amendatory thereof, shall be deposited with the state treasurer. The treasurer shall distribute the funds to the several counties of the state in which the public lands are located.
- B. The state treasurer shall ascertain from the proper United States officers having the records of receipts from grazing permits and leased public lands the amount of receipts from sources in this state for each year for which money is received by the state. A separate account shall be kept of the amount received from each grazing district and lease of public lands, and the state treasurer shall pay the county in which the grazing district or leased public land is located. If the grazing district or leased land lies in more than one county, each county shall receive the proportional part of the amount as the area of the grazing district or leased public land included within the boundary of the county bears to the total area of the grazing district or lease.

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- C. For the purposes of this section the monies deposited with the state treasurer as provided by subsection A are appropriated to the several counties of the state in the proportions in which the counties are entitled thereto, as shown by the records of the United States officers and transmitted to the state treasurer.

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

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

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

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

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

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



SCHEDULE OF FINDINGS AND RECOMMENDATIONS

In planning and performing our examination, we considered the Arizona counties' internal control to design procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement of Federal Land Payments, but not for the purpose of expressing an opinion on the effectiveness of the counties' internal control. Accordingly, we do not express an opinion on the effectiveness of the counties' internal control.

As a result of our examination, we identified deficiencies in internal controls that County 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.

2021-01

Apache County disbursed \$558,547 in Timber and Secure Schools Title I monies to benefit only public schools rather than both public schools and public roads, contrary to State law

Condition—Contrary to State law, Apache County disbursed \$558,547, the entire amount of U.S. Forest Service Timber and Secure Schools Title I monies it received, to benefit only public schools rather than both public schools and public roads.

Effect—Apache County's public roads and its residents who use them received no benefit from the Timber and Secure Schools Title I monies the County received.

Cause—Apache County's board of supervisors chose to not follow the State law because the supervisors determined there was a greater need for the public schools over public roads and decided to distribute the full amount to public schools.

Criteria—State law requires Arizona counties to use their share of Timber and Secure Schools Title I monies for a real benefit to both public schools and public roads as the counties' boards of supervisors direct (Arizona Revised Statutes §11-497).

Recommendation—Apache County's board of supervisors should follow State law and disburse a portion of the Timber and Secure Schools Title I monies for public roads to help ensure both public schools and public roads receive a real benefit from these monies.

This finding is similar to prior-year finding 2020-01.

2021-02

Navajo County disbursed \$42,222 in Timber and Secure Schools Title III monies to public schools, rather than public lands and the residents who use them, contrary to federal law

Condition—Contrary to federal law, Navajo County disbursed \$42,222, the entire amount of U.S. Forest Service Timber and Secure Schools Title III monies it received to public schools rather than using the monies for County wildfire prevention and protection projects.

Effect—Navajo County's public lands and residents who use them received no benefit for wildfire prevention and protection from the Timber and Secure Schools Title III monies the County received.

Cause—Although Navajo County had allocation policies and procedures for Timber and Secure Schools Title III monies, when it received its U.S. Forest Service Timber and Secure Schools monies, it did not understand that the monies it received included Title III monies for its wildfire prevention and protection projects on its public lands.

Criteria—Federal law requires counties to use their total share of Timber and Secure Schools Title III monies according to a county's planned public lands' wildfire prevention and protection projects, such as providing education and assistance to homeowners in fire-sensitive ecosystems; reimbursing counties for search and rescue and other wildfire emergency services, including related training and equipment costs; and developing and implementing community wildfire protection plans (Secure Rural Schools and Community Self-Determination Act, Public Law No. 106-393 [2000]. As amended by Consolidated Appropriations Act, Public Law No. 115-141 [2018].).

Recommendation—Navajo County should seek guidance and clarification from the U.S. Forest Service about its share of allocated Timber and Secure Schools monies if it has questions about the monies it received to help ensure that the County uses Timber and Secure Schools Title III monies as required by federal law.

