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**Arizona State Land Department**

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Lindsey A. Perry  
Auditor General  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Perry,

Thank you for providing us with a final report draft of the Arizona State Land Department – Agricultural Leasing Process Special Audit. We appreciate the opportunity to respond. Attached, please find our final response to the audit findings.

Please feel free to contact me with any questions.

Sincerely,

Robyn Sahid  
Executive Deputy Commissioner

**Chapter 1:** Department's process for determining agricultural rental rates does not fully align with all recommended practices but includes some components and, although peer state practices vary, is consistent with some peer states

**Recommendation 1:** The Department should continue to review its agricultural leasing processes, including its 50 percent discount, and consider and identify ways to align its processes to recommended practices, such as providing discounts based on the cost of the improvement.

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

Response explanation: ASLD has reviewed the comparative analysis of other states and recommended practices from academic sources, as reported by the Auditor General's office, and interprets the comparative results as being highly variable. Variability in valuations for crop production vs. land value and reductions (adjustments) for improvements make it challenging to "align" with standards adopted by other western states. However, ASLD agrees with the report and recommendation that it is inaccurate to apply a "flat" 50% discount (adjustment) across all leases, as opposed to accounting individually for investment by each lessee, which practice would bring ASLD into parity with other states that account for improvements using this methodology. ASLD intends to identify a more equitable way of adjusting for improvements.

**Chapter 2:** Department failed to conduct mass appraisals or adjust rental rates over 17-year period and incorrectly charged some lessees, resulting in more than \$3.4 million less in potential revenue for trust beneficiaries in calendar year 2023

**Recommendation 2:** The Department should conduct a mass appraisal of agricultural State trust land that complies with statutory requirements and update its agricultural rental rates accordingly.

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

Response explanation: ASLD recognizes the Auditor General's findings that the agency has not adjusted its agriculture rental rates since 2005; and that while a market rent study was completed in 2018, for unknown or unverifiable reasons, it was not implemented. ASLD will secure necessary resources to complete a revised market appraisal for agriculture use on State Trust land (STL), consistent with constitutional and statutory requirements for appraisal.

**Recommendation 3:** The Department should ensure its agricultural leases are assigned to and charged rental rates for correct farm areas by:

**Recommendation 3a:** Redeveloping its farm areas map and associated documentation to ensure that it has clear, specific, and accurate boundaries for all Department farm areas, such as by using Geographic Information Systems to clearly delineate the farm areas.

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

Response explanation: ASLD intends to secure necessary resources to ensure that the STL farm areas map has specific, spatially identified and applied boundaries.

**Recommendation 3b:** Developing and implementing policies and procedures for assigning agricultural leases to farm areas.

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

Response explanation: ASLD recognizes the Auditor General's office finding related to unclear or unspecific STL farm area boundaries. While ASLD provides guidance for application of the farm area boundaries, they are descriptive in nature (Table 4). Ensuring GIS or spatial delineation provides for precise assignments. ASLD will ensure that its farm areas map is precisely delineated, and consistently applied. ASLD intends to develop policies and procedures that support clear customer and staff guidance for assigning future agriculture leases and renewals within any revised STL farm area boundaries.

**Recommendation 3c:** After redeveloping its farm area maps, review lease documentation to ensure that all Department agricultural lessees are assigned to the appropriate farm area, and correct any erroneously assigned lessees, as applicable.

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

Response explanation: ASLD intends to secure resources to conduct its own internal audit of its agriculture leases to ensure appropriate farm area assignments for its agriculture leases, and subsequent billings. ASLD appreciates the Auditor General's office efforts to conduct a sample review of 22 leases, noting that 3/22 had misappropriated farm areas.

**Recommendation 4:** The Department should develop and implement policies and procedures that outline steps that Department staff must take when lessees fail to submit annual agricultural questionnaires required by the Department's agricultural leases, such as reaching out to lessees to request the questionnaire or take action consistent with its agricultural lease terms if lessees refuse to respond to Department requests and/or provide questionnaires.

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

Response explanation: ASLD agrees with the Auditor General that it generally lacks standard work in managing annual questionnaire and billing expectations for the customer and staff. ASLD's "agriculture section" retains a single employee, and there has been turnover in the position in the past 5 years. Creating clearer standard work and policies will be a priority of the agency in the next few years across all sections and divisions in order to improve the customers' interface with the agency, reduce complaints resulting from applied inconsistencies and ambiguity, and improve staff morale.

**Recommendation 5:** The Department should develop and implement policies and procedures to apply the subleasing charge to agricultural lessees that sublease land.

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

Response explanation: ASLD will ensure that its standard work and policies and procedures include specific agriculture sublease surcharge provisions and that they are applied appropriately going forward.

**Chapter 5:** Department's agricultural leases, including with Fondomonte, do not include provisions to protect water basin levels, and although they require agricultural lessees to use water in the most efficient manner possible, Department does not monitor or ensure efficient water use

**Recommendation 6:** The Department should develop and implement policies and procedures for determining, measuring, and enforcing compliance with its lease term that lessees use water in the most efficient manner possible.

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

Response explanation: Similar to several of the other issues and recommendations included herein – ASLD recognizes that the agency has several provisional lease requirements that lack oversight standards and processes for monitoring and ensuring compliance. ASLD will work to secure resources to ensure that it develops clear, transparent guidelines and expectations for customers, that those guidelines can be implemented and enforced, and that lease administration (lease provision oversight) and enforcement will be included as part of ASLD's standard work and policies and procedures.