

DEPARTMENT OF FISH AND GAME

The Preservation Fund Comprises a Greater Share of Department Spending Due to Reduction of Other Revenues

REPORT NUMBER 2004-122, JUNE 2005

Audit Highlights . . .

Our review of the Department of Fish and Game's (Fish and Game) administration of its preservation fund disclosed the following:

- The preservation fund together with the General Fund pays for many of Fish and Game's programs.*
- Although revenues to the preservation fund have increased due to fee increases that took effect in fiscal year 2003-04 for sport fishing licenses, Fish and Game has had its General Fund appropriation reduced by over \$20 million between fiscal years 2001-02 and 2003-04.*
- Also, between fiscal years 2001-02 and 2003-04, Fish and Game spent down its preservation fund reserves significantly.*
- The amount Fish and Game spent on its hatcheries declined less than 3 percent from fiscal years 2001-02 to 2003-04 while spending of other programs declined more significantly.*

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Department of Fish and Game's response as of December 2005

At the request of the Joint Legislative Audit Committee we reviewed the Department of Fish and Game's (Fish and Game) handling of the preservation fund as well as the funding of the State's fish hatcheries from fiscal year 2001-02 through 2003-04. The audit examined Fish and Game's setting, collecting, and spending of and accounting for revenue generated by the sale of sport fishing licenses. Also, the audit examined Fish and Game's allocation of revenue to program activities, their allocation of indirect costs, and their assessment of the sufficiency of funding levels. Finally, we determined trends in the funding of the hatcheries.

Finding #1: Fish and Game has not established written spending priorities, nor has it identified sufficient funding levels for preservation fund programs.

Because it has not measured the sufficiency of funding levels, Fish and Game is at a disadvantage in accurately projecting the funding necessary to operate programs at their intended capacities. This affects the department's ability to justify program funding allocations as it is difficult to build a convincing case for a given level of funding without having first defined a target service level and the associated costs. Further, Fish and Game never adopted a formal set of priorities to guide its spending. While Fish and Game has had to address frequent budget reductions, it has done so without the benefit of a written list of funding priorities for its activities. Because of recent reductions of General Fund support, and because Fish and Game did not reduce its expenditures to the same degree that revenues declined, the department spent down the reserves that existed in the preservation fund. Fish and Game projects that at the end of fiscal year 2004-05, it will have a balance of only \$665,000 in the preservation fund. This is in comparison to the \$24.5 million fund balance at the beginning of fiscal year 2001-02.

- ☑ *Although, a long-range spending plan could serve as a useful tool to guide department decisions, especially in times of fluctuating funding, the department lacks such a tool.*
 - ☑ *Finally, Fish and Game failed to follow its own procedures for properly allocating its indirect costs, resulting in overcharges to some programs and undercharges to others.*
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We recommended that Fish and Game update its strategic plan and develop annual operational plans with specific goals and then determine the funding necessary to meet these goals allowing it to better measure the sufficiency of funding for its programs.

Fish and Game's Action: Partial corrective action taken.

In September 2005, Fish and Game updated (currently in draft form), the Strategic Plan Goals and Strategies of the 1995 Strategic Plan. The director of Fish and Game has set forth the core fundamental priorities and has requested management to restructure in order to operate more effectively fiscally, organizationally, and programmatically. Activity codes have been revised to better correlate to the Fish and Game's funding priorities and mandates. In addition, Fish and Game is also in the midst of developing a priority-based budget process for managing funds and its activities. Upon completion of this process, Fish and Game will be able to develop team action plans to execute more new strategies that will improve performance.

Finding #2: Fish and Game spent more for both dedicated and non-dedicated programs than it collected in revenue.

All revenue collected and deposited into the preservation fund can be spent only to support preservation fund programs. Within the fund, certain revenues are restricted to specific purposes established in statute; Fish and Game holds such dedicated money in separate accounts of the preservation fund. For example, Fish and Game Code, Section 7149.8, requires persons taking abalone to purchase an abalone report card in addition to a standard sport-fishing license. Section 7149.9 requires that abalone report card revenue be deposited into the abalone restoration and preservation subaccount within the preservation fund. This section further stipulates that the funds received by this subaccount are to be expended for abalone research, habitat, and enforcement activities. In fiscal year 2003–04, the preservation fund contained 26 of these dedicated accounts, representing 15 percent of the total expenditures from the fund.

Although dedicated programs have revenue streams to support them, from fiscal years 2001–02 through 2003–04, Fish and Game expended more on dedicated programs in total than these programs generated in revenue. For example, the streambed alteration agreement program carried forward a negative beginning balance ranging from \$1.4 million to more than \$4.4 million during these three fiscal years. The program annually expended close to \$3 million, although it only collected between \$1.3 million and \$1.6 million in annual revenues. Fish and Game told us that the streambed alteration agreement program and similar dedicated programs used existing account balances to make up for these over-expenditures.

In fiscal years 2001–02 and 2002–03, the non-dedicated portion of the preservation fund incurred even more expenditures in excess of revenues. Non-dedicated expenditures exceeded non-dedicated revenues by \$4.3 million in fiscal year 2001–02 and by \$11.6 million in fiscal year 2002–03.

We recommended that Fish and Game take measures to ensure that revenues streams are sufficient to fund each of its programs, which may require that fees be adjusted or that the department's General Fund be augmented to sustain dedicated and non-dedicated program operations.

Fish and Game's Action: Partial corrective action taken.

Fish and Game is addressing this issue through a complete review of revenues and expenditures. The actions, as proposed in the fiscal year 2006–07 Governor's Budget, include a combination of expenditure reductions, program adjustments, and revenue increases. A fee increase was just approved by the Office of Administrative Law, effective November 12, 2005, for the Lake and Streambed Alteration Account (dedicated).

Finding #3: Fish and Game has not demonstrated that it uses allowable resources to cover certain deficit spending.

It is not clear that Fish and Game always uses dedicated resources in the preservation fund for their intended purposes. Two of the preservation fund's dedicated accounts, as well as the non-dedicated account, had negative overall balances as of June 30, 2004, and some of these deficits have persisted for several years. In essence, accounts with positive balances, whose revenues have exceeded expenditures over the lives of the accounts, are subsidizing the excess expenditures of the accounts with deficits. No problem would exist if the non-dedicated account was covering these deficits because its resources can be used for a broad range of preservation purposes, including any of the purposes for which the dedicated accounts were created. However, with the non-dedicated account itself running a deficit, the only resources available in the preservation fund to cover deficit spending are those dedicated accounts with positive balances. In addition to the non-dedicated account, the lake and streambed alteration account, and the bighorn sheep dedicated account had negative overall balances as of June 30, 2004. For the three accounts, the deficit was \$14.7 million in fiscal year 2003–04.

Fish and Game agrees that three of its dedicated accounts have negative overall balances. As a response to these negative funding issues, Fish and Game indicates it has reduced its planned spending by over \$1 million in an effort to bring the preservation fund “into balance.” However, it did not specify the impact of the proposed reduction on the individual dedicated accounts. Furthermore, Fish and Game has submitted an increased fee proposal for the lake and streambed alteration account to improve the fund condition.

We are still concerned that Fish and Game’s responses to these negative balance issues are insufficient. The revenues that flow into the dedicated accounts are restricted to the purpose for which the program and the account were established. Therefore, using the resources of one account to pay for the expenses of another account may not be appropriate. For example, the enabling legislation for the Bay-Delta sport fishing enhancement stamp dedicated account makes it clear that funds collected from the sale of this stamp are for the long-term benefit of Bay-Delta sport fisheries, not to pay for the expenses of another program. We believe it is not sufficient for the department to address these issues by simply going forward with reductions in spending where necessary and increases in fees, although this is a good first step.

We recommended that Fish and Game avoid borrowing from its dedicated accounts to fund expenditures of other accounts. If this is temporarily unavoidable, the department should track those accounts that were the source of the borrowed resources and ensure that the law establishing the account that was borrowed from allows for such borrowing. We further recommended that Fish and Game identify those dedicated accounts that have been used to pay for expenditures of other accounts and pay back these lending accounts.

Fish and Game’s Action: Partial corrective action taken.

Fish and Game is addressing this issue through a complete review of revenues and expenditures. The actions, as proposed in the fiscal year 2006–07 Governor’s Budget, include a combination of expenditure reductions, program adjustments, and revenue increases. A fee increase was just approved by the Office of Administrative Law, effective November 12, 2005, for the Lake and Streambed Alteration Account (dedicated).

Finding #4: Fish and Game advanced \$1.4 million from the preservation fund to the Native Species Conservation and Enhancement Account that may not be paid back.

As of June 30, 2004, Fish and Game’s preservation fund showed a loan of \$1.4 million to the Native Species Conservation and Enhancement Account (native species account). The loan was formalized in 1989. Fish and Game recorded payments from the native species account to the preservation fund in fiscal years 2001–02, 2002–03, and 2003–04, but Fish and Game could not provide to us an amortization schedule that would demonstrate when the loan would be repaid.

The native species account's revenue sources are donations received for the support of nongame and native plant species conservation and enhancement programs, an appropriation in the annual budget act from the General Fund, and revenues from the sale of annual wildlife area passes and native species stamps, as well as promotional materials and study aids.

Fish and Game told us that it will continue to make annual payments on this loan, but only to the extent of revenues received into the native species account. Unfortunately, revenues to the native species account have not been sufficient to pay down the loan. Therefore, unless revenues to the native species account increase significantly, this loan may never be paid back. When the loan is not collected, the resources are not available for preservation fund programs.

We recommended that Fish and Game resolve the advance from the preservation fund to the native species conservation and enhancement account through administrative or legislative means.

Fish and Game's Action: Partial corrective action taken.

Fish and Game has been tracking all postings to the interfund loan, established by statute in 1988, between Fund 0200, the Fish and Game Preservation Fund and Fund 0213, the Native Species Conservation and Enhancement Account. Any interest, payments, adjustments, and revenue posted to Fund 0213 have been closely monitored for the ongoing payback of the loan.

As of June 30, 2005, the loan balance was \$1,150,950. However, the revenues for this account have dwindled over the past four years, from approximately \$100,000 to \$19,000 annually. Due to the insufficient revenues in Fund 0213, Fish and Game is not in the position to make the necessary payments to retire the entire loan balance and due to this being an interest bearing account, the delay compounds the debt owed daily. Therefore, Fish and Game is requesting forgiveness of this debt due to Fund 0200, the Fish and Game Preservation Fund.

Finding #5: Fish and Game failed to allocate indirect costs in accordance with its cost allocation plan.

Several of Fish and Game's activities have been created for the benefit of all the divisions of the department. These activities, which it calls "shared services," are the license revenue branch, legal services, air services, and geographic information systems. Fish and Game did not adjust the percentages used in allocating the indirect costs associated with these shared services to the divisions that benefited. It used the same percentages for allocating these indirect costs for fiscal years 2001-02, 2002-03, and 2003-04. As a result, some programs were overcharged, while others were undercharged for these costs. Fish and Game has not updated the percentages it used since prior to fiscal year 2001-02, the first year examined by this audit.

According to Fish and Game's own guidelines for allocating shared costs, percentages are to be adjusted annually based on either the governor's budget for the prior year or the actual services provided. Because annual adjustments were not made to the allocation ratios from fiscal years 2001-02 through 2003-04, Fish and Game inaccurately charged these programs for indirect costs. Our comparison showed that from fiscal year 2001-02 through 2003-04, the department's calculations overcharged the hatcheries and fish planting facilities a total of \$1.3 million of the license revenue branch's and legal service's indirect costs. During the same time period that some programs were overcharged, Fish and Game's outdated percentages undercharged other programs for license revenue branch and legal service costs.

To prevent inequitable distributions of indirect costs and administrative expenses, we recommended that Fish and Game review and update the percentages used in its allocations method annually.

Fish and Game's Action: Corrective action taken.

Fish and Game has completed its review and update of the indirect cost charge percentages used in the annual allocation methods to ensure correct charges are made against various fund sources.