

# STATE AUDITOR'S OFFICE PERFORMANCE AUDIT



## Department of Fish and Wildlife Selected Revenue and Expenditures

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WASHINGTON  
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## About the Department

The Legislature created the Department in 1993 by combining the Departments of Fisheries and Wildlife. The Department's supervising authority is the Fish and Wildlife Commission, composed of nine citizens, appointed by the Governor, who serve staggered six-year terms. The Commission appoints the Department director, establishes policy and monitors the Department's implementation of the goals, policies and objectives established by the Commission.

To achieve its mission to protect, restore and enhance fish and wildlife and their habitats while providing sustainable fish and wildlife-related recreational and commercial opportunities, the Commission established the following goals:

- Achieve healthy, diverse and sustainable fish and wildlife populations.
- Ensure sustainable fish and wildlife opportunities for social and economic benefit.
- Ensure effective use of current and future financial resources to meet the need of the state's fish and wildlife resource for the benefit of the public.
- Implement processes that produce sound and professional decisions, cultivate public involvement and build public confidence and agency credibility.
- Promote the development and responsible use of sound, objective science to inform decision-making.

## INTRODUCTION

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### Why we did this audit

In response to a legislative request, we audited the revenue and expenditures for Department of Fish and Wildlife accounts that support the:

- Eastern Washington Pheasant Enhancement Program.
- Puget Sound Dungeness crab recreational fishery.
- Puget Sound Recreational Salmon and Marine Fish Enhancement Program.

We designed the audit to determine whether the Department manages revenue and expenditures for each account as required by state law and legislative appropriations.

This is the fourth and final audit in a series of performance audits we conducted at the Department. Earlier, we audited the:

- Eastern Washington Pheasant Enhancement Program, published December 2009.
- Puget Sound Dungeness Crab Fishing Program, published January 2010.
- Delayed-release Chinook salmon, published April 2010.

The accounts we reviewed in this audit support those programs.

### What we found

Key conclusions of this audit:

#### Eastern Washington Pheasant Enhancement Account

The Department deposited the appropriate amount of revenue into the pheasant account and spent the money as required by state law and legislative appropriations. As required by administrative rules, deposits equal approximately \$10 for each small-game licensee who hunted or intended to hunt pheasant in Eastern Washington.

#### Puget Sound Crab Endorsement Subaccount

Administrative rules governing the amount of revenue to deposit to the crab endorsement subaccount are vague and subject to interpretation. The Department spent the money as required by state law and legislative appropriations. The Department used the crab endorsement fees to supplement existing funding as state law requires.

#### Recreational Fisheries Enhancement Account

The Department uses a methodology that results in an appropriate amount of deposits to the fisheries account but applied the method inconsistently. The Department spent the money as required by state law and legislative appropriations, but has not documented its method for allocating program-level costs for goods and services shared among Department hatcheries.

#### Administrative costs

The methodology the Department uses to allocate administrative costs to dedicated accounts is appropriate. However, the Department inconsistently

interpreted state law when determining which programs may be charged administrative overhead costs.

We examined the programs' revenue and spending in depth, and the dollar amounts associated with our findings are generally quite small. For example, the difference between our revenue calculation and that of the Department for deposits into the Dungeness crab account totals just 2 cents per transaction. This difference, in turn, translates into total annual differences of \$3,500 to \$5,200 per year. Meanwhile, our in-depth review of spending on the crab program revealed only one inappropriate charge -- \$2.49 for a telephone call in fiscal year 2008.

We believe the level of scrutiny we applied to all four audits in this series was needed to evaluate concerns that the Department had incorrectly administered the pheasant, crab and fishery enhancement programs, and to assure the public that the Department is making every effort to operate the programs as required by state law.

## Recommendations

We identified several opportunities for the Department to improve how it manages accounts and to ensure accuracy and consistency among its funds. The Department should:

- Ensure it follows established methods for allocating revenue to dedicated accounts and verifies the accuracy of its calculations.
- Revise the administrative rules to clarify the method for calculating the transaction fee and the revenue to deposit from crab endorsement fees.
- Document its methodology for allocating costs shared among hatcheries to each separately funded program.
- Correct discrepancies identified during its account reconciliation process in a timely manner.

## Background

Department of Fish and Wildlife programs receive revenue from multiple sources, including hunting and fishing license fees and endorsements that permit licensees to hunt or fish for certain species in specific locations. For example, fishing licensees can purchase an endorsement to fish for Dungeness crab in Puget Sound.

Some revenue may be spent only for specific purposes. These limitations come in two forms:

- **Dedicated accounts** are established in state law to receive revenue from a specific source that must be spent for a specific purpose. The Eastern Washington Pheasant Enhancement Account and the Recreational Fisheries Enhancement Account are examples of dedicated accounts.
- **Special-purpose funds** are established in state law and require the Department to deposit the funds into larger accounts. Crab endorsement fees deposited into the Wildlife Account are an example of this because they are a small portion of the entire fund but must be spent only for the specific purposes cited in state law.

### **Pheasant account**

The Department deposits revenue into the pheasant account based on its estimate of the number of licensees who hunted pheasant in Eastern Washington. The Department calculates this number based on responses to its annual survey of small-game hunters. Money in this account may be used only for activities related to the Eastern Washington Pheasant Enhancement Program, such as improving habitat or purchasing or producing pheasants.

### **Crab endorsement subaccount**

The Department deposits crab endorsement revenue into a subaccount within the Wildlife Account. The Department may spend revenue from crab endorsements only for sampling, monitoring and managing catch associated with the Dungeness crab recreational fishery.

### **Recreational fisheries account**

The Department deposits a portion of each saltwater and combination fishing license fee into the fisheries account. The Department calculates deposits based on the percentage of recreational anglers who report in the annual survey that they fished for salmon or marine bottomfish in Puget Sound or Lake Washington. The funds in this account may be used only for recreational fisheries enhancement activities identified in state law (RCW 77.105) as being within the scope of the Recreational Salmon and Marine Fish Enhancement Program. The Department uses money from this account to pay for some of the delayed-release Chinook salmon it produces and releases in the Puget Sound recreational fishery.

## **Scope and methodology**

We audited revenue from license sales for pheasant hunting in Eastern Washington and for Dungeness crab, salmon and marine bottomfish fishing in the Puget Sound recreational fishery for the 2005-07 and 2007-09 biennia, which correspond to fiscal years 2006 through 2009. We also reviewed account revenue for salmon and marine bottomfish in fiscal year 2005 after we identified an unusual number of discrepancies in data the Department used to calculate the amount of revenue to deposit into the recreational fisheries account for fiscal year 2006. We wanted to determine whether this was an isolated occurrence or the result of a systemic issue (see Issue 3).

For each of the three accounts, we analyzed the Department's methodology for allocating revenue, calculated the amounts we would expect to see deposited into the account, and compared them to the account revenue reported in the Washington Interactive Licensing Database (WILD) and the Agency Financial Reporting System (AFRS).

We audited expenditures for fiscal years 2006 through 2009 from the pheasant account, the crab endorsement subaccount and the recreational fisheries account. We analyzed the Department's processes for ensuring the expenditures were made in accordance with state law, administrative rules and appropriations, including the allocation of costs shared among programs.

We compared each account's appropriations with its expenditures for the 2005-07 and 2007-09 biennia to ensure expenditures did not exceed appropriations. We reviewed account transactions to ensure they followed the laws and administrative rules in place at the time the Department incurred the expense. We reviewed fund transfers to ensure the Department did not use

## **Licensing & Accounting**

Revenue and expenditures for hunting and fishing licenses are tracked in two systems:

**WILD** is the Department's automated license system that offers options to purchase licenses in person, by telephone or through the Internet.

**AFRS** is a legacy mainframe financial system that performs all aspects of the state's accounting process, including the general ledger, accounts receivable, accounts payable and balance sheets.

dedicated program funds for other than the specified purpose.

Appendix C provides more details on our methodology, including summaries of the transactions we reviewed for each account.

We conducted this performance audit in accordance with generally accepted government auditing standards, prescribed by the U.S. Government Accountability Office. 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 conducted the audit under the authority of Initiative 900, approved by Washington voters in 2005, which directs the State Auditor's Office to conduct performance audits of state and local government agencies and programs. We considered the nine elements of Initiative 900, as shown in Appendix A.

## **What's next**

Initiative 900 requires the Legislature to hold at least one public hearing to consider the audit findings and to receive comments from the public within 30 days of this report's issue.

The Legislature must consider this report in connection with its spending practices. A report must be submitted by the Legislature by July 1 each year detailing the status of the legislative implementation of the State Auditor's recommendations. Justification must be provided for recommendations not implemented. Details of other corrective action must be provided as well.

The state Legislature's Joint Legislative Audit and Review Committee (JLARC) will summarize any statewide issues that require action from the Legislature and will notify the appropriate fiscal and policy committees of public hearing agendas.

Initiative 900 provides no penalties for audited entities that do not follow recommendations in performance audit reports.

Follow-up performance audits of any state or local government entity or program may be conducted when determined necessary by the State Auditor.

## **Commendation**

The Department allocates costs for equipment and facilities shared among programs based on the standards for cost allocation developed by the Building Owners and Managers Association International. BOMA's methodologies for building measurement have been accepted and approved by the American National Standards Institute.

The Department's facilities employees visit each site and use assigned and common-space allocations to determine facility costs by program. Assigned space is the measured square footage each program occupies within a facility. The Department uses the percentage of assigned square footage occupied by each program to allocate common space, such as hallways and waiting rooms, in each building that are available to the programs.

# AUDIT RESULTS AND RECOMMENDATIONS

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## **Eastern Washington Pheasant Enhancement Account**

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**Issue 1: The Department deposited the appropriate amount of revenue into the Eastern Washington Pheasant Enhancement Account and spent the funds as required by state law and legislative appropriations.**

The Legislature created the Eastern Washington Pheasant Enhancement Program in 1997 to improve pheasant hunting by releasing pen-raised pheasant and enhancing habitat.

### **Dedicated fund supports the program**

The Legislature created the Eastern Washington Pheasant Enhancement Account to fund program activities. State law requires that a portion of each small game hunting license fee be deposited into the account. When the account was created, administrative rules directed the Department to deposit \$385,000 into the pheasant account for fiscal year 2000, based on 38,500 licensees who hunted or intended to hunt for pheasant in Eastern Washington. The \$10-per-hunter rate represented the cost of an Eastern Washington pheasant stamp that hunters purchased in addition to their license through fiscal year 2000. This amount was based on legislative intent to fund the program at the same rate as the cost of the former pheasant stamp. The rules also required annual adjustments based on a survey of licensed hunters from the previous year.

### **Surveys reasonably estimated the number of hunters**

The Department annually sends surveys to more than 25,000 small-game licensees. Because the survey results are critical to the Department's management, we analyzed the survey methodology and the Department's interpretation of the results for our **previous audit of the Pheasant Enhancement Program**. We concluded the survey results provide reasonably accurate estimates of the percentage of licensees who hunted or intended to hunt for pheasant in Eastern Washington. Appendix D provides details for how the Department uses the survey results to calculate how much it should deposit in the pheasant account.

### **The Department accurately calculated revenue**

The amount of revenue deposited for each Eastern Washington pheasant hunter varied from \$10.01 to \$10.10 from 2006 through 2009, as shown in Exhibit 1. The actual revenue deposited per license sold is not always exactly \$10 because of the Department's methodology (see Appendix D). However, the deposit amounts are close to \$10, which demonstrates the Department's calculation fulfills legislative intent for allocating revenue to the pheasant account.

## Pheasant License Counts and Revenue

Fiscal Year	Number of Eastern Washington Hunters	Revenue Reported in WILD	Revenue Per Pheasant Hunter
2006	33,735	\$337,765	\$10.01
2007	30,771	\$310,085	\$10.08
2008	30,559	\$308,755	\$10.10
2009	33,585	\$336,572	\$10.02

Source: Washington Interactive Licensing Database and auditor analysis

### Revenue was reported inconsistently in WILD and AFRS

WILD shows the Department appropriately calculated the amount of revenue to deposit into the account in 2009. However, AFRS shows \$367,191 was deposited into the account, which is \$30,619 more than the amount reported in WILD. This discrepancy is due to an adjustment the Department made in AFRS in fiscal year 2009 to correct the account balance for fiscal year 2002. The Department identified this discrepancy during its reconciliation of fiscal year 2002 revenue, but did not follow up and correct it until we brought it to the Department’s attention during this audit. Prompt correction of such errors helps assure the public that the Department effectively manages its financial resources.

### Pheasant expenditures did not exceed appropriations

The Legislature authorized expenditures for the Eastern Washington Pheasant Enhancement Program of \$750,000 during fiscal years 2006-07 and \$754,000 during fiscal years 2008-09. Expenditures reported in AFRS for the same periods were \$627,519 and \$633,744, respectively, which were within the expenditure authority.

### Pheasant funds were spent for appropriate purposes

We reviewed transactions for payroll, goods and services, and fund transfers. The expenditures we analyzed supported program activities and the transfers were appropriate.

Until 2009, state law required the Department to spend at least 80 percent of the pheasant account funds to raise and release pheasants in Eastern Washington. The current law states program funds may be spent to improve pheasant habitat or to purchase or produce pheasants but that they must not be used to purchase land. The law no longer requires a specific percentage of funds to be used to raise and release pheasants.

In the payroll transactions we reviewed, some employees who charged time to the program, such as fish biologists, had positions that seemed unrelated to the program. However, the program manager provided documentation showing the Department uses regional employees from other programs to release pheasants. The Department releases birds only about six times per season, so using regional employees allows the Department to release large numbers of pheasants at multiple sites in a short time.

Correctional Industries, a work-training program of the state Department of Corrections, supplies most of the pheasants released in Eastern Washington. Payments to Correctional Industries accounted for 79 percent of the goods and

services expenditures in the 2005-07 biennium and 87 percent in the 2007-09 biennium. We reviewed the two contracts that were in effect during the audit period and the expenditures charged to the contracts. All of the expenditures charged to the contracts were for pheasant releases, which were specifically required by state law.

We reviewed other transactions for pheasant purchases from other vendors, pheasant food, laminate boards for release sites, weed spray, hardware for pheasant-release equipment, reimbursement for employees' purchases and use of a vehicle from another program.

A portion of the transfers we reviewed were administrative overhead charges to the program, discussed in Issue 4. Others were for corrections, such as:

- Timesheets.
- Human Resource Management System.
- Duplicate payments.
- A payment made using an incorrect vendor name.

The Department's documentation appropriately supported each transaction.

## **Puget Sound Crab Endorsement Account**

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### **Issue 2: Administrative rules are not clear about how to calculate the amount of revenue for the Crab Endorsement Subaccount. The Department spent the funds as required by state law and legislative appropriations.**

The legislation that established the crab endorsement in 2004 set a maximum price of \$3 for an endorsement on annual licenses and \$1 for an endorsement on temporary combination licenses, including any or all fees authorized. The endorsement is required to “take and possess Dungeness crab” in Puget Sound.

### **Dedicated subaccount supports the Dungeness crab fishery**

The legislation directed the Department to deposit revenue from the sale of Dungeness crab endorsements into the Wildlife Account. The Department established a subaccount in the Wildlife Account for these fees. State law mandates that the Department spend the fee revenue “only for the sampling, monitoring, and management of catch associated with the Dungeness crab recreational fisheries.” The law also mandates that this money “supplement and not supplant” other federal, state and local funds used for Dungeness crab recreational fisheries management.

### **State law and rules define transaction and dealer fees**

State law requires the endorsement fee to include authorized transaction and dealer fees, whereas these fees are added to the cost of most other hunting and fishing licenses. Transaction fees are shared between the Department and the WILD vendor to support the costs of maintaining the automated licensing system. Dealer fees are the amount a dealer retains when it sells a license or endorsement on behalf of the Department.

- State law authorizes transaction fees for licenses issued through an automated system. Administrative rules set the transaction fee at 10 percent of the “value of the document transaction” excluding any applicable dealer fees, and at 9.5 percent through June 30, 2007.
- Rules that predated the crab endorsement established dealer fees of either \$2 or 50 cents per license. Because the rules do not address the crab endorsement fee, the Department established a dealer’s fee of 50 cents for annual and temporary crab endorsements, which is the rate charged on other relatively inexpensive licenses.

### **Rules are unclear for calculating transaction fees**

Although the administrative rules are clear regarding subtracting the dealer fee from the endorsement price, they are not for determining how to calculate the amount of the transaction fee to subtract. After subtracting the dealer fee, the Department must subtract the transaction fee from the remaining balance to determine the amount to deposit into the crab endorsement subaccount. The lack of clarity allows two interpretations for calculating the transaction fee.

- One method calculates the price of the transaction fee first, which is subtracted from the balance of the endorsement fee to determine the amount to deposit. This is how we interpreted the rules.

- The second method calculates the amount to deposit first, which is subtracted from the balance of the endorsement fee to determine the transaction fee. This is how the Department interpreted the rules.

We calculated the amount to deposit using both methods and compared the results. Because of their low value, both calculations result in a deposit amount of \$0.45 of the \$1 endorsement fee on temporary licenses. However, the results differ for endorsements on annual licenses, as shown in the table below.

### Calculations for crab endorsement fee revenue

Auditor’s Methodology		Department’s Methodology	
Endorsement Fee	\$3.00	Endorsement Fee	\$3.00
Less \$0.50 Dealer Fee	- .50	Less \$0.50 Dealer Fee	- .50
Balance	\$2.50	Balance	\$2.50
Less 10 Percent Transaction Fee	- .25	Divided by 110 Percent	÷110%
<b>Amount to Deposit into the Crab Endorsement Subaccount</b>	<b>\$2.25</b>	<b>Amount to Deposit into the Crab Endorsement Subaccount</b>	<b>\$2.27</b>
		Transaction Fee (Balance Less Amount to Deposit)	\$0.23

Source: Department of Fish and Wildlife and auditor analysis

Our methodology would result in a deposit amount of \$2.25 for each annual endorsement, whereas the Department’s methodology results in a deposit amount of \$2.27.

### Department delayed using new transaction fee rate

Although the administrative rules required the Department to increase the transaction fee from 9.5 percent to 10 percent on July 1, 2007, it did not do so until May 1, 2009. This caused the Department to deposit \$2.28 into the crab endorsement subaccount for each annual endorsement for 22 months instead of the \$2.27 it would have under its interpretation of the rules.

The table below shows how the Department’s methodology and its delay in applying the revised rates affected the revenue deposits. The combined annual effect of these two calculations is only about 1 percent each year. Although we are not concluding that one methodology is more appropriate than the other, the difference in the deposit amount demonstrates the need for clarity in state law and rules.

### Comparison of crab endorsement revenue calculations

Fiscal Year	Additional Deposit Based on DFW Methodology	Additional Deposit Based on Delay in Applying Revised Rate	Combined Total
2006	\$3,525	Not applicable	\$3,525
2007	\$3,502	Not applicable	\$3,502
2008	\$3,477	\$1,739	\$5,216
2009	\$3,720	\$1,261	\$4,981

Source: Washington Interactive Licensing Database, Department calculations and auditor analysis

### Crab revenue reported inconsistently in WILD and AFRS

The revenue reported in WILD and AFRS for the crab endorsement subaccount differed every fiscal year from 2006 through 2009. The difference varied from \$7,509 in fiscal year 2007 to \$846 in fiscal year 2009. The Department stated the discrepancies were the result of a complex licensing system with more than 500 dealers that sell 250 products. However, the Department is working with its WILD vendor to design a reporting system that will allow reconciliation with the state’s financial reporting system at the subaccount level.

The table below shows the differences between revenue reported in WILD and AFRS for fiscal years 2006 through 2009.

### Crab endorsement revenue reported in WILD and AFRS

Fiscal Year	WILD Revenue	AFRS Revenue	Difference
2006	\$405,450	\$401,419	-\$4,031
2007	\$404,160	\$411,669	\$7,509
2008	\$401,194	\$405,700	\$4,506
2009	\$428,054	\$428,900	\$846

Source: Washington Interactive Licensing Database and Agency Financial Reporting System

### Crab fees supplemented existing funding

State law requires revenue from crab endorsement fees to supplement rather than replace crab management funding. Before the Legislature established the crab endorsement, expenses for crab management were paid from the state’s general fund. Subsequently, the Department separately tracked its crab management expenditures from the general fund and the crab endorsement subaccount.

The general fund expenditures remained relatively flat at approximately \$150,000 from fiscal year 2004 through fiscal year 2007, while the crab endorsement subaccount began showing expenditures during this same period. The subaccount expenditures were \$175,512 in fiscal year 2005, the year the Department started selling crab endorsements. Spending increased to more than \$400,000 in subsequent fiscal years. Comparing expenditures from the two accounts confirms the Department used the crab endorsement fees to supplement existing funding as required.

### Crab expenditures did not exceed appropriations

The Legislature appropriated \$894,000 during fiscal years 2008-09 and \$1,029,000 during fiscal years 2006-07 to manage the crab fishery in Puget Sound. Expenditures reported in AFRS were \$559,418 and \$874,130 and respectively, which were within the expenditure authority.

### Crab funds were spent for appropriate purposes

We reviewed transactions related to payroll, goods and services, and fund transfers. Except for one instance in which a \$2.49 telephone charge was incorrectly charged to the program in fiscal year 2008, we concluded all of the expenditures we analyzed supported activities in the program and the transfers were appropriate.

The payroll transactions included employees who charged time to the program but did not perform program-related activities. The Department documented, identified and corrected these activities prior to the audit.

Goods and services expenditures included conducting a phone survey and estimating Dungeness crab harvests, program equipment and supplies, crab food, licenses given to the public for phone survey participation, interagency charges, vessel repair, and computer software upgrades.

A portion of the transfers we reviewed were the administrative charges to the program discussed in Issue 4. Other transfers were for timesheet adjustments and reimbursement to the Department due to a payroll error.

The Department's documentation appropriately supported each transaction.

We also analyzed transactions for equipment and facilities shared among programs. The Department allocates these costs based on actual use. For example, an invoice for equipment repair of a research vessel allocated 59 percent of the charge to the Dungeness crab program based on prorated hours of use. For facilities, the Department allocates the cost based on how much space each user occupies.

## Recreational Fisheries Enhancement Account

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### **Issue 3: The Department used an appropriate method to calculate deposits but applied it inconsistently. The Department spent the funds as required, but did not document how it allocated costs shared among agency hatcheries.**

The Legislature created the Puget Sound Recreational Salmon and Marine Fish Enhancement Program in 1993 to improve recreational fishing opportunities for salmon and marine bottomfish in Puget Sound. State law (RCW 77.105) identifies the long-term program responsibilities of the Department:

- Fully implement enhancement efforts for Puget Sound and Hood Canal resident salmon and marine bottomfish.
- Identify opportunities to re-establish salmon runs.
- Encourage naturally spawning salmon populations to develop to their fullest extent.
- Fully use hatchery programs to improve recreational fishing.

The legislation requires the Department to develop new locations for freshwater rearing of delayed-release Chinook salmon and to increase the production and planting of delayed-release Chinook salmon to 3 million fish annually by 2000. We evaluated the effectiveness of this activity in our audit of delayed-release Chinook. The legislation also requires the Department to:

- Develop a short-term program of hatchery-based salmon enhancement using freshwater pond sites for the final rearing phase.
- Research resident and migratory salmon production opportunities.
- Research marine bottomfish production limitations and methods for artificial propagation of marine bottomfish.
- Conduct research, develop methods and establish programs for the artificial rearing and release of marine bottomfish species.
- Undertake research to more fully evaluate improved enhancement techniques, methods of mass marking, improvement of catch models, and sources of marine bottomfish mortality.
- Increase efforts to document the effects of predators on salmon and other marine fish.
- Plan for selective fisheries that target hatchery-produced fish and minimize the catch of naturally spawned fish.
- Plan for increased recreational access to salmon and marine fish resources and proposals for new boat launching ramps and pier fishing access.

Most activities taking place at the hatcheries are therefore appropriate for charging to the recreational fisheries account.

### **Dedicated account supports specific recreational fisheries**

State law directs a portion of each saltwater and combination fishing license fee into the recreational fisheries account. Administrative rules directed the Department to deposit \$1,415,000 into the fisheries account for fiscal year 2000. The legislative intent was to fund the program at \$10 for annual and

\$5 for temporary recreational licensees who fished for salmon and marine bottomfish in Puget Sound and Lake Washington. The rules also required annual adjustments based on angler surveys.

Since the program was established, new types of licenses have become available, including a series of one- to five-day temporary licenses. The Department deposits approximately \$2.50 for each salmon and marine bottomfish angler who buys these new licenses.

### Surveys determine recreational fishing behavior

Each year, the Department surveys a random sample of recreational fishing licensees to estimate the percentage of licensees who fished for salmon and marine bottomfish in Puget Sound and Lake Washington. We analyzed the Department’s survey methodology and concluded it provides reasonably accurate estimates of the number of licensees who fish for salmon or marine bottomfish in Puget Sound and Lake Washington. Appendix E shows how the Department uses the survey results to calculate deposits.

### Auditor and Department revenue calculations differ

We calculated the revenue that should have been deposited into the recreational fisheries account in fiscal years 2006 through 2009 based on the Department’s methodology. Our calculations differed from the Department’s for the following reasons:

- There were differences in WILD data between monthly and fiscal year license sales reports.
- In fiscal year 2006, the Department used the percentages from the previous fiscal year to calculate revenue for some license types.
- A percentage for some licenses was used for other types in fiscal year 2007.
- The Department incorrectly calculated the percentage for some license types in fiscal year 2008.
- The Department used an incorrect fee amount in the calculation for fiscal year 2009.

The table below shows the differences between our calculations and the revenue reported in WILD.

### Auditor’s revenue calculation and WILD revenue

Fiscal Year	Auditor’s Calculation	WILD Revenue	Difference
2006	\$1,632,903	\$1,537,171	\$93,666
2007	\$1,348,923	\$1,348,817	\$106
2008	\$1,576,080	\$1,573,675	\$2,405
2009	\$1,270,320	\$1,270,366	-\$46

Source: Washington Interactive Licensing Database, Department calculations and auditor analysis

The Department has not documented the reason for some or all of these deviations from its established methodology. Except for fiscal year 2006, the overall effect of these discrepancies on revenue allocation was relatively minor because they had little or no affect on annual saltwater and annual combination licenses, which are the most popular licenses. The Department stated the discrepancy in fiscal year 2006 was likely due to a change to a

new WILD system vendor. This explanation is plausible since most of the discrepancy was due to differences between monthly and annual license sales data. Although these discrepancies are relatively small, prompt correction of such errors helps assure the public that the Department effectively manages its financial resources.

### **Fiscal year 2009 revenue reported in WILD and AFRS differ**

There were differences of less than \$30 annually between the deposit amounts shown in AFRS and WILD for fiscal years 2006, 2007 and 2008. However, AFRS shows that \$1,197,251 was deposited into the account in fiscal year 2009, which is \$73,115 less than the amount reported in WILD. This discrepancy is due to account balance errors in fiscal years 2002 and 2004 that the Department corrected in AFRS in fiscal year 2009. Although the Department had identified these errors during its reconciliation process, it did not correct them until we brought them to the Department's attention during this audit.

### **Account expenditures did not exceed appropriations**

The Legislature appropriated \$3,753,000 in fiscal years 2005-07 and \$3,628,000 in 2007-09 for the Puget Sound Recreational Salmon and Marine Fish Enhancement Program. Expenditures reported in AFRS were \$3,390,450 and \$2,939,032, respectively, which were within the expenditure authority.

### **Expenditures appropriate, but not well documented**

We reviewed transactions related to payroll, goods and services, and fund transfers. We concluded all expenditures we analyzed supported program activities and transfers were appropriate.

Employees who charged time to the account included hatchery employees, program coordinators, Engineering Division employees, biometricians and researchers. We confirmed that all of these employees performed tasks related to recreational fisheries enhancement activities.

We reviewed large transactions for Chinook salmon rearing between the Department and Long Live the Kings, a nonprofit organization that works to restore wild salmon and steelhead to Pacific Northwest waters. Other large expenditures were for fish food and coded wire tags. Department employees stated that the costs of shared goods and services, such as fish food and utilities, are allocated based on the percentage of production of species funded by specific accounts. Although these expenditures supported Fisheries Program activities, the Department lacked written documentation to support this statement. Managing activities at the hatchery level is an efficient use of resources and should be continued. However, the Department should document its allocation of shared services both as a cost management tool and to ensure it follows state law.

We reviewed selected fund transfers for administrative overhead charged to the program, discussed in Issue 4. Other transfers were corrections, including:

- Revised timesheets.
- Duplicate payments.
- Charges that should have been allocated to another program.

The Department's documentation appropriately supported each transaction.

## Administrative costs

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### **Issue 4: The Department inconsistently interpreted state law to determine which dedicated accounts may be charged administrative costs.**

The Department charges portions of its administrative overhead costs to most dedicated accounts, including the pheasant, crab endorsement and recreational fisheries accounts. Employees reported administrative costs are charged to dedicated accounts unless state law explicitly prohibits it. State laws for these accounts generally are silent on whether money may be used to pay administrative overhead. The Department inconsistently interprets state law which leads to inconsistent administrative charges to programs.

### **The Department's administrative rate reflects federal rate**

Administrative overhead includes activities such as the Director's Office, personnel, budget and accounting, information technology, regional office staff, and facilities support. The Department used an administrative cost rate of 12.5 percent during the audit period. This is the reimbursement rate the federal government approved for the Department to use on federal grants. The rate is based on the simplified single-rate methodology allowed by the Office of Management and Budget (Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments). The federal government approves the indirect cost rate after reviewing the Department's proposal for charging these costs to federally funded programs.

### **The Department inconsistently charged accounts**

We concur with the Department's reasoning for assessing the charges. We also concur with its rate calculation methodology because of the scrutiny the federal government provides regarding these costs.

Because state law generally is silent on whether dedicated accounts may pay for administrative overhead, the Department must interpret the language to determine when it can assess the charges. However, the Department's list of dedicated accounts that are charged for administrative support shows the Department has not consistently interpreted state law. As a result, some accounts were assessed administrative charges while others were not, although the statutory language restricting the use of funds is similar. The state general fund and the unrestricted portion of the Wildlife Account absorb administrative costs that are not charged to specific programs.

The table below compares the statutory language for six dedicated accounts – including the pheasant, crab endorsement and recreational fisheries accounts – to show whether the Department charges the accounts for administrative support. This list is not all-inclusive, but is intended to illustrate the Department's inconsistency in interpreting each program's statute. For example, state laws regarding the Recreational Fisheries Enhancement Account and the Rockfish Research and Stock Assessment Program both say the accounts "may be used only" for specific program activities; however, the Department charges administrative costs to the fisheries account but not the rockfish account.

## Comparison of state laws governing dedicated funds

Dedicated Account	State Law and Applicable Language	Charged Administrative Support?
Eastern Washington Pheasant Enhancement Account	<b>RCW 77.12.820</b> – Funds “ <b>shall be used</b> ” to fund the eastern Washington pheasant enhancement program. The department “ <b>may use</b> ” money from the account to improve pheasant habitat or to purchase or produce pheasants.	Yes
Wildlife Account – Dungeness Crab Endorsement Fee Subaccount	<b>RCW 77.32.430</b> – Funds “ <b>may be used only</b> ” for the sampling, monitoring, and management of catch associated with the Dungeness crab recreational fisheries; the funds “shall supplement and not supplant” other federal, state, and local funds used for Dungeness crab recreational fisheries management.	Yes
Recreational Fisheries Enhancement Account	<b>RCW 77.105.150</b> – Funds “ <b>may be used only</b> ” for recreational fisheries enhancement programs identified in this chapter.	Yes
Migratory Bird Stamp and Migratory Bird License Validations	<b>RCW 77.12.670</b> – Funds “ <b>shall be used only</b> ” for that portion of the cost of printing and production of the stamps for migratory waterfowl and nonwaterfowl migratory bird hunters and for projects specified by the director for acquiring and developing habitat and for enhancing, protecting, and propagating migratory waterfowl and nonwaterfowl migratory birds.	Yes — for stamps sold to collectors (nonhunters)  No — for stamps and validations sold to hunters
Rockfish Research and Stock Assessment Program	<b>RCW 77.12.702</b> – Funds “ <b>may be used only</b> ” for rockfish research, including stock assessments. Findings - Intent – Funds will be used “ <b>solely</b> ” for the purpose of conducting rockfish research and stock assessments.	No
Regional Fisheries Enhancement Salmonid Recovery Account	<b>RCW 77.95.130</b> – Funds “ <b>may be used for the sole purpose</b> ” of fisheries enhancement and habitat restoration by regional fisheries enhancement groups.	No

Source: Department of Fish and Wildlife

## State budget calls for a new method to allocate costs

Although the laws for each program do not directly address whether the Legislature intended dedicated accounts to be charged a portion of the Department’s administrative costs, recent legislation suggests the Legislature recognizes the appropriateness of doing so. The adopted state operating budget for fiscal year 2011 requires the Department to:

...develop a method for allocating its administrative and overhead costs proportionate to program fund use. As part of its 2011-2013 biennial operating budget, the department shall submit a decision

package that rebalances expenditure authority for all agency funds based upon proportionate contributions.

This clarification will eliminate the need for the Department to interpret the legislative intent of the state law governing each dedicated account.

### Programs’ administrative costs were within 12.5 percent

From fiscal year 2006 through 2009, the Department charged each program between 10.2 percent and 11.8 percent for administrative costs, all of which are within the Department’s indirect cost rate of 12.5 percent. Department employees stated that the percent of expenditures is less than 12.5 percent because it exempts some expenditures, such as fish food, from the charge. The table below shows the administrative charges to each program.

### Administrative costs in fiscal years 2006 - 2009

Account	Expenditures	Administrative Costs	Percent of Expenditures
Eastern Washington Pheasant Enhancement	\$1,261,263	\$139,775	11.1%
Puget Sound Crab Endorsement	\$1,433,548	\$169,061	11.8%
Recreational Fisheries Enhancement	\$6,329,481	\$646,634	10.2%

Source: Agency Financial Reporting System

### Recommendations

The Department should:

1. Expand the existing review process to ensure it follows established methods for allocating revenue to dedicated funds, supports and documents its reasons for deviating from the methods, and verifies the accuracy of the calculations.
2. Revise the administrative rules to clarify the method used to calculate the transaction fee and revenue to deposit from crab endorsement fees.
3. Continue to manage fish stocking programs at the hatchery level, including making bulk purchases of items such as fish food, but document its methodology for allocating shared costs to each separately funded program.
4. Establish and follow procedures to ensure it regularly addresses discrepancies identified during its account reconciliation process and corrects errors in a timely manner.
5. Prepare in advance if it changes WILD vendors in the future to ensure it has accurate and reliable license data during the transition. The Department should monitor the data for accuracy, reconcile differences it identifies, and assess and correct the causes of discrepancies.

# APPENDIX A

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## Initiative 900 Elements

Cross-reference of which elements of I-900 are addressed in the report.

<b>I-900 Element</b>	<b>Addressed?</b>
1. Identification of cost savings	Not applicable
2. Identification of services that can be reduced or eliminated	Not applicable
3. Identification of programs or services that can be transferred to the private sector	Not applicable
4. Analysis of gaps or overlaps in programs or services and recommendations to correct gaps or overlaps	Not applicable
5. Feasibility of pooling information technology systems within the department	Not applicable
6. Analysis of the roles and functions of the department, and recommendations to change or eliminate departmental roles or functions	Not applicable
7. Recommendations for statutory or regulatory changes that may be necessary for the department to properly carry out its functions	Yes
8. Analysis of departmental performance data, performance measures, and self-assessment systems	Not applicable
9. Identification of best practices	Not applicable

# APPENDIX B

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## Department of Fish and Wildlife's Response



State of Washington  
**DEPARTMENT OF FISH AND WILDLIFE**

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Main Office Location: Natural Resources Building • 1111 Washington Street SE • Olympia, WA

July 6, 2010

The Honorable Brian Sonntag  
State Auditor  
Post Office Box 40021  
Olympia, Washington 98504-0021

Dear Auditor Sonntag:

Thank you for the opportunity to respond to the final performance audit covering revenue and expenditures of the Delayed-Release Chinook, Puget Sound Crab, and Eastern Washington Pheasant programs. The Department strongly supports the use of performance audits as an important tool to improve state government. We have worked closely with the Auditor's staff on this and past performance audits, and we appreciate the Auditor's staff efforts to work diligently through the financial details of these programs.

We appreciate the recognition in the audit issue statements that the Department calculated the appropriate amounts of dedicated fund revenue and spent funds as required by state law and legislative appropriation.

The administrative rule governing the application of the crab endorsement transaction fee is subject to interpretation, and the Department has applied that fee consistent with the programming and operation of the automated WILD licensing system.

Also, we agree that inconsistencies occurred in the methodology for applying the calculated percentage to determine the deposit of funds to the Recreational Fisheries Enhancement Account. The Department has since enhanced its business operations, to ensure uniform accounting methodology is employed in the future.

The Department allocates shared costs among its hatchery programs based on individual program fish production numbers, such as mitigation, court-ordered resource sharing or recreation. Beyond that fundamental principle, documenting shared costs, such as bulk fish food purchases among Department hatcheries would serve no useful purpose or improve hatchery performance.

As noted in the audit, the Department will address the issue of applying indirect costs to dedicated accounts in the 2011-13 budget cycle, as directed by the Legislature.

The Honorable Brian Sonntag  
July 6, 2010  
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We appreciate the Auditor's commendation of the Department's best-practice use of Building Owners' and Managers' Association International guidelines for allocating equipment and facilities costs based on square footage use.

Enclosed is the Department's response to the audit.

Sincerely,



Philip Anderson  
Director

Enclosure

cc: Kimberly Dutton Cregeur,  
Office of the Governor, Accountability and Performance Office

**Official Response to the Financial Performance Audit  
of the Department of Fish and Wildlife  
From the Department of Fish and Wildlife  
July 2010**

**Issue 1: The Department deposited the appropriate amount of revenue into the Eastern Washington Pheasant Enhancement Account and spent the funds as required by state law and legislative appropriations.**

The Department appreciates the recognition of sound business practices expressed in this issue and will continue its commitment to fiscal responsibility, accountability, and transparency.

**Issue 2: Administrative rules are not clear about how to calculate the amount of revenue for the Crab Enhancement Subaccount. The Department spent the funds as required by state law and legislative appropriations.**

The Department concurs that these administrative rules are open to interpretation. However, the Department is consistent in the way it applies the license transaction fee using the automated WILD licensing system. The WILD system is programmed to apply the transaction fee as a percentage to the base costs of a license document, with the dealer fee added to get to the total cost (base fee, transaction fee, dealer fee) of the license document to the customer. The legislation establishing the Crab Endorsement fee requires that the total price to the customer, including all fees, not exceed \$3.00. This differs from other license fee statutes, which set a base fee, and allows WDFW to add the other fees (transaction fee, dealer fee) to get to the total cost. For crab endorsements, the Department had to subtract the transaction and dealers' fees from the total \$3.00 cost to the customer. Under this approach, the Department's calculation of \$2.27 for the base crab endorsement fee is mathematically correct.

**Recommendation 2: Revise the administrative rules to clarify the method used to calculate the transaction fee and revenue to deposit from crab endorsement fees.**

**AGENCY RESPONSE:**

As noted above, the method for calculating transaction fees is consistent with WILD system programming, and so the Department does not plan to open up the rule making process to amend this rule.

**Action Steps and Timeframe:**

N/A

**Issue 3: The Department used an appropriate method to calculate deposits but applied it inconsistently. The Department spent the funds as required, but does not document how it allocated costs shared among agency hatcheries.**

The Department concurs that some inconsistencies occurred in the past. The Department has already taken steps to eliminate inconsistencies in the deposit. These steps are addressed below in the Agency Response.

As the audit notes, WDFW has spent funds as required. While the Department tracks expenditures, it has not developed a comprehensive document that describes a methodology for hatchery cost allocation by facility.

Each hatchery cost allocation must account for federal, state, tribal, local and court-issued guidelines, agreements, regulations, contracts, and grants. A federal mitigation hatchery funded completely with federal money allocates all its expenditures to a federal budget code. By contrast, a hatchery with multiple fund sources that produce a single species (e.g. Chinook) to meet tribal agreements, recreational fishery interests, volunteer cooperative agreements, and dedicated fund objectives benefits from the economy of scale (i.e. buying fish food in bulk). The strict allocation of expenditures by discrete activity to each fund source, is not only administratively prohibitive, it negates the economy of scale. The Department does not purchase fish feed for only the portion of the species that is produced for the recreational fishery. Rather it purchases the fish feed for the single species that is produced to meet all of the interests and associated fund sources. In addition, the proportions of the annual operating budget of a hatchery are aligned with the proportion of the overall species production intended for that fund interest e.g. 20% of the funds are PRSE while 20% of the production is PSRE.

**Recommendation 1: Expand the existing review process to ensure it follows established methods for allocating revenue to dedicated funds, supports and documents its reasons for deviating from the methods, and verifies the accuracy of the calculations.**

**Recommendation 4: Establish and follow procedures to ensure it regularly addresses discrepancies identified during its account reconciliation process and corrects errors in a timely manner.**

AGENCY RESPONSE:

Recommendations 1 and 4 are closely related so they are addressed under the same response.

The discrepancies referred to in this audit were corrected in December 2008.

The Department's Business Service section has been strengthened, after severe budget reductions last year resulted in a number of staff reductions. The Department has re-established staff to monitor and manage multiple revenue sources and dedicated accounts. A Revenue section was re-established about one year ago and is responsible for the process to ensure accuracy and consistency in allocations and deposits to the dedicated accounts.

As part of its monitoring responsibilities, the Revenue section will ensure that discrepancies identified under the reconciliation processes will be corrected.

Action Steps and Timeframe:

Action steps completed.

**Recommendation 3: Continue to manage fish stocking programs at the hatchery level, including making bulk purchases of items such as fish food, but document its methodology for allocating shared costs to each separately funded program.**

AGENCY RESPONSE:

The Department will continue managing its hatcheries using best practices consistent with the congressionally initiated Hatchery Scientific Review Group's (HSRG) recommendations, and within federal, state, tribal, local and court-issued guidelines, agreements, regulations, contracts, grants, and legal constraints.

Each WDFW hatchery allocates expenditures based on its fish production goals for a particular year. Each hatchery has established historical costs for raising and releasing a fish species. Costs vary by species and release time. For example, chum salmon are much less expensive to raise than coho salmon. Coho must remain in the hatchery for over 14 months. The food and power costs required for coho production can be substantially more expensive than those for chum that are reared for only a few months before release. Once historical costs are updated, a production goal is established for each hatchery program by species, within HSRG and other guidelines and budget availability. Hatchery managers are responsible for following the production plan, releasing the fish at the appropriate time, and staying within agreed species-production numbers, release dates and budget.

Action Steps and Timeframe:

N/A

**Recommendation 5: Prepare in advance if it changes WILD vendors in the future to ensure it has accurate and reliable license data during the transition. The Department should monitor the data for accuracy, reconcile differences it identifies, and assess and correct the causes of discrepancies.**

AGENCY RESPONSE:

This issue assumes the Department did not prepare in advance for vendor changes to the WILD system. However, the Department did, in fact, plan and prepare for the change of vendors. If the Department again changes WILD vendors it will ensure that data is protected and accurate.

Action Steps and Timeframe:

N/A.

**Issue 4: The Department inconsistently interpreted state law to determine which dedicated accounts may be charged administrative costs.**

The Department does not concur with this issue. The Department is responsible for managing funds received from state, federal, and local entities, all requiring a variety of rules including grant and contractual requirements. The Department does, however, narrowly interpret the dedicated fund statutes. This narrow interpretation is applied so each fund receives its fair share of indirect costs. This is to reduce the exposure to an audit exception under federal regulation A-87 (Federal OMB Cost Principles). These federal regulations require the department to ensure

all funds that benefit from indirect activities (e.g. payroll, accounting, personnel, information technology) receive an allocation of these costs, and all funds are treated equally in the application of its indirect rate unless excluded by state or federal law or contract.

As demonstrated by this audit these dedicated accounts require detailed agency attention and support to ensure legal requirements are followed. In interpreting the statutes that established these dedicated accounts the Department believes the Legislature did not intend the General Fund to pick up the support (indirect) costs for these funds.

AGENCY RESPONSE:

The agency is proceeding with an internal process of complying with ESSB 6444 (Budget Bill) which includes a proviso to development of a methodology for allocating its administrative and overhead costs proportionate to each program fund usage.

Action Steps and Timeframe:

As a part of its 2011-13 biennial operating budget, the department will submit a decision package that rebalances expenditure authority for all agency funds based upon proportionate contributions.

# APPENDIX C

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## Audit Methodology

In addition to the procedures described in the Scope and Methodology section of this report, we:

- Reviewed laws and regulations to understand the requirements for how much revenue should be deposited into each account and the program activities for which the funds could be used.
- Interviewed Department staff to learn how it actually allocates revenue to each account and determines which program activities can be paid for with the funds.
- Calculated the amount of revenue that should have been deposited into each account and compared the results with the Department's actual deposits.
- Selected a combination of the largest and randomly selected smaller transactions from each program and reviewed the supporting documentation for each to verify they were made in accordance with state law and each fund's appropriations.
- Verified the reliability of the Department's estimate of the number of Eastern Washington pheasant hunters and Puget Sound recreational salmon and marine bottomfish anglers that it uses as a basis for calculating the amount of revenue to deposit into the pheasant and recreational fisheries accounts. We reviewed the Department's methodology for surveying small-game hunters and anglers and the survey results and determined we could rely on the results as a basis for estimating the number of hunters and anglers to use for revenue calculations. We analyzed the Department's methodology for applying the results to its license sales data to verify the percentage of license sales revenue that should have been deposited into each account.
- Calculated revenue based on the Department's methodology for all three programs, and compared our calculations with the amounts the Department deposited to determine if there were any variances.
- Verified the reliability of the Washington Interactive Licensing Database (WILD), which tracks recreational license sales as they occur. The Department relies on WILD's license sales data as the starting point for calculating the amount of revenue to deposit into each account. In 2009, Lattimore, Black, Morgan and Cain PC, an independent audit firm, performed a review of systems provided by Outdoor Central, which is the provider of WILD and other automated licensing and registration systems to state agencies throughout the country. We reviewed the auditor's report, which concluded that the firm's policies, procedures and systems provide reasonable assurance that information in its licensing system is complete, accurate and valid, including the security and timeliness of data. Based on the results of the independent auditor's review of Outdoor Central and our review of license data, we concluded we could rely on the license data in WILD for our audit purposes.
- Expanded our audit of recreational fisheries account revenue to include fiscal year 2005 due to data discrepancies that occurred during the transition from the contracted WILD operator to another in mid-fiscal year 2006.

- Extracted revenue and expenditure data from the state’s Agency Financial Reporting System (AFRS). Our Office periodically reviews this system to ensure the reliability of data contained in it. Based on the results of the most recent review, we concluded we could rely on the data in AFRS for our audit purposes.

### Revenue

For each program, we calculated revenue based on the Department’s methodology and compared our results with revenue reported in the Department’s WILD system. Appendix D provides details on the Department’s methodology for calculating the amount of revenue to deposit into the pheasant account, and Appendix E provides details on its methodology for the recreational fisheries account. The Department’s methodology for the crab endorsement subaccount, which is less complicated than the others, is discussed in Issue 2 of this report.

### Expenditures

We reviewed account transactions for the three programs to determine if they were appropriate under the laws and administrative rules in existence at the time the Department incurred the expenditures. For personnel transactions, we ensured that employees who charged time to the account performed job functions that were pertinent to the program. The personnel-related transactions we reviewed included salaries, benefits and travel expenses. We also reviewed the largest goods and services transactions and a sample of smaller transactions to ensure that we reviewed a representative mixture of transaction types, and did similar reviews of transfers.

Because most of the personnel-related transactions are small, we were able to identify the majority of personnel who charged time to the three programs by reviewing a small number of the largest transactions. For goods and services, we needed to review significantly more large and small transactions to ensure we had a representative sample. The following table summarizes the number of goods and services transactions we reviewed by program and biennium, as well as the percentage of transactions reviewed by value.

<b>Program and Biennium<sup>1</sup></b>	<b>Expenditures Reported in AFRS</b>	<b>Total Value of Expenditures<sup>2</sup></b>	<b>Number of Transactions Reviewed</b>	<b>Value of Expenditures Reviewed</b>	<b>Percentage of Value Reviewed</b>
<b>Pheasant</b>					
FY 2005-07	\$496,483	\$498,700	27	\$463,373	93%
FY 2007-09	\$513,986	\$514,794	20	\$484,758	94%
<b>Crab</b>					
FY 2005-07	\$381,221	\$398,457	28	\$394,481	99%
FY 2007-09	\$281,620	\$283,981	42	\$266,035	94%
<b>Salmon</b>					
FY 2005-07	\$1,428,661	\$1,719,519	25	\$431,343	25%
FY 2007-09	\$1,226,321	\$1,746,566	28	\$493,894	28%

<sup>1</sup> The transactions in this table include personal service contracts, goods and services, capital outlays, and client service contracts.

<sup>2</sup> The total value of expenditures is more than the expenditures reported in AFRS because the total value includes the absolute value of negative adjustments.

# APPENDIX D

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## Department's Methodology for Allocating Revenue to the Pheasant Account

The Department's methodology for calculating the amount of revenue to deposit to the Eastern Washington Pheasant Enhancement Account was developed to provide \$10 for each small game license holder hunting for pheasant in Eastern Washington. The Department calculates the amount of license revenue to deposit in the pheasant account as described below.

Determining the percentage of license revenue to allocate to the account is based on the most recent hunter survey and license sales data from the previous year. The purpose is to convert the survey results into a revenue rate, which is the percentage of license revenue allocated to the pheasant account.

In the example below, the survey was conducted in spring 2005 and the sales data is from license year 2004, which corresponds to April 2004 through March 2005. The percentage of revenue allocated to the pheasant account was applied to fiscal year 2006 license sales beginning in July 2005. The Department used this methodology during all the fiscal years we reviewed in this audit.

### A. Group licenses into three groups of related licenses:

- 3-day nonresident
- Small game licenses
- Combination (small/large game) licenses

### B. Calculate percentage of total license revenue to be allocated to Eastern Washington Pheasant Enhancement Account from each group

Calculation example for the small game license group:

40,375		*License Year 1 license sales by type
\$10	x	Pheasant share of each license
37.1%	x	Percentage of hunters who bought licenses allowing small game hunting and intended to hunt pheasant in Eastern Washington
\$149,791	=	License Year 1 revenue applied to pheasant account
\$1,242,690	÷	License Year 1 total license revenue by group
12.05%	=	Percentage of license revenue allocated to pheasant account

\* A license year runs from April 1 through March 31 of the following year.

Example for all license groups for License Year 2004:

License Group	LY 2004 License Sales	x	Pheasant Share Per License	x	% Hunting Pheasant	=	LY 2004 Revenue Applied to Account	÷	LY 2004 Total License Revenue	=	% Revenue Allocated to Account
3-Day Nonresident	2,232		\$10.00		37.1%		\$8,281		\$111,600		7.42%
Small game	40,375		\$10.00		37.1%		\$149,791		\$1,242,690		12.05%
Combination	45,964		\$10.00		37.1%		\$170,526		\$693,424		24.59%

**C. Calculate Eastern Washington Pheasant Enhancement Account revenue for each license group**

The percentage of revenue allocated for the license year is applied to the following fiscal year’s license sales, as they are sold, to calculate the amount of revenue to deposit into the Eastern Washington Pheasant Enhancement Account.

Calculation example for the small game license group:

\$1,288,575		*Fiscal Year 2 total license revenue
12.05%	x	Percentage of revenue allocated to pheasant account (from Step B)
\$155,273	=	Fiscal Year 2 revenue allocated to pheasant account

\* A fiscal year runs from July 1 of the previous year through June 30 of the current year.

Example for fiscal year 2006:

License Group	Fiscal Year 2006 Total License Revenue	x	EWPEA Percentage of Sales	=	Fiscal Year 2006 EWPEA Revenue
3-Day Nonresident	\$110,850		7.42%		\$8,225
Small Game	\$1,288,575		12.05%		\$155,273
Combination	\$708,688		24.59%		\$174,266
<b>Amount to Deposit</b>					<b>\$337,765</b>

The following calculation demonstrates that the Department’s methodology results in approximately \$10 being deposited into the Pheasant Account for each license holder who intended to hunt for pheasant in Eastern Washington.

90,930		Fiscal Year 2006 License Sales
37.1%	x	Percentage Hunting Pheasant (from Step B)
33,735	=	Number of Hunters Who Hunted Pheasant
\$10.00	x	Revenue to Deposit for Each Hunter Who Hunted Pheasant
*\$337,350	=	Estimate of Fiscal Year 2006 EWPEA Revenue

\*Actual deposit was \$337,765 (see Step C), or \$10.01 (\$337,765 ÷ 33,735 hunters) for each hunter who hunted pheasant in Eastern Washington.

# APPENDIX E

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## Department's Methodology for Allocating Revenue to the Recreational Fisheries Account

The Department developed a methodology to calculate revenue deposits into the recreational fisheries account based on regulatory intent. We illustrate the Department's methodology below for fiscal year 2005. The Department used this methodology during all the fiscal years we reviewed in this audit.

Determining the percentage of license revenue to allocate to the account is based on the most recent angler's survey and license sales data from the previous year. In this case, the survey was conducted in spring 2004 and the sales data is from license year 2003, which corresponds to April 2003 through March 2004. The percentage of revenue allocated to the recreational fisheries account was applied to fiscal year 2005 license sales beginning in July 2004.

### A. Group licenses into three groups of related licenses:

- Combination salt/freshwater
- 2-day combination
- 2-day combination hot key
- Charter stamps
- Saltwater

### B. Calculate the amount of revenue to apply to the recreational fisheries account for each license type

Calculation example for resident saltwater licenses:

51,247			*License Year 1 sales for each individual license type
\$10	x		**Fisheries share of each license ("applied value")
\$512,470	=		Revenue to apply to recreational fisheries account

\* A license year (LY) runs from April 1 through March 31 of the following year

\*\* The fisheries share varies by license type.

Example for license year 2003:

License Type	LY 2003 Licenses Sold	LY 2003 Applied Value	Applied Value Revenue
<b>Combination:</b>			
Resident	154,844	\$10.00	\$1,548,440
Nonresident	1,276	\$10.00	\$12,760
Youth	11,326	--	--
Veteran	10,525	--	--
<b>Group Total</b>			<b>\$1,561,200</b>
<b>2-day combination:</b>			
Resident	94,360	\$2.50	\$235,900
Nonresident	107,355	\$2.50	\$268,388
Group Total			<b>\$504,288</b>
<b>2-Day combo hot key</b>	<b>11,778</b>	<b>\$2.50</b>	<b>\$29,445</b>
<b>Charter Stamps</b>	<b>38,914</b>	<b>\$2.50</b>	<b>\$97,285</b>
<b>Saltwater:</b>			
Resident	51,247	\$10.00	\$512,470
Nonresident	2,194	\$10.00	\$21,940
Senior	14,344	\$5.00	\$71,720
<b>Group Total</b>			<b>\$606,130</b>

**C. Calculate percentage of total license revenue to be allocated to the Recreational Fisheries Enhancement Account from each group.**

Calculation example for saltwater licenses:

\$606,130	Revenue to apply to recreational fisheries account (from step B)
75.89%	x *Participation rate percentage
\$1,073,150	÷ LY 1 total license revenue
42.86%	= Percentage of license revenue allocated to the recreational fisheries account

\* Participation rates are based on annual angler's survey.

Example for license year 2003:

License Group	Applied Value Revenue	Participation Rate	LY 2003 Total Revenue	% Revenue Allocated to Account
Combination salt/freshwater	\$1,561,200	61.48%	\$5,775,511	16.62%
2-day combination	\$504,288	28.89%	\$1,210,290	12.04%
2-day combination hot key	\$29,445	6.67%	\$70,668	2.78%
Charter stamps	\$97,285	28.95%	\$233,484	12.06%
Saltwater	\$606,130	75.89%	\$1,073,150	42.86%

**D. Calculate Recreational Fisheries Enhancement Account revenue for each license group**

The percentage of revenue allocated for the license year is applied to the following fiscal year’s license sales, as they are sold, to calculate the amount of revenue to deposit into the Recreational Fisheries Enhancement Account.

Calculation example for saltwater licenses:

\$902,483		*Fiscal Year 2 total license revenue
42.86%	x	Percentage of Revenue Allocated to the Recreational Fisheries Enhancement Account (from Step C)
\$386,804	=	Fiscal Year 2 Revenue Allocated to the Recreational Fisheries Enhancement Account

*\* A fiscal year runs from July 1 of the previous year to June 30 of the current year*

Example for fiscal year 2005:

License Group	FY 2005 Total Revenue	Percentage of Revenue Allocated to Fisheries Account	FY 2005 Fisheries Account Revenue
Combination salt/freshwater	\$5,436,866	16.62%	\$903,607
2-day combination	\$1,055,364	12.04%	\$127,066
2-day hot key	\$54,108	2.78%	\$1,504
Charter stamps	\$258,360	12.06%	\$31,158
Saltwater	\$902,483	42.86%	\$386,804
		<b>Total</b>	<b>\$1,450,140</b>

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