

Department of Fish and Game:

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



June 2005
2004-122R

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June 14, 2005

2004-122

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Department of Fish and Game's (Fish and Game) administration of the Fish and Game Preservation Fund (preservation fund).

This report concludes that although fees from fishing and hunting licenses have increased, the preservation fund reserves have decreased significantly between fiscal years 2001-02 and 2003-04. This occurred while Fish and Game had its General Fund appropriation reduced, which together with the preservation fund has been used to fund Fish and Game's programs. However, while funding for some programs has dramatically increased or decreased, others, such as hatcheries, have changed little. A long-range spending plan could serve as a useful tool to guide Fish and Game decisions, especially in times of fluctuating funding, but Fish and Game lacks such a tool.

Between fiscal years 2001-02 and 2003-04, Fish and Game spent into its reserves, that is, the balance that had accumulated in the preservation fund. During this time, Fish and Game spent more from its accounts with revenues dedicated by statute for specific purposes (dedicated accounts) than it collected. Furthermore, Fish and Game has not demonstrated that it used allowable dedicated resources to cover deficit spending in certain accounts of the preservation fund. Fish and Game was able to cover the deficit spending in these accounts by borrowing from those dedicated accounts with sufficient balances, a practice that may not be allowed.

Fish and Game adequately assessed and collected fees and allocated revenue to the appropriate accounts of the preservation fund. It did not do as well, however, in accounting for indirect costs because it failed to follow its own policy and update the percentages used each year to allocate indirect costs. As a result, Fish and Game overcharged or undercharged indirect costs to certain preservation fund programs.

Respectfully submitted,

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Response to the Audit

California Resources Agency,
Department of Fish and Game

SUMMARY

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 the spending of other programs declined more significantly.*

continued on next page . . .

RESULTS IN BRIEF

This audit focused on administration of the Fish and Game Preservation Fund (preservation fund) by the Department of Fish and Game (Fish and Game). The preservation fund accounts for about a third of the department's revenue and was established for the protection and preservation of birds, mammals, fish, reptiles, and amphibia. The preservation fund's major source of revenue is the sale of fishing and hunting licenses. Of the money deposited into this fund, 15 percent goes into dedicated accounts and can only be spent for specific programs according to statutes. Fish and Game may use the remaining money at its discretion to support any preservation fund program.

Although fees from fishing and hunting licenses increased, the preservation fund reserves decreased significantly during the past three years. At the same time, Fish and Game had its general fund appropriation reduced, which, together with the preservation fund supports Fish and Game's programs. Consequently, the preservation fund now covers a larger share of program costs. However, not all programs have been affected equally by the reduction in General Fund appropriations. While funding for some programs has dramatically increased or decreased, others, such as hatcheries, a focus of this report, have changed little. A long-range spending plan could serve as a useful tool to guide Fish and Game decisions, especially in times of fluctuating funding, but the department lacks such a tool. In addition, other factors have affected the amount of funding available for the department's programs, including inappropriate indirect cost charges and a loan to another fund that may never be paid back.

Between fiscal years 2001–02 and 2003–04, annual revenue collected on behalf of programs supported by the preservation fund increased 8 percent, from \$81.9 million to \$88.5 million. However, spending in some of these same programs decreased during this period, with some programs suffering a larger decrease than others. For example, the amount Fish and Game spent on its hatcheries declined less than 3 percent during those three years, but the biodiversity (wildlife habitat) protection and restoration program experienced a 22 percent cut. During this time, Fish and Game made spending cuts to certain of its programs due to decreased funding, especially reductions in its general fund

- ☑ *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.*
-

appropriation. Considering all sources of funding, Fish and Game's total spending decreased by 13 percent between fiscal years 2001–02 and 2003–04. However, we found no clear evidence indicating how it made decisions regarding spending cuts. Fish and Game did not prepare annual operational plans outlining its spending priorities for those years and has not updated its strategic plan since 1995. In spite of efforts to prioritize the many programs that it operates, Fish and Game has not yet adopted a formal set of priorities to guide its spending.

During the same three fiscal years, Fish and Game spent much of its reserve, that is, the accumulated balance in the preservation fund. From fiscal years 2001–02 through 2003–04, Fish and Game expended more from its accounts with revenues dedicated by statute for specific program purposes (dedicated accounts) than it collected for those purposes. Total annual expenditures for dedicated programs ranged from \$388,000 to \$2.8 million more than the revenue collected for these accounts. During fiscal years 2001–02 and 2002–03, expenditures from the nondedicated account also exceeded the corresponding years' nondedicated revenue, although in fiscal year 2003–04 Fish and Game reduced those expenditures from the nondedicated account to less than the revenue collected. Fish and Game projects that the ending balance in fiscal year 2005–06 for the preservation fund as a whole will be \$665,000, down from nearly \$24.5 million in fiscal year 2001–02.

Furthermore, Fish and Game has not demonstrated that it used allowable resources to cover its deficit spending in certain accounts of the preservation fund. The preservation fund's nondedicated account and some of its dedicated accounts had deficit balances as of June 30, 2004. Fish and Game was able to cover the deficit spending in these accounts by borrowing from those dedicated accounts with sufficient balances. Although the statutes establishing some dedicated accounts may allow for a broader interpretation of the types of expenditures they may cover, Fish and Game was not able to explain to us which resources it used to cover the accounts with deficits or why the uses of these funds were allowable. Deficit balances of these accounts totaled \$14.7 million at June 30, 2004.

Fish and Game adequately assessed and collected fees and allocated revenue to the appropriate accounts of the preservation fund. Similarly, it properly followed the State's general administrative procedures for a sampling of expenditures from the preservation fund.

It did not do as well, however, in its accounting for indirect costs; it failed to follow its own policy and update the percentages used each year to allocate indirect costs. Using updated percentages, we determined the department overcharged or undercharged indirect costs to certain preservation fund programs. Because Fish and Game bases its distribution of the cost of shared services, such as legal services and air services, on the total expenditures of each program, the effect of the incorrect indirect cost allocations was magnified in each affected program.

Finally, Fish and Game did not properly account for a \$1.4 million loan from the preservation fund to the native species conservation and enhancement account. Though Fish and Game made small transfers to the preservation fund to repay the advanced funds, it could not provide us an adequate repayment schedule. Because interest accrues more rapidly than Fish and Game is repaying the advance, the loan may remain unpaid unless the department changes its practices. When the advance is not collected, the resources are not available for preservation fund programs.

RECOMMENDATIONS

To mitigate the effects of budget reductions and fluctuations in program revenue, Fish and Game should take a more strategic approach to evaluating its financial needs. It should update its strategic plan and develop annual operational plans with specific measurable goals and objectives, then determine the funding necessary to meet those goals, allowing it to better measure the sufficiency of funding for its programs.

To reduce the reliance on fund reserves and borrowing of dedicated resources, Fish and Game should take measures to ensure that revenue streams are sufficient to fund each of its programs. This may require legislation to adjust fee revenues used for specific dedicated programs within the preservation fund or General Fund budget augmentations to sustain dedicated and nondedicated program operations.

To ensure that the resources of dedicated accounts are used for their intended purposes, Fish and Game should avoid borrowing from these accounts to fund expenditures of other accounts. If this is temporarily unavoidable, the department should identify the specific dedicated account that is the source of the borrowed resources and ensure that the law establishing that account allows for an interpretation that would make the expenditures allowable.

Finally, Fish and Game should identify those dedicated accounts that have been used to pay for expenditures of other accounts and pay back these lending accounts.

To make the resources available for preservation fund programs and to properly account for its fund balance and liabilities, Fish and Game should seek resolution for the advance from the fund to the native species conservation and enhancement account through administrative or legislative means. It should prepare an amortization schedule that is an accurate and realistic schedule for repayment and take steps to repay the advance. If full reimbursement cannot be accommodated, Fish and Game should take action to have the advance written off.

To prevent inequitable distributions of indirect costs and administrative expenses, Fish and Game should review and update the percentages used in its allocation method annually.

AGENCY COMMENTS

The Resources Agency, which oversees Fish and Game, agrees with our conclusions and has begun to implement our recommendations. ■

INTRODUCTION

BACKGROUND

The Department of Fish and Game (Fish and Game) maintains native fish, wildlife, plant species, and natural communities for their ecological value and benefits to people. In addition, Fish and Game is responsible for using fish and wildlife for a variety of purposes, including recreation, business, science, and education. The department collects fees and issues a variety of licenses, tags, and permits for activities such as fishing and hunting. Through its land and facilities branch, Fish and Game currently operates 12 trout hatcheries, eight salmon hatcheries, and two fish planting bases.

The request for a performance audit arose from the Legislature's concern regarding the department's administration of the Fish and Game Preservation Fund (preservation fund). In particular, funding for the State's hatcheries has decreased, leading some to surmise that a sufficient share of fishing license revenue is not being used to fully meet the needs of the hatcheries.

THE FISH AND GAME PRESERVATION FUND

According to the *Manual of State Funds* published by the Department of Finance (Finance), all money collected under the Fish and Game Code or under any other law relating to the protection and preservation of birds, mammals, fish, reptiles, or amphibia are credited to the preservation fund. The fund is to be used to pay Fish and Game's expenses in carrying out the provisions of the Fish and Game Code. Certain revenues or receipts are restricted to use for specific purposes.

Fish and Game Code, Section 711, specifically provides that the costs of hunting and sport fishing programs are to be financed out of hunting and sport fishing revenues. The costs of commercial fishing programs are to be paid solely out of revenues from commercial fishing taxes, license fees, and receipts from other sources for such purposes. This section also provides that Finance shall include in the governor's budget sufficient money from the General Fund to pay for the cost of Fish and Game's other programs necessary for the protection and enhancement of California's nongame fish and wildlife, and their habitats.

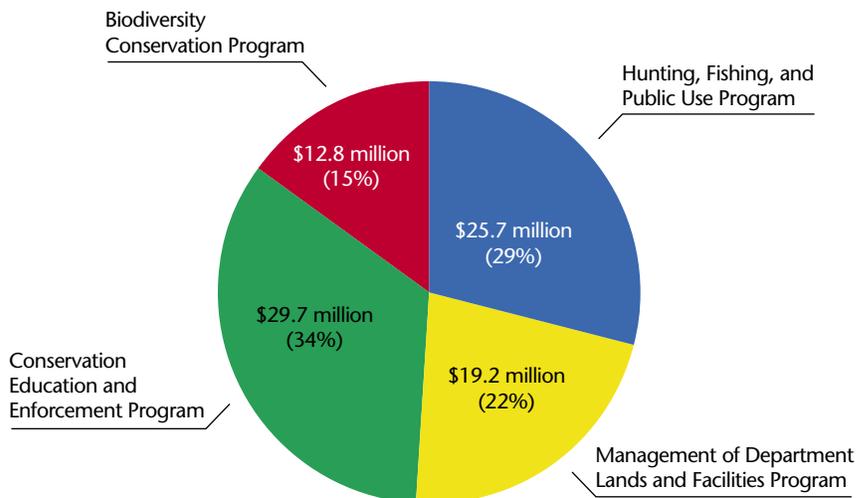
The preservation fund provides money for many of Fish and Game's programs as a necessary supplement to its budget allocations from the General Fund, special funds, federal funds, and bonds. At a summary level, the programs supported by the preservation fund are described as follows:

- **Biodiversity Conservation Program**—Activities in this program encourage the preservation, conservation, and maintenance of the State's wildlife resources. These include the protection and management of fish, wildlife, and native plants, as well as the habitats necessary to support them.
- **Hunting, Fishing, and Public Use Program**—This program allows for diverse and sustainable hunting, trapping, recreational and commercial fishing, and public use of the State's wildlife and their habitats. Activities include evaluating game fish and wildlife populations to effectively regulate public interaction with them.
- **Management of Department Lands and Facilities Program**—This program provides for the management of the land and facilities Fish and Game owns or leases to conduct its work in conserving, protecting, and managing fish and wildlife.
- **Conservation Education and Enforcement Program**—Through this program, Fish and Game provides hunter and conservation education programs, and promotes compliance with fish and wildlife laws and regulations to protect resources, habitats, and public safety.
- **Spill Prevention and Response Program**—This program supports efforts to prevent damage, minimize environmental impact, and restore California's fish and wildlife populations and habitats from the effects of oil and other hazardous material spills.

As illustrated in Figure 1, the largest share of the preservation fund supports the Conservation Education and Enforcement Program, which provides the law enforcement, public safety, and conservation education component of Fish and Game's core services.

FIGURE 1

**Department of Fish and Game Preservation Fund
Actual Expenditures for Programs
Fiscal Year 2003–04**



Source: Fiscal year 2003–04 actual expenditures from *Governor’s Budget Fact Book*, fiscal year 2005–06 budget.

In fiscal year 2003–04, 22 percent of the preservation fund was expended for the Management of Department Lands and Facilities Program, which includes the operation of hatcheries and fish planting facilities. The hatcheries are used to raise fish to be planted in rivers, lakes, and streams as a part of Fish and Game’s efforts in the management of fisheries statewide. According to Fish and Game’s *Strategic Plan for Trout Management*, dated November 2003, trout fishery management in California is presently accomplished using one of the three following techniques:

- **Self-Sustaining Fisheries**—This management technique applies to most of the trout streams and many lakes in the State. Self-sustaining fisheries generally require a viable aquatic ecosystem where trout reproduction, growth, and survival are adequate to perpetuate the population, and only habitat protection management strategies are required, in addition to angling regulations. According to Fish and Game senior biologists, this technique is the preferred type of trout fishery management and is the most widely used.

- **Put-and-Grow Fisheries**—These fisheries are supported by hatchery-produced trout stocked at about three inches to six inches in length. This technique is used in waters where the spawning habitat is limited and unable to support a satisfactory sport fishery, but the fish habitat otherwise supports suitable trout growth and survival. Many of these fish are expected to increase substantially in size and survive for more than one season, thereby providing catchable fish in subsequent years.
- **Put-and-Take Fisheries**—This management technique is employed to create trout fisheries where they would not naturally exist or to maintain fisheries where natural production is inadequate to support fishing demand. It is supported chiefly by hatchery-produced trout weighing about one-half pound each and measuring 10 inches to 12 inches in length. These trout are placed in waters that are easily accessible to the general public and where angling demand is high. Catchable-sized trout are stocked in about 780 (4 percent) of the 18,000 stream miles and about 300 (8 percent) of the 3,581 cold-water lakes and reservoirs suitable for resident trout in California. According to Fish and Game Commission policy, catchable-sized trout are to be stocked in waters where at least 50 percent by number or weight will be caught by anglers.

Fish and Game's hatcheries and fish planting facilities program provides fish of varying sizes to support put-and-grow as well as put-and-take fisheries. However, the Biodiversity Conservation Program is also an important part of overall fishery management and represented 15 percent of the preservation fund's expenditures in fiscal year 2003–04, as depicted in Figure 1 on the previous page.

The preservation fund principally comprises revenues collected from the sale of fishing and hunting licenses and tags, though a small portion is provided by fines, permits, and others fees related to the preservation of the State's fish and game and their habitats. In October 2003 legislation amended the Fish and Game Code to adjust the fees related to nine of the 10 base licenses that account for more than 99 percent of the sport fishing license revenue. In fiscal year 2003–04, the preservation fund collected a total of \$88.5 million in revenue.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (audit committee) approved a performance audit of Fish and Game operations. To assist us in conducting this audit, we engaged the services of KPMG LLP (audit team), a professional services firm that provides advisory services for public and private sector clients. The audit team was composed of personnel from KPMG and the Bureau of State Audits. The audit team's examination focused on Fish and Game's handling of the preservation fund as well as the funding of the State's fish hatcheries from fiscal years 2001–02 through 2003–04.

The audit examined the following key areas as they relate to the preservation fund:

- The setting, collecting, and spending of and accounting for revenue generated by the sale of sport fishing licenses.
- The allocation of this revenue to program activities.
- Fish and Game's assessment of the sufficiency of funding levels.
- Fish and Game's allocation of indirect costs.
- Trends in funding of the hatcheries.

The audit team interviewed selected department managers and staff members; identified key documents; and reviewed relevant laws, regulations, and rules, as well as historical and current financial information, to obtain a general understanding of Fish and Game operations and the internal and external forces that influence its activities. From this overview, the audit team identified the Fish and Game activities relevant to the audit's objectives and selected the key processes for analysis.

To determine whether Fish and Game followed applicable requirements in setting and collecting fees for fishing licenses and related revenue sources, as well as accounting for this revenue in the preservation fund, the audit team interviewed knowledgeable staff and identified the applicable laws, rules, and regulations related to fishing license fees and other revenue sources. In addition, the auditors interviewed staff members who were knowledgeable of the procedures used in collecting and accounting for the revenue. The audit team examined

documentation provided by Fish and Game related to these processes, as well as applicable laws, rules, and regulations identified in the course of review.

Due to the large number of relatively immaterial revenue sources and minor programs provided for in the Fish and Game Code, the audit was limited to an examination of the top 10 sport fishing revenue sources, which comprised 99 percent of the preservation fund's sport fishing revenues in 2004.

To examine the disbursement of funds from dedicated and nondedicated revenue accounts in the preservation fund, the audit team verified that proper approvals had been obtained and disbursements were made in accordance with state guidelines in a sample of claim schedules containing disbursement records for expenditures from the preservation fund related to the hatcheries and fish planting facilities program.

To examine the charging of payroll costs to dedicated and nondedicated revenue accounts in the preservation fund, the audit team determined if time sheets had been approved, if employees had charged time to activity codes appropriate for the program, and if hours noted matched those entered into the California Statewide Accounting and Reporting System for a sample of time sheets on which personnel charged time to the hatcheries and fish planting facilities program. Based on the duty statements for three department employees who had charged time to dedicated accounts, the audit team verified the reasonableness of the activities charged.

To identify the programs supported by the preservation fund, determine other funding sources for these programs, and ascertain how Fish and Game allocates funds to them, the audit team interviewed knowledgeable staff regarding the procedures in use and identified the applicable laws, rules, and regulations related to allocating funds to the preservation fund programs. The auditors sought to identify policies and procedures in place related to the prioritization of funding allocations, though Fish and Game could not provide formal documentation demonstrating such priorities. In addition, the team prepared a schedule that illustrated the levels of program funding from the preservation fund and other funds during fiscal years 2001-02, 2002-03, and 2003-04.

To determine whether the department measured the sufficiency of funding levels for programs within the preservation fund, the auditors interviewed knowledgeable staff regarding the policies and procedures in use and identified the applicable laws, rules, and regulations related to funding level sufficiency.

To ascertain whether the department allocated its indirect costs in an appropriate manner, the audit team interviewed knowledgeable staff regarding the policies and procedures in use; identified the applicable laws, rules, and regulations; and reviewed the cost allocation base for fiscal years 2001–02 through 2003–04.

The audit team also interviewed knowledgeable department staff and identified the applicable laws, rules, and regulations to define Fish and Game’s role in funding fish hatcheries. The audit team prepared an analytical review that illustrated changes in revenue by fund and program, and noted the significant changes from fiscal years 2001–02 through 2003–04. The team also identified general trends in overall revenue and in the allocation of funds to various programs and asked department officials for explanations of these trends.

Our report of Fish and Game’s hatcheries emphasizes the State’s nonmitigation hatcheries. Nonmitigation hatcheries are not fully funded from other sources. Mitigation hatcheries are designed to mitigate the effects of approved dams on the State’s waterways. Though the department operates these hatcheries, their operating costs are provided for by federal funds and reimbursements from responsible agencies. There are currently six such hatcheries, including the Feather River Hatchery, Nimbus Hatchery, and Mokelumne River Hatchery. ■

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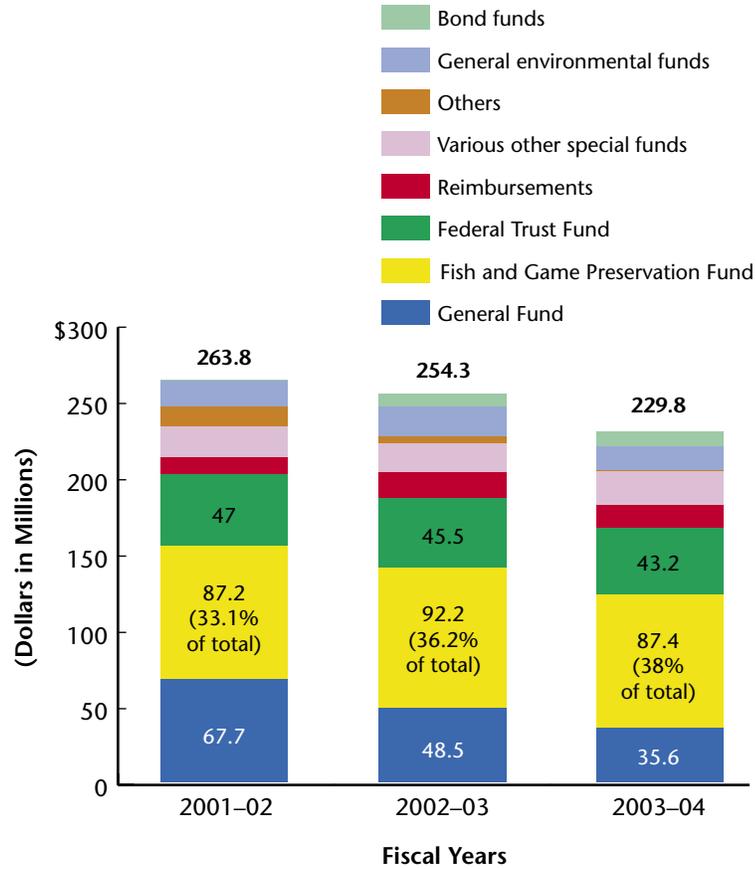
AUDIT RESULTS

HATCHERY EXPENDITURES HAVE DECLINED, BUT NOT AS STEEPLY AS DEPARTMENT OF FISH AND GAME EXPENDITURES OVERALL

The Department of Fish and Game (Fish and Game), like most departments, had to reduce its operating budget in fiscal years 2001–02 through 2003–04 in response to shrinking state revenue. Unlike some departments, however, Fish and Game continued to collect revenue at a relatively steady rate during that period. Its revenue is based largely on the fees related to fishing and hunting licenses and the wide variety of enhancements and tags associated with those licenses. In fiscal year 2003–04, licenses and permits generated nearly \$80.3 million, representing 91 percent of the \$88.5 million total revenue of the Fish and Game Preservation Fund (preservation fund). The revenue generated from sport fishing licenses and fees accounts for the largest share of the preservation fund. In fiscal year 2003–04, sport fishing-related sales totaled \$53.4 million, or 60 percent, of the preservation fund revenue. The Legislature approved fee increases for several existing sport fishing licenses and enhancements, as well as the addition of a Bay-Delta sport fishing enhancement stamp. These fee increases resulted in additional sport fishing revenue collected in fiscal year 2003–04. Despite the additional license revenue, however, Fish and Game’s overall spending authority decreased, due in part to General Fund reductions. As a result, the preservation fund accounted for a larger share of the department’s total operating budget in recent years, as depicted in Figure 2 on the following page. Some of the programs that are supported by the preservation fund have been reduced significantly as Fish and Game could not offset General Fund reductions, although total spending for hatcheries and fish planting facilities remained relatively constant over the audit period.

FIGURE 2

Proportion of Fish and Game Preservation Fund Expenditures to All Fish and Game Expenditures Fiscal Years 2001–02 Through 2003–04



Sources: *Governor's Budget Fact Books*, fiscal years 2003–04 through 2005–06.

As depicted above, the preservation fund spent \$87.2 million in fiscal year 2001–02, accounting for a 33 percent share of Fish and Game's total expenditures. In fiscal year 2003–04, the preservation fund expenditures were \$87.4 million, which accounted for a 38 percent share of the department's total spending. Because the dollar amounts of the preservation fund expenditures were nearly identical in fiscal years 2001–02 and 2003–04, the change in the fund's relative share of Fish and Game's spending can be attributed to the reductions in the department's other funding categories.

Even though Fish and Game has some discretion in how the majority of preservation fund money is used to support its initiatives, decreased spending affected some programs

more significantly than others. The proportionate shares of the preservation fund expended for each program fluctuated from year to year. Table 1 identifies the preservation fund expenditures for each program and subprogram during the three fiscal years we reviewed. The table also identifies the change in preservation fund expenditures between fiscal years.

TABLE 1

**Fish and Game Preservation Fund Expenditures by Program
Fiscal Years 2001–02 Through 2003–04
(Dollars in Thousands)**

Program Name	Fiscal Year 2001–02 Actual	Fiscal Year 2002–03 Actual	Percentage Change Fiscal Years 2001–02 to 2002–03	Fiscal Year 2003–04 Actual	Percentage Change Fiscal Years 2002–03 to 2003–04	Percentage Change Overall
Biodiversity Conservation Program						
Multi-Species and Habitat Conservation Planning	\$ 4,100	\$ 4,652	13.5%	\$ 8,989	93.2%	119.2%
Biodiversity (Wildlife Habitat) Protection and Restoration	5,855	4,129	(29.5)	3,832	(7.2)	(34.6)
Subtotals	9,955	8,781	(11.8)	12,821	46.0	28.8
Hunting, Fishing, and Public Use Program						
Hunting, Sport Fishing, and Public Use Regulations	12,420	11,513	(7.3)	11,282	(2.0)	(9.2)
Commercial Fisheries Management (Marine and Inland)	5,649	12,333	118.3	10,698	(13.3)	89.4
Providing Hunting and Fishing Opportunities— Nondepartmental Lands and Waters	3,704	4,212	13.7	3,717	(11.8)	0.4
Subtotals	21,773	28,058	28.9	25,697	(8.4)	18.0
Management of Department Lands and Facilities Program						
Lands	7,132	6,146	(13.8)	5,557	(9.6)	(22.1)
Hatcheries and Fish Planting Facilities	15,738	15,295	(2.8)	13,077	(14.5)	(16.9)
Wildlife Laboratories	1,721	657	(61.8)	604	(8.1)	(64.9)
Subtotals	24,591	22,098	(10.1)	19,238	(12.9)	(21.8)
Conservation Education and Enforcement Program						
Conservation Education	705	275	(61.0)	125	(54.5)	(82.3)
Enforcement and Public Safety	30,210	32,795	8.6	29,549	(9.9)	(2.2)
Subtotals	30,915	33,070	7.0	29,674	(10.3)	(4.0)
Spill Prevention and Response Program						
Subtotals	—	147	0.0	—	(100.0)	—
Total state operations	\$87,234	\$92,154	5.6%	\$87,430	(5.1%)	0.2%

Sources: *Governor's Budget Fact Books*, fiscal years 2003–04 through 2005–06.

As illustrated on the previous page in Table 1, expenditures for some programs increased substantially between fiscal years 2001–02 and 2003–04, while spending on other programs decreased. For example, expenditures increased more than 119 percent for multi-species and habitat conservation planning. However, Management of Department Lands and Facilities Program expenditures decreased by 22 percent during that same period. As a component of this program, preservation fund expenditures for hatcheries and fish planting facilities decreased 17 percent during that time period.

However, examining the preservation fund expenditure budget by itself does not provide a complete understanding of the programs' respective funding conditions. Table 2 tabulates the program and subprogram expenditure budgets from all funding sources for those programs that receive any amount of money from the preservation fund. By considering all sources of funding, it is evident that although Fish and Game's total expenditures decreased by 13 percent over the period of the audit, overall expenditures for hatcheries and fish planting facilities were reduced by less than 3 percent.

The total spending for hatcheries and fish planting facilities remained relatively consistent over the audit period, but Fish and Game reduced other programs more dramatically as the preservation fund could not offset General Fund reductions. For example, Fish and Game reduced spending for biodiversity (wildlife habitat) protection and restoration by 22 percent, from nearly \$53.3 million in fiscal year 2001–02 to \$41.4 million in fiscal year 2003–04. It reduced spending for hunting, sport fishing, and public use regulations by 30 percent during the same two fiscal years, from \$24.6 million to almost \$17.2 million. Wildlife laboratories experienced the most dramatic reduction; this is an expenditure category within the same program as the hatcheries. Although wildlife laboratories spent only \$1.8 million in fiscal year 2001–02, Fish and Game reduced its spending by 59 percent in fiscal year 2003–04 to \$735,000. These fluctuations are an indication of Fish and Game's lack of an established plan for its program spending, as discussed beginning on page 27 of this report.

TABLE 2

**Expenditures From All Fish and Game Funding Sources by Program
Fiscal Years 2001–02 Through 2003–04
(Dollars in Thousands)**

Program Name	Fiscal Year 2001–02 Actual	Fiscal Year 2002–03 Actual	Percentage Change Fiscal Years 2001–02 to 2002–03	Fiscal Year 2003–04 Actual	Percentage Change Fiscal Years 2002–03 to 2003–04	Percentage Change Overall
Biodiversity Conservation Program						
Multi-Species and Habitat Conservation Planning	\$ 50,399	\$ 46,757	(7.2%)	\$ 44,981	(3.8%)	(10.8%)
Biodiversity (Wildlife Habitat) Protection and Restoration	53,287	52,318	(1.8)	41,407	(20.9)	(22.3)
Program totals	103,686	99,075	(4.4)	86,388	(12.8)	(16.7)
Hunting, Fishing, and Public Use Program						
Hunting, Sport Fishing, and Public Use Regulations	24,609	19,324	(21.5)	17,190	(11.0)	(30.1)
Commercial Fisheries Management (Marine and Inland)	8,742	12,975	48.4	12,012	(7.4)	37.4
Providing Hunting and Fishing Opportunities— Nondepartmental Lands and Waters	7,632	7,853	2.9	6,868	(12.5)	(10.0)
Program totals	40,983	40,152	(2.0)	36,070	(10.2)	(12.0)
Management of Department Lands and Facilities Program						
Lands	20,721	19,302	(6.8)	16,949	(12.2)	(18.2)
Hatcheries and Fish Planting Facilities	20,245	20,612	1.8	19,704	(4.4)	(2.7)
Wildlife Laboratories	1,796	758	(57.8)	735	(3.0)	(59.1)
Program totals	42,762	40,672	(4.9)	37,388	(8.1)	(12.6)
Conservation Education and Enforcement Program						
Conservation Education	4,498	3,723	(17.2)	3,290	(11.6)	(26.9)
Enforcement and Public Safety	44,512	45,669	2.6	39,853	(12.7)	(10.5)
Program totals	49,010	49,392	0.8	43,178	(12.6)	(11.9)
Spill Prevention and Response Program						
Prevention	3,620	2,437	(32.7)	2,861	17.4	(21.0)
Readiness	13,944	14,650	5.1	16,579	13.2	18.9
Response	3,575	1,853	(48.2)	885	(52.2)	(75.2)
Restoration and Remediation	33	668	1,924.2	605	(9.4)	1,733.3
Administrative Support	6,148	5,403	(12.1)	5,935	9.8	(3.5)
Program totals	27,320	25,011	(8.5)	26,865	7.4	(1.7)
Total state operations	\$263,761	\$254,302	(3.6%)	\$229,854	(9.6%)	(12.9%)

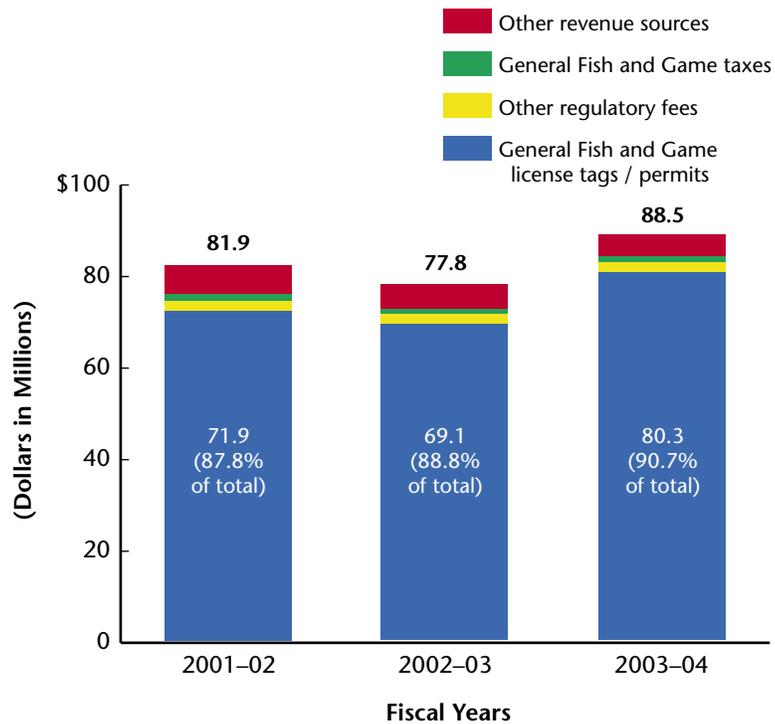
Sources: *Governor's Budget Fact Books*, fiscal years 2003–04 through 2005–06.

From fiscal years 2001–02 to 2003–04, revenue in the preservation fund increased 8 percent, from \$81.9 million to \$88.5 million. The majority of the revenue Fish and Game collects each year is generated through sales of fishing and hunting licenses and tags.

In fiscal year 2003–04, other revenue sources included permitting fees, fines, penalties, and various fish and game taxes, though when combined, all of the other sources account for only 10 percent of Fish and Game’s revenue. Figure 3 below clearly illustrates the majority revenue share that license and tag sales provide.

FIGURE 3

**Fish and Game Preservation Fund Revenue Sources
Fiscal Years 2001–02 Through 2003–04**

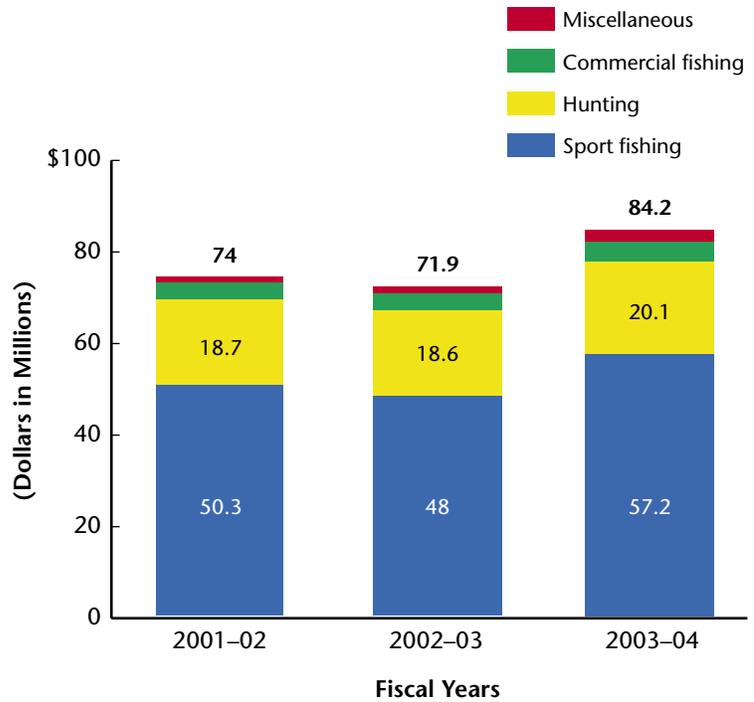


Sources: Department of Fish and Game Fund Condition Statements, Preservation Fund, fiscal years 2001–02 through 2003–04.

Within the category of fishing and hunting license revenues, sport fishing licenses and associated license enhancement sales account for the largest share of the preservation fund. Based on preliminary sales figures reported by Fish and Game’s license revenue branch in fiscal year 2003–04, sport fishing-related sales totaled \$57.2 million, or 68 percent of all preservation fund revenue. Figure 4 on the following page illustrates the respective proportions of the principal license revenue sources in the preservation fund based on revenue branch figures over the three fiscal years.

FIGURE 4

**Fish and Game Principal License Revenue Sources
Fiscal Years 2001–02 Through 2003–04**



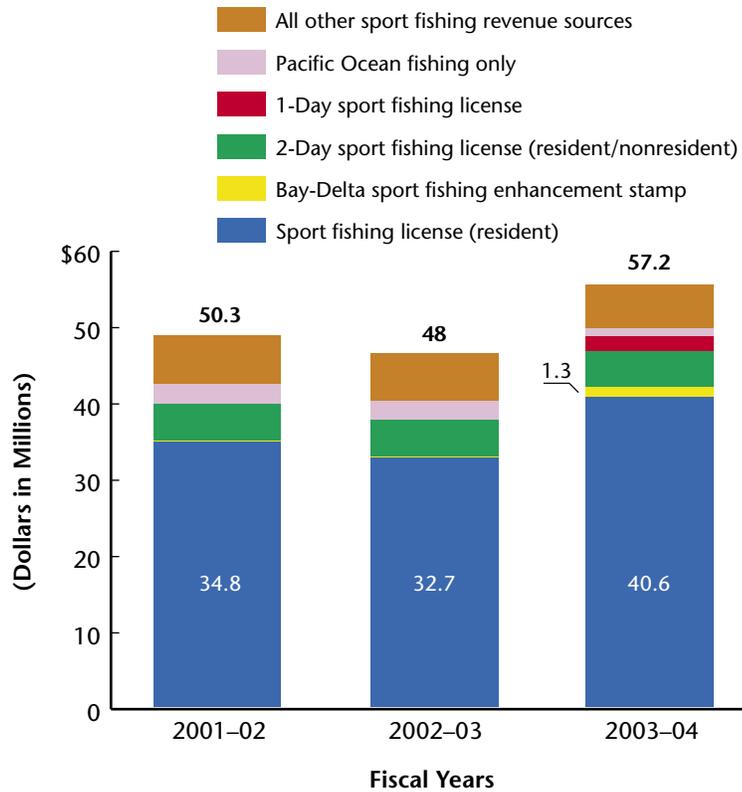
Sources: License revenue branch year-to-year license sales, fiscal years 2001–02 through 2003–04.

Although the chart indicates that sport fishing license revenue rose overall during the years in review, these figures do not disclose that the number of fishing licenses sold declined during the same period. In fiscal year 2001–02, Fish and Game reported sales totaling 3.2 million sport fishing licenses, including the associated enhancements required for fishing in specified waters or for particular species. The following year, the sales volume declined to three million sport fishing licenses. However, sales increased again in fiscal year 2003–04 to reach 3.3 million sport fishing licenses and enhancements sold. Part of this recovery was a result of the Legislature’s approval of the addition of a Bay-Delta sport fishing enhancement stamp, which created an additional required enhancement purchase for many anglers. For fiscal year 2003–04, the Legislature also approved increases to the unit costs of several existing sport fishing licenses and enhancements. All of this served to increase sport fishing license revenue to bolster Fish and Game’s diminishing funding from

other sources. As depicted in Figure 5, Fish and Game collected \$9.2 million more in sport fishing license and enhancement revenues in fiscal year 2003–04 than it did the prior fiscal year.

FIGURE 5

**Fish and Game Sport Fishing License Revenue
Fiscal Years 2001–02 Through 2003–04**



Sources: License and revenue branch year-to-year license sales, fiscal years 2001–02 through 2003–04.

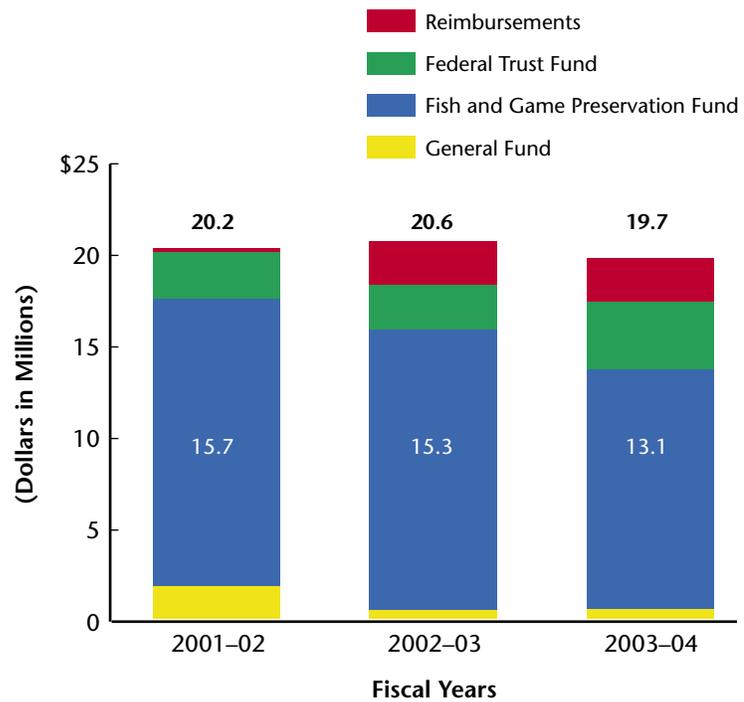
TOTAL FUNDING FOR HATCHERIES DECREASED LESS THAN 3 PERCENT BETWEEN FISCAL YEARS 2001–02 AND 2003–04

A major component of the Management of Department Lands and Facilities Program is the operation of hatcheries and fish planting facilities. During fiscal years 2001–02 through 2003–04, funding for these operations decreased by less than 3 percent overall, losing just \$541,000 of the \$20.2 million allocated from all sources in fiscal year 2001–02. However, the representative

share of the operating expenses funded by the preservation fund for hatcheries and fish planting facilities decreased 17 percent, from \$15.7 million in fiscal year 2001–02 to \$13.1 million in fiscal year 2003–04. Figure 6 illustrates the shares of hatchery funding provided by each source over the years studied.

FIGURE 6

**Source of Operational Expenditures for Fish and Game Hatcheries and Fish Planting Facilities
Fiscal Years 2001–02 Through 2003–04**



Sources: *Governor’s Budget Fact Books*, fiscal years 2003–04 through 2005–06.

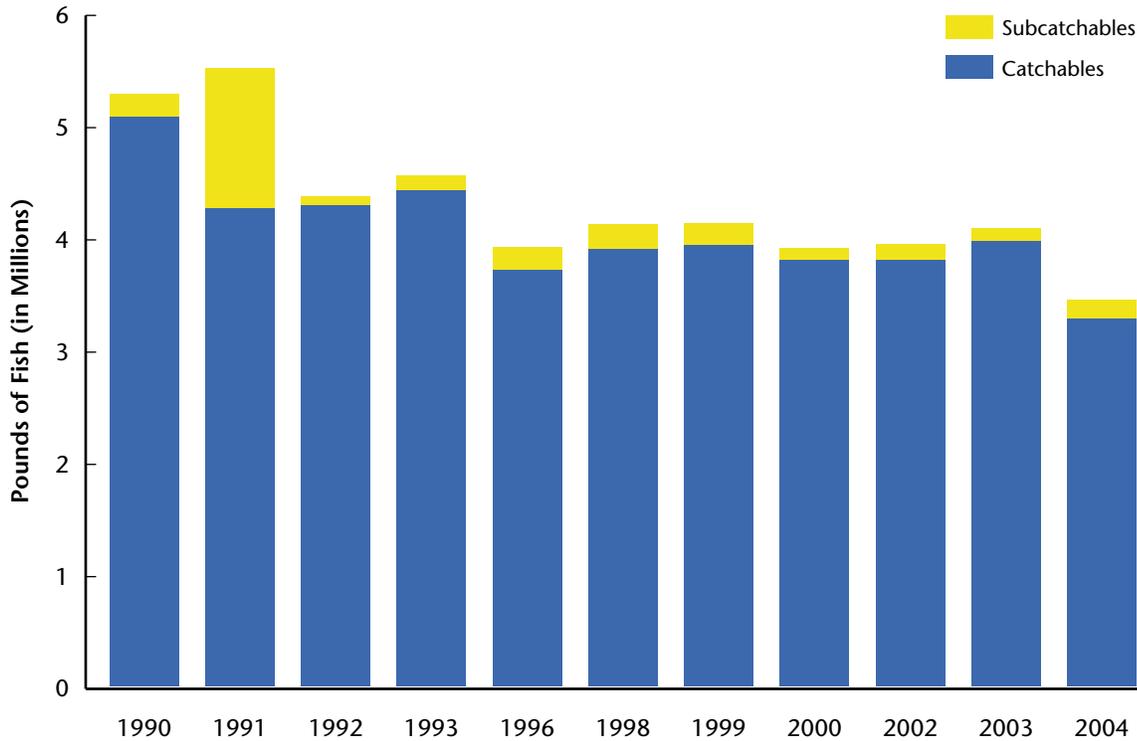
TROUT PRODUCTION BY FISH AND GAME HATCHERIES HAS ALSO DECLINED

Along with the decrease in hatchery program funding noted above, the statewide production volume of Fish and Game’s hatcheries declined slightly from 2002 to 2004 (due to the timing of optimal production and release cycle, fish counts are based on calendar years rather than fiscal years). The hatcheries currently produce 6.5 million to 7.5 million catchable trout per year (each 10 to 12 inches in length), one million smaller, or “subcatchable,” trout

for put-and-grow fisheries, and five million to six million fingerling trout. During the 1990s, Fish and Game produced seven million to 10 million catchable trout per year, though at the time, a catchable trout was defined as being 8 to 10 inches in length. The increased size requirement for catchable trout has lengthened the amount of time required to raise the fish, and in turn has increased the unit cost per trout. However, although the number of fish produced annually has decreased, the total gross weight of trout produced each year is similar. Figure 7 illustrates the hatcheries' output in terms of the gross weight of catchable and subcatchable fish raised from 1990 to the present time.

FIGURE 7

**Fish and Game Hatchery Production Volume in Pounds
1990 Through 2004**



Sources: Lands and facilities branch, annual fish and eggs production allotments, calendar years 1990 through 2006.

Note: Years for which complete catchable and subcatchable production figures were not available have been excluded.

It should be noted that the necessary length of time to produce catchable trout is about 18 months. As a result, funding increases made in one fiscal year may not have an immediately evident impact on the number of fish produced and planted. Moreover, large reductions in funding for hatcheries could have a detrimental impact on the fish already partway through their development cycle if Fish and Game were short the funding needed to finish growing the fish to the size needed for them to survive outside the hatchery.

OTHER FACTORS CONTRIBUTE TO HATCHERY PRODUCTION

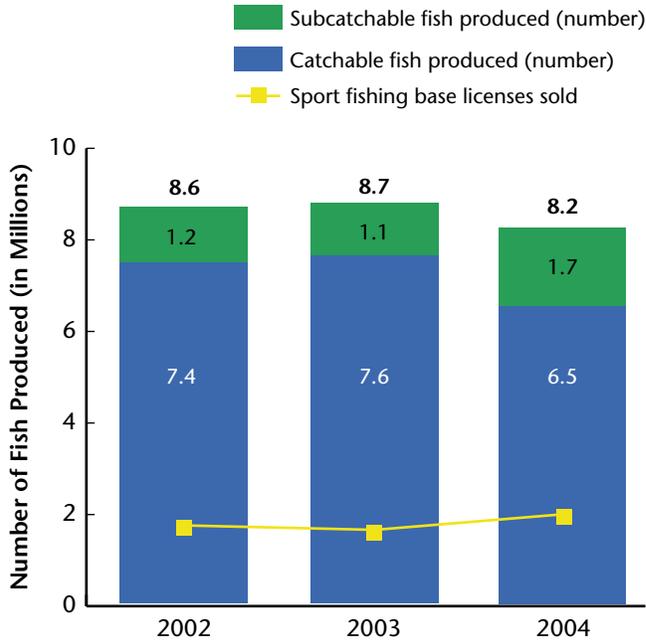
According to the fisheries branch chief and a senior fishery biologist, and in line with the trout management plan, the hatchery operations committee determines the needs for fish production in the various regions. The branch chief states that history is the primary driver for the allotment of fish; production and planting volumes are generally predicated on maintaining traditional levels to the degree that hatchery production can support it. However, funding for the hatcheries is not linked to a current measure of customer demand. The last formal California angler preference survey conducted on behalf of Fish and Game was completed in 1988. Fish and Game has identified the need for regular angler surveys and has developed a strategy to base hatchery production levels on angler demand and effectiveness. However, lacking specific angler preferences, we compared the number of sport fishing base licenses sold with the statewide hatchery production volumes year-to-year, which provides a high-level indication of the angling demand versus supply. Figure 8 on the following page illustrates this comparison.¹

As illustrated in Figure 8, the total number of catchable and subcatchable fish produced fell by only 500,000, or less than 6 percent, from 2003 to 2004. The number of catchable fish produced in 2004 declined by 1.1 million from the level produced the prior year. However, the figure also illustrates that the number of anglers dropped slightly between 2002 and 2003 but rose to nearly two million in 2004. Although Figure 8 does not take into account the existing population of trout in California's streams and lakes, if these recent changes in the numbers of hatchery-produced fish and anglers develop into longer-term trends, more anglers could be competing for a smaller number of catchable fish.

¹ Sport fishing base licenses are the resident and nonresident licenses and the one- and two-day fishing licenses.

FIGURE 8

**Sport Fishing License Sales and
Hatchery Production Volumes
2002 Through 2004**



Sources: Lands and facilities branch annual fish and eggs production allotments, 1990 to 2006, and license and revenue branch year-to-year license sales, fiscal years 2001–02 through 2003–04.

Some of the existing hatcheries are not operating at their full production capacities as designed. This is the result of multiple factors including limitations on operating funds and insufficient capital outlay funds for hatchery upgrades, improvements, and maintenance. However, even if the required funds were available to increase hatchery production, concerns regarding environmental impacts from hatchery by-products and consideration for fish health conditions would continue to limit hatchery output volumes. In addition, Fish and Game’s existing policies and its *Strategic Plan for Trout Management* raise concerns regarding the effectiveness of put-and-take hatchery-produced fish as a sustainable plan for managing the State’s fisheries. For example, the trout policy adopted by the California Fish and

Game Commission (commission) states as its first premise, “Natural reproduction and rearing of trout will be encouraged to the greatest extent possible by protecting and improving habitat and by affording protection from disease, predators and competing fish species.” Other commission policies include the following points specifically relevant to Fish and Game’s use of put-and-take planting strategies:

Policy 4. Artificial propagation is a major department program, but will be utilized only when necessary to augment natural production.

Policy 6. Hatchery trout shall not be stocked in waters where they may compete or hybridize with trout, which are threatened, endangered, or species of special concern. Exceptions may be made for stocking waters, which are not part of a species recovery program.

Policy 8. Catchable-sized trout shall be stocked only when it is reasonable to expect at least 50 percent by number or weight will be taken by anglers.

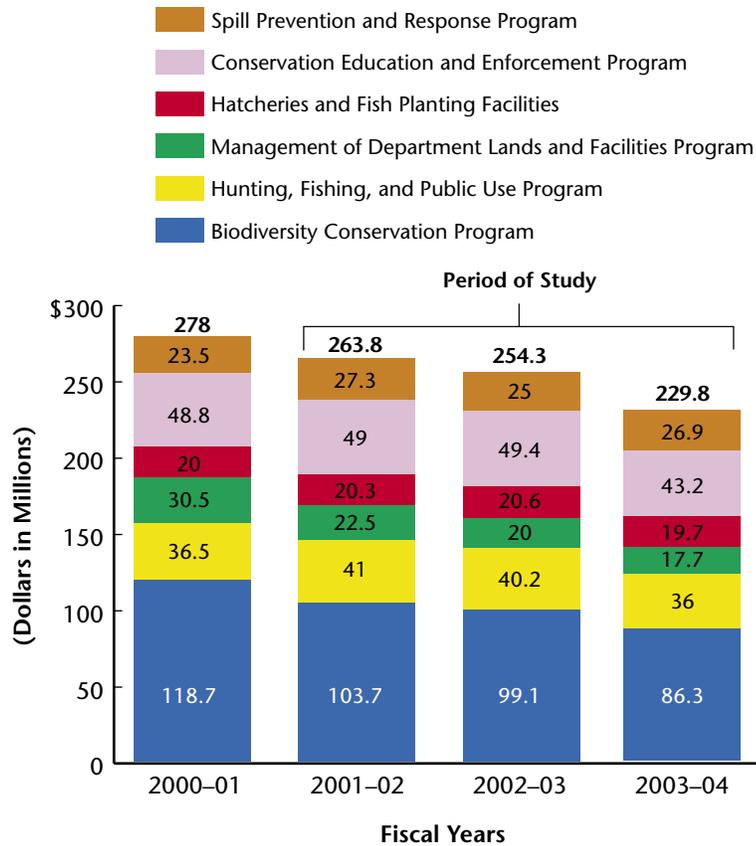
Fish and Game’s *Strategic Plan for Trout Management* makes it clear that balancing the demands of various types of fisheries with the needs of individual fish populations is an important consideration in making resource allocation decisions. Changes in the ratio of catchable to subcatchable trout produced in recent years support the commission’s emphasis for Fish and Game to sustain natural fisheries rather than simply depend on ever-larger releases of catchable, hatchery-raised fish.

FISH AND GAME SPENDING DECLINED OVERALL

From fiscal years 2001–02 through 2003–04, Fish and Game’s total actual expenditures decreased 13 percent, from \$263.8 million to \$229.8 million. This was in addition to a 5 percent reduction in total expenditures between fiscal years 2000–01 and 2001–02. As illustrated in Figure 9 on the following page, Fish and Game made reductions in all of its major program areas from fiscal years 2001–02 through 2003–04.

FIGURE 9

**Total Fish and Game Expenditures by Program
Fiscal Years 2000–01 Through 2003–04**



Sources: *Governor’s Budget Fact Books*, fiscal years 2002–03 through 2005–06. In the Governor’s Budget, hatcheries and fish planting facilities are a part of the Management of Department Lands and Facilities Program.

Fish and Game indicates its budget reductions were primarily the result of directives from various Department of Finance (Finance) budget letters issued between 2001 and 2003 in reaction to statewide decreases in General Fund revenue. The efforts to reduce expenditures began with a statewide hiring freeze in fiscal year 2001–02. Later, as an additional budget reduction strategy, Finance required most departments to abolish certain personnel positions that were vacant as of June 30, 2002. Fish and Game indicates it lost 137.5 vacant positions for a budget reduction of \$5.7 million in fiscal year 2002–03. During that same fiscal year, state agencies were required to reduce their General Fund budgets by 20 percent from the levels previously approved for the year.

For Fish and Game, this resulted in reductions of \$2.5 million in General Fund expenditures during fiscal year 2002–03 and ongoing reductions of \$11.4 million in fiscal year 2003–04. Further staff reductions were required in fiscal year 2003–04 by Finance, resulting in a loss of \$7.2 million and the elimination of an additional 174 vacant and filled positions at Fish and Game. In total, Fish and Game determined that it lost 414 positions during fiscal years 2002–03 and 2003–04.

Fish and Game indicates it also suffered a permanent loss of \$1.6 million beginning in fiscal year 2003–04 due to declining revenues from the California Environmental License Plate Fund.

FISH AND GAME HAS NOT ESTABLISHED WRITTEN SPENDING PRIORITIES, NOR HAS IT IDENTIFIED SUFFICIENT FUNDING LEVELS FOR PRESERVATION FUND PROGRAMS

Although 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.

Fish and Game has not prepared current operational plans that outline sufficient funding for its programs. Although it adopted a department-wide strategic plan in 1995, the plan may no longer reflect the current objectives of Fish and Game's programs. Without measuring 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.

Although 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. Its executive team began a series of meetings in fiscal year 2000–01 to address anticipated reductions in the General Fund budget. According to Fish and Game, during that year, Finance proposed shifting \$6 million in expenditures from the Fish and Game General Fund authorization to the preservation fund. In response, Fish and Game explored ways to replace the lost funds with preservation fund money to support ongoing activities.

As the State's budget crisis continued, the Fish and Game executive team met on several occasions throughout the period from fiscal years 2001–02 to 2003–04 to address strategies for responding

to funding issues. At times, the executive team invited Fish and Game's regional managers and branch chiefs to join the meetings. According to Fish and Game, in July 2003 and in 2004, the expanded group conducted a priority-setting exercise in an attempt to assign a priority to each of Fish and Game's activities. Unfortunately, the group was unable to complete the effort and provide an established list of priorities to the Fish and Game director. According to the deputy director for the wildlife and inland fisheries division, the group felt that Fish and Game was responsible for more top-priority programs than it had funds to operate.

For some programs, the continuation of ongoing projects and level of spending provided in prior years were the determining factors for establishing the funding in subsequent fiscal years.

In the absence of a formal, written guiding document, Fish and Game established its spending plans for fiscal years 2001–02 through 2003–04 in accordance with several influences, including legislative direction, prior years' spending, customer demands, and statutory requirements. For some programs, the continuation of ongoing projects and the maintenance of a level of spending provided in prior years were the determining factors for establishing the funding in subsequent fiscal years. For example, Fish and Game indicates it has conducted a statewide waterfowl survey for several years to track trends in the affected species' populations. According to the deputy director for the wildlife and inland fisheries division, Fish and Game's experience has provided it an understanding of the resources required to perform the survey. Discontinuing the survey would diminish the value of multi-season trend data.

Fish and Game also considered its customers' needs when setting its spending priorities. For example, one important Fish and Game activity is to review applications from individuals who are proposing to substantially alter in any manner one of California's streambeds. In reviewing each application, the law requires staff to determine whether the activity may substantially adversely affect an existing fish or wildlife resource. Unfortunately, Fish and Game did not charge and collect adequate fees from applicants to cover the costs of its reviews. For example, in 2003–04, it collected \$1.6 million from streambed alteration agreement applications but expended more than \$3.3 million in reviewing the applications and conducting related activities. Fish and Game took steps in fiscal year 2003–04 to adjust the program fee structure. However, due to the lengthy public comment and hearing process required for such changes, Fish and Game anticipates the new fee schedule will not be instituted until October 2005. In spite of

the current shortfall in fee revenue, Fish and Game determined that responding to permit applicants is a high enough priority to justify overexpending the associated account.

Based on the documents we reviewed and interviews with department officials, Fish and Game could not provide policies dictating specific funding levels for the fish hatcheries. Fish and Game Code, Section 711(c), dictates that the costs of hunting and sport fishing programs are to be covered by hunting and sport fishing revenues and reimbursements, federal funds received for hunting and sport fishing programs, and other funds specifically appropriated by the Legislature. We found no statutes, administrative rules, or federal regulations that specify target levels for hatchery funding.

Fish and Game Code, Section 711, provides that the State's budget act shall include sufficient money from the General Fund and sources other than the preservation fund to pay for the cost of nongame fish and wildlife, and their habitats. However, because of the 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 existing reserves in the preservation fund. Fish and Game projects that at the end of fiscal year 2005–06, 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. Assuming Fish and Game's share of General Fund revenue is not restored and the amount of fee revenue the department collects remains the same, it will be forced to make additional program cuts.

In fiscal year 2001–02 the balance in the preservation fund was \$24.5 million; however, due to reductions in General Fund support, Fish and Game projects the balance to drop to \$665,000 by the end of fiscal year 2005–06.

FISH AND GAME SPENT MORE FOR BOTH DEDICATED AND NONDEDICATED PROGRAMS THAN IT COLLECTED IN REVENUE

As required by Section 13001 of the Fish and Game Code, all revenue collected by the department and relating to the protection and preservation of wildlife is deposited into the preservation fund. 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. During this period, Fish and Game’s dedicated programs as a whole expended \$388,000 to \$2.8 million per year more than they received in revenue. If dedicated programs are not currently self-supporting, then they are either using resources they have accumulated or other resources in the preservation fund. 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 indicated that the streambed alteration agreement program and similar dedicated programs used existing account balances to make up for these overexpenditures (see additional discussion on the borrowing of dedicated resources on page 31). However, it will soon exhaust existing dedicated fund balances if spending and revenue collecting continue at the current rate.

For two of these years, the nondedicated portion of the preservation fund incurred even more expenditures in excess of revenues. Nondedicated expenditures exceeded nondedicated revenues by \$4.3 million in fiscal year 2001–02 and by \$11.6 million in fiscal year 2002–03. Table 3 tabulates the dedicated and nondedicated revenues and expenditures for the preservation fund for the years reviewed.

The Streambed Alteration Agreement Program expended close to \$3 million annually from fiscal years 2001–02 through 2003–04, although it only collected between \$1.3 million and \$1.6 million in these years.

TABLE 3

**Revenues, Expenditures, and Net Income for the Fish and Game Preservation Fund by Dedicated and Nondedicated Money
Fiscal Years 2001–02 Through 2003–04
(in Thousands)**

	Actual		
	2001–02	2002–03	2003–04
Revenues			
Dedicated	\$11,776	\$10,631	\$12,681
Nondedicated	70,088	67,181	75,881
Total Revenue	81,864	77,812	88,562
Expenditures			
Dedicated	12,864	13,442	13,069
Nondedicated	74,387	78,729	74,372
Total Expenditures	87,251	92,171	87,441
Net Income			
Dedicated	(1,088)	(2,811)	(388)
Nondedicated	(4,299)	(11,548)	1,509
Net Income Total	(5,387)	(14,359)	1,121

Sources: Governor's budgets and Department of Fish and Game's fund condition statement for fiscal years 2000–01 through 2004–05.

Undercollection of revenue from fees intended to cover the costs of dedicated programs has added to the fiscal stress on the preservation fund.

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 nondedicated 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 nondedicated 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 nondedicated account itself running a deficit, the only resources available in the preservation fund to cover the deficit spending are those dedicated accounts with positive balances. In addition to the nondedicated account, the bighorn sheep dedicated account and the lake and streambed alteration 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.

The statutes establishing some dedicated accounts may allow for a broader interpretation of the types of expenditures they may incur. However, when we asked Fish and Game to demonstrate to us which resources it used to cover the expenditures of accounts with negative overall balances and to explain why the use of those resources was allowable, it did not directly address either question. Fish and Game pointed out that the fund as a whole had a positive balance and that only fund resources were used to pay fund expenditures. Although we do not contest these statements, they are not relevant to the question of the use of the resources of individual accounts with dedicated purposes established in law.

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 revised its fiscal year 2005–06 budget to reflect a reduction of \$1,053,000 in an effort to bring the preservation fund “into balance.” However, it did not specify the impact of the proposed reduction on individual dedicated accounts. Furthermore, Fish and Game has submitted an increased fee package for the lake and streambed alteration account to improve the fund condition. Fish and Game indicates it is currently working with Finance and the Legislature to find alternatives to improve the negative overall balances of the accounts.

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

Using the resources of one dedicated account to pay for the expenses of another may not be appropriate.

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 believe that Fish and Game needs to identify those accounts that have in past years been the lenders to other dedicated accounts and the nondedicated account, and that the lending accounts should be paid back.

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 (as an "Advance to Other Funds") of \$1.4 million to the native species conservation and enhancement account (native species account). The loan was formalized in 1989. Currently, the loaned amount is tracked in Fish and Game's accounting system as Fund 0213.

Fish and Game recorded payments from the native species account to the preservation fund of \$99,000 in fiscal year 2001-02, \$45,000 in fiscal year 2002-03, and \$40,000 in fiscal year 2003-04. Fish and Game provided a repayment schedule for the advance made to the native species account, but it did not include an amortization schedule that would demonstrate when the loan could be repaid. According to information provided by the State Controller's Office, although the principal balance of the advance was nearly \$1.4 million as of June 30, 2004, the accrued interest had increased the outstanding amount to almost \$1.8 million.

The native species account's revenue sources are donations received for support of nongame and native plant species conservation and enhancement programs, an appropriation in the annual budget act from the General Fund equal to \$2 for each free annual wildlife area pass issued during the preceding calendar year, and revenues from the sale of annual wildlife area passes and native species stamps, as well as promotional materials and nature study aids.

The State Administrative Manual (SAM) indicates that the "Advances to Other Funds" classification is to be used to show the amount of repayable advances between funds that are not expected to be repaid within the current or ensuing fiscal year,

the “Reserve for Advances” classification is to be used to indicate the noncurrent portion of a long-term repayable advance to other funds, and interest earned as of June 30 on loans to other funds should be recorded in accounts receivable and accrued as of that date.

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. In fact, the interest has accrued more rapidly than Fish and Game has historically repaid the preservation fund for the original advance. Therefore, unless revenues to the native species account increase significantly, this loan may never be paid back. When the advance is not collected, the resources are not available for preservation fund programs.

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.

Although its own guidelines for allocating shared costs require percentages to be adjusted annually, Fish and Game failed to do so for fiscal years 2001–02 through 2003–04.

Costs associated with the license revenue branch and legal services are to be allocated based on the governor’s budget information for the prior year for each division receiving an allocation. Fish and Game has not updated the percentages it used since prior to fiscal year 2001–02, the first year examined by this audit.

Costs related to air services and geographic information systems are to be allocated based on actual activity logged during the prior year. The Fish and Game budget unit does not have copies of the activity logs to update the percentages annually and has not updated them since prior to fiscal year 2001–02.

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 years 2001–02 through 2003–04, the department’s calculations overcharged the hatcheries and fish planting facilities program a total of \$1,337,921 of the license revenue branch’s and legal services’ indirect costs. Fish and Game’s calculations resulted in overcharging the enforcement and public safety program for the license revenue branch and legal services costs by a total of \$3,345,885 over the same period. Because the required activity logs from the audited years were not made available, we were unable to determine the correct amounts that should have been allocated for costs related to air services and geographic information systems.

During the same period that some programs were overcharged, Fish and Game’s outdated allocation percentages undercharged other programs for license revenue branch and legal service costs. For example, the multi-species and habitat conservation planning program was undercharged a total of \$2,753,429, and the biodiversity (wildlife habitat) protection and preservation program was undercharged \$2,915,920.

Each of the programs that was overcharged or undercharged for the shared services discussed above was further affected by the out-of-date allocation calculations when Fish and Game allocated other administrative costs to them. The department allocated the balance of administrative indirect costs—which ranged from \$42,837,851 in fiscal year 2001–02 to \$36,944,474 in fiscal year 2003–04—based on the total direct and indirect expenditures of each program. The errors in calculating indirect cost allocations were further compounded when Fish and Game distributed administrative costs based on the erroneous proportionate spending.

FISH AND GAME APPEARS TO BE PERFORMING OTHER ACCOUNTING TASKS IN ACCORDANCE WITH STATE REQUIREMENTS

Fish and Game adequately assessed and collected fees, allocated revenue to the appropriate accounts in the preservation fund, and followed the State’s general administrative practices for expenditures we reviewed. However, it did not promptly allocate revenues.

Based on our review of source documents and Fish and Game calculations, the department adjusted sport fishing license fees in accordance with Fish and Game Code, Section 713. For fiscal years 2002–03 and 2003–04, Fish and Game’s calculation of the index factors for annual fee increases matched the audit team’s independent calculations. In each fee we tested, the index factor was properly applied to the license base rate to determine the fee increase, and then the increase amount was correctly rounded to the nearest 25 cents. In each case, the increase amount was correctly added to the base amount to arrive at the new license fee.

For fiscal year 2003–04, the basic methodology was the same as in the prior fiscal years. However, Senate Bill 1049 set the rates for nine of the 10 license fees that account for 99 percent of the sport fishing revenue collected. The audit team validated Fish and Game’s calculation for the only license that was indexed that year.

Fish and Game accurately collected sport fishing license revenue and posted it correctly to the proper accounts.

Based on our review, Fish and Game’s license revenue branch and its fiscal and administrative services bureau (bureau) accurately collected sport fishing license revenue and posted it correctly to the proper accounts within the department’s accounting system. Licenses sold and reported on sport fishing report forms were accurately recorded in the license information system. Discrepancies between reported and remitted amounts for sport fishing license sales were documented and adjusted or corrected.

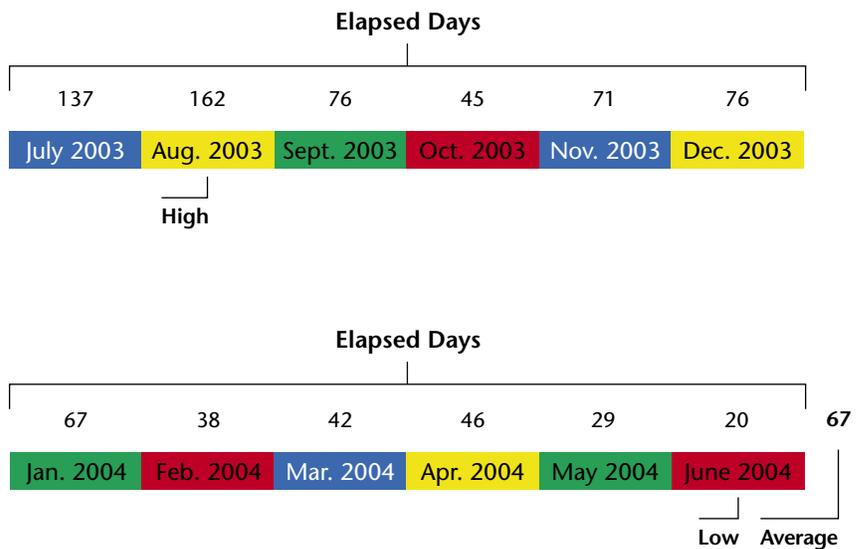
The California Statewide Accounting and Reporting System (CalSTARS) has several dedicated accounts to which Fish and Game revenue is allocated. Initially, all revenue is deposited into the nondedicated portion of the preservation fund. Each month, bureau staff make accounting adjustments within CalSTARS to allocate a portion of the total revenue from the nondedicated account to individual dedicated accounts. The money is allocated based on the revenue generated that month by the licenses and stamps that statutes have authorized to fund each of the dedicated accounts. Although dedicated accounts are established to provide funding for all or part of particular programs, Fish and Game is not specifically prohibited from also allocating nondedicated revenue to these same programs as all of them are elements of the preservation fund.

Monthly revenue adjustments to allocate funds to the dedicated accounts were entered properly on posting tags and keyed accurately into CalSTARS. However, Fish and Game did not allocate dedicated revenue to the proper accounts within 30 days of collection as required by the SAM. During the period reviewed,

the time required to make the allocation to the dedicated accounts ranged from a low of 20 days in June 2004 to a high of 162 days in August 2003, as illustrated in Figure 10. The average time to make the allocation was 67 days.

FIGURE 10

**Number of Days the Department of Fish and Game Took to Allocate Dedicated Revenues
Fiscal Year 2003–04**



Sources: Calculation based on license revenue branch monthly revenue summaries and CalSTARS posting tags retained by the fiscal and administrative services bureau.

The delays in posting were caused by a combination of factors. In some months, substantial time elapsed between the month end and the license revenue branch’s production of the monthly summary report. The bureau also experienced delays in making the accounting adjustments indicated by the summary report. Regardless of the causes, however, the lack of timely posting of appropriate funds to the dedicated accounts could have resulted in funds being unavailable to support expenditures from those accounts when they were needed.

The audit team obtained for testing a sample of 30 direct disbursements from the preservation fund related to the hatcheries and fish planting facilities program. Based on this sample, Fish and Game paid and posted the invoices accurately, following general state administrative practices and, on average, within 37 days of the invoice date.

To examine the charging of payroll costs to dedicated and nondedicated revenue accounts in the preservation fund, the audit team obtained a sample of time sheets on which personnel charged time to the preservation fund related to the hatcheries and fish planting facilities program. All of the sampled time sheets had been approved. The activity codes that Fish and Game personnel noted on the time sheets were appropriate for the hatcheries and fish planting facilities program. In addition, the audit team confirmed that three department employees who recorded time against activities related to dedicated accounts had appropriate job duty statements to allow for activities in the corresponding programs.

RECOMMENDATIONS

To mitigate the effects of budget reductions and fluctuations in program revenue, Fish and Game should take a more strategic approach to evaluating its financial needs. It should update its strategic plan and develop annual operational plans with specific measurable goals and objectives, then determine the funding necessary to meet those goals. Once it determines goals and their costs and establishes its written priorities, Fish and Game will also be better able to measure the sufficiency of funding for its programs.

To reduce the reliance on fund reserves, Fish and Game should take measures to ensure that revenue streams are sufficient to fund each of its programs. This may require legislation to adjust fee revenues used for specific dedicated programs within the preservation fund or General Fund budget augmentations to sustain dedicated and nondedicated program operations.

To ensure that the resources of dedicated accounts are used for their intended purposes, Fish and Game should avoid borrowing from these accounts to fund expenditures of other accounts. If this is temporarily unavoidable, the department should identify the specific dedicated account that is the source of the borrowed resources and ensure that the law establishing that account allows an interpretation that would make the expenditures allowable. Finally, Fish and Game should identify those dedicated accounts that have been used to pay for expenditures of other accounts and pay back the lending accounts.

To make the resources available for preservation fund programs and to properly account for its fund balance and liabilities, Fish and Game should seek resolution for the advance from the fund to the

native species conservation and enhancement account through administrative or legislative means. It should investigate the initial balance, accrue interest based on historical information, determine payments, prepare an amortization schedule that is an accurate and realistic schedule for repayment, and take steps to collect repayment. If full reimbursement cannot be accommodated, Fish and Game should take action to have the advance written off.

To prevent inequitable distributions of indirect costs and administrative expenses, Fish and Game should review and update the percentages used in its allocation method annually.

To ensure that fees collected are promptly available to support expenditures from dedicated accounts, Fish and Game should allocate the revenue to the appropriate accounts within 30 days of collection, as required by the SAM.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



ELAINE M. HOWLE
State Auditor

Date: June 14, 2005

Staff: Steven M. Hendrickson, Chief Deputy State Auditor

Consultant: KPMG LLP

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Agency's comments provided as text only.

California Resources Agency
Department of Fish and Game
1416 Ninth Street, Suite 1311
Sacramento, CA 95814

MEMORANDUM

June 1, 2005

TO: Elaine M. Howle, State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814

FROM: Mike Chrisman (*Signed by: Karen Scarborough for*)
Secretary for Resources

SUBJECT: Bureau of State Audits Report #2004-122

This memo is in response to the California State Auditor Performance Audit completed on the Department of Fish & Game Preservation Fund.

The Resources Agency appreciates the opportunity to respond to the findings of the Bureau of State Audits review of the Department of Fish and Game. The audit notes that the Department was unable to demonstrate that all expenditures to dedicated accounts were allowable. However, the audit states that "Fish and Game adequately assessed and collected fees and allocated revenue to the appropriate accounts of the preservation fund." The audit noted the fund as a whole is solvent.

The audit points out that the Department of Fish & Game (DFG) faces funding challenges in meeting its statutory obligations, as well as the expectations of many constituencies and the public it serves. DFG will be working closely with the Resources Agency and the Department of Finance to identify solutions for improving the condition of the Fish and Game Preservation Fund (fund), and still meet its statutory obligations. As DFG explores short and long-term solutions to bring the fund accounts into balance, the Department will report periodically to the Resources Agency on actions and progress to resolve the current funding issues.

DFG has already begun to address the fund condition through a combination of additional revenue and expenditure reductions. A proposed fee increase has been submitted to the Office of Administrative Law for the Streambed Alteration Account.

That fee increase is expected to produce additional revenue of approximately \$1,700,000 annually. In addition, operating expenses will be reduced in the non-dedicated accounts by \$1,053,000. These actions were reported to the Legislature as a part of the May Revise of the Governor's Budget, and have been incorporated in the 2005-06 DFG expenditure plan. In addition, DFG will begin to review and update the Strategic Plan to provide the basis for setting priorities in evaluating programmatic and financial needs. DFG is confident that it will be successful in its efforts to align its approved fund levels with the mandated activities and priorities.

DFG has been receiving payment of the outstanding loan of \$1.4 million from the Fish and Game Preservation Fund to the Native Species Conservation and Enhancement Account. Based on all collected revenue, the Native Species Conservation and Enhancement Account continues to make payments to the Fish and Game Preservation Fund. Because annual revenue ranges between \$40,000 to \$100,000, it is uncertain whether DFG will be able to satisfy the full repayment of the loan. Options will be explored to address this shortfall.

The Department has begun a review to update the indirect cost charge percentages used in the annual allocation method, to ensure the correct charges against its various fund sources.

Over the past years, DFG has experienced declining revenues and various budget and staffing reductions. Despite this, DFG continues to accomplish its ever-expanding mission. This requires making difficult decisions to ensure the current priorities are met. This audit reflects the results of compromises and tough programmatic decisions. Nonetheless, no impairments to dedicated account programs were cited, and a plan is underway to fully repay the borrowed funds. The Department of Fish and Game, in working with the Resources Agency and the Department of Finance, will be able to institute solutions to the audit findings.

If you have any questions, contact Don Wallace, Assistant Secretary for Finance and Administration at (916) 653-9709.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press