

STATE OF WEST VIRGINIA

FULL PERFORMANCE EVALUATION OF THE

Division of Natural Resources

**Licensing Hunters and Anglers Serves
an Important and Necessary Function**

**The Processes in Place in the Licensing Division
of the DNR are Inefficient and Could Result in a
Loss of Revenue; However, There are Options that
Could be Implemented to Improve These Processes**

**DNR Consciously Accumulated Cash and
Investment Balances within Its License Fund**

**OFFICE OF LEGISLATIVE AUDITOR
Performance Evaluation and Research Division
Building 1, Room W-314
State Capitol Complex**

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July 2002

PE02-09-241

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Executive Summary

Issue 1: Licensing Hunters and Anglers Serves an Important and Necessary Function.

Statute requires the Division of Natural Resources (DNR) to protect wildlife resources for the use and enjoyment of all citizens of the State. The *Wildlife Resources Section* of DNR manages the state's wildlife resources and maintains fish and wildlife levels compatible to available habitats. Unmanaged wildlife populations can damage crops and pose risks to public health and safety. One function utilized by the DNR to manage wildlife populations is the licensing of hunters and anglers. Additionally, through hunter education requirements, the Division is able to require sportsmen to gain an understanding in safe gun handling and wildlife management. Licensing provides the necessary revenues to the State to ensure the conservation of species. **The licensing of hunters and anglers is a necessary function that should continue to exist.**

Issue 2: The Processes in Place in the Licensing Division of the DNR are Inefficient and Could Result in a Loss of Revenue; However, There are Options that Could be Implemented to Improve These Processes.

In this issue, the Legislative Auditor finds that DNR's licensing function is inefficient. The primary deficiency is that **it takes DNR nearly a year to accurately account for how many licenses were sold, how much was collected and how much is outstanding for any year. This is due to a highly manual, paper intensive process.** This raises other concerns such as:

- **Potential Loss of Revenue**
- **Insufficient Enforcement of Agent Requirements**
- **Loss of Interest Income**
- **Inability to Produce Collected Data in a Timely Format**

Many of the above concerns could be eliminated with the purchase of a point-of-sale computer system. This type of system would report agent receivables and other data in a more timely manner, and could allow agents to submit proceeds to the State more often than currently taking place. However, the DNR currently estimates the cost of a point-of-sale system to be \$1 million, excluding annual operating expenses. If it is determined that a point-of-sale system should not be purchased, there are procedures that could be implemented to improve processes. The additional possible procedures include:

- **Write Legislative Rules;**
- **Cash Management Options;**
- **Up-Front Agent Payments;** and
- **Utilize Sales Reports.**

Issue 3: The DNR Consciously Accumulated Cash and Investment Balances within Its License Fund.

During the period from the beginning of Fiscal Year 1997 through the end of Fiscal Year 2001, the cash and investment balance maintained within Fund 3200 (License Fund) increased from \$1.9 to \$12.1 million. The DNR has stated that funds were consciously accumulated in the account, partially due to cash flow issues that occurred during Fiscal Year 1997. The cause of the increase can be attributed to the processes in place in the License Division of the DNR, which have historically made it difficult to determine cash balances available for expenditure at a given point in time. In addition, the increase can be attributed to interest monies of over \$3 million drawn from the Wildlife Endowment Fund. As the balance was increasing, the DNR continued to report inaccurate balances on its Expenditure Request Schedules, which could be misleading to the users of the schedules. DNR has provided the Department of Administration with more accurate budget information for the License Fund in Fiscal Year 2002. In addition, a model has been developed to calculate cash available for expenditures on a more current basis. **However, it would be preferable to develop processes that would allow the agency to calculate cash within the License Fund using current sales figures. In addition, there should be full justification of the need for interest monies from the Endowment Fund prior to their withdrawal.**

Recommendations

- 1. The Legislature should consider continuing the Division of Natural Resources.*
- 2. The DNR should continue its consideration of implementing a point-of-sale terminal license sales system (POS system).*
- 3. The DNR should consider requiring agents to remit license fees due the State through the use of electronic fund transfers.*
- 4. A lock box system should be implemented for agents that may not have the ability to utilize electronic fund transfers.*
- 5. The DNR should submit rules for legislative approval, which at minimum provide the manner in which agents will be licensed, and the legal processes to follow in selling licenses, such as data and license revenues reporting standards and agent discipline.*
- 6. If the DNR chooses not to implement a POS system, the agency should consider requiring payment from agents for licenses at the time they are received by the agent, rather than after licenses are sold by agents.*
- 7. If the DNR does not implement a POS system, sales reports should be utilized by the agency*

- to monitor license proceeds available for expenditure.*
8. *The DNR should utilize either sales reports or a point-of-sale computer system to calculate cash available for expenditure on a real-time basis.*
 9. *The DNR should ensure that expenditure schedules are completed with the most up-to-date and accurate information available to the agency.*
 10. *The DNR should obtain approval of withdrawals from the Wildlife Endowment Fund prior to making appropriation requests.*
 11. *The DNR should be required to provide evidence to the Legislature during the annual budget process of the specific expenditures of Endowment Fund interest monies made in the prior fiscal year.*

Review Objective, Scope and Methodology

This Full Performance Review of the Division of Natural Resources is required and authorized by the West Virginia Sunset Law, Chapter 4, Article 10, Section 4 of the West Virginia *Code* as amended. The Division of Natural Resources is responsible for the protection of wildlife resources of the State.

Objective

The licensing function within the Wildlife Resources Section of the DNR was examined in this report. The objective of this review was to determine the following:

1. Does the licensing of hunters and anglers serve a necessary function to the State?
2. Are the processes in place to account for the sale of hunting and fishing licenses both efficient and effective?
3. What were the reasons for the \$10.2 million increase in cash and investment balances within the license fund from 1996 to present?

Scope

The review of the licensing function with the DNR covers the period from July 1996 through present. No other part of the Division of Natural Resources was examined in this initial report.

Methodology

The Legislative Auditor examined documents provided by the agency such as annual reports, *Code* requirements, and previous evaluations. In addition, information was developed from personal interviews, budget documents, information provided by the Treasurer's Office, FIMS, and web site research. Every aspect of this evaluation complied with **Generally Accepted Government Auditing Standards (GAGAS)**.

Issue 1: Licensing Hunters and Anglers Serves an Important and Necessary Function.

Statute requires the Division of Natural Resources (DNR) to protect wildlife resources for the use and enjoyment of all citizens of the State. The *Wildlife Resources Section* of DNR manages the state's wildlife resources and maintains fish and wildlife levels compatible to available habitats. Unmanaged wildlife populations can grow in excess of available habitats, which could result in damage to crops and foliage, as well as food shortages and disease for wildlife itself. One function utilized by the DNR to manage wildlife populations is the licensing of hunters and anglers. In addition to managing wildlife populations, licensing permits the State to control license privileges with hunter education requirements, and provides the State the ability to punish those who do not obey rules of seasons, which exist to protect the conservation of species. In addition, licensing provides the necessary revenues to the State to ensure the conservation of species. **The licensing of hunters and anglers is a necessary function that should continue to exist.**

Licensing Provides Revenues for the Conservation of Wildlife

The Merriam-Webster dictionary defines conservation as a “*careful preservation and protection of something; especially: planned management of a natural resource to prevent exploitation, destruction, or neglect.*” In an effort to promote the conservation of wildlife resources within the country, Congress, in 1937, enacted legislation that provided aid to the states for wildlife restoration projects. According to Title 50, Section 80.3 of the Code of Federal Regulations surrounding the Wildlife and Sportfish Restoration acts:

A State may participate in the benefits of the Acts only after it has passed legislation which assents to the provisions of the Acts and has passed laws for the conservation of fish and wildlife including a prohibition against the diversion of license fees paid by hunters and sport fishermen to purposes other than administration of the fish and wildlife agency.

As stated in the Federal Regulations, a state must pass legislation for the conservation of fish and wildlife in order to receive federal funding. Indeed, the State has passed such legislation in Chapter 20, Article 2, Section 1 of the *Code*, which specifies that wildlife resources within the State shall be protected and maintained for the people of the State. Thus, the importance of the conservation of fish and wildlife is reflected in both the Federal and State laws. **Revenues received from the sale of hunting and fishing licenses afford the State the ability to conserve wildlife.** In West Virginia there are approximately 17 resident and 20 nonresident classes of licenses. In calendar years 1998, 1999, and 2000, the revenues directly received from the sale of hunting and fishing licenses in the State included the following:

	1998 Licenses Sold	1999 Licenses Sold	2000 Licenses Sold
Number Sold	1,148,939	1,156,943	1,131,019
Revenue	\$15,465,190	\$15,493,693	\$15,202,971

These revenues from hunting and fishing license fees support activities that include:

- Fishing access development
- Boat launch facilities
- Wildlife research projects
- Outdoor education

In addition to the money received directly from the sale of hunting and fishing licenses, the State also receives federal monies as a result of licensing sportsmen. According to the DNR,

[The Wildlife and Sportfish Restoration Programs] require the state fish and wildlife agencies to annually certify the number of license buyers. The federal funds are then apportioned to the states based on a formula using land area and total licensed hunters/anglers as distribution factors. [Emphasis added]

If the State did not license hunters and anglers, federal monies could not be received and used toward the conservation of wildlife. Table 1 details the total federal monies received as a result of the licensure of sportsmen in the State:

Table 1 Federal Monies Received from Wildlife and Sportfish Restoration Acts	
Calendar Year	Federal Dollars Received (in Millions)*
2001	\$4.7
2000	\$4.7
1999	\$5.4
Total	\$14.8
* Source: State of West Virginia 2003 Executive Budget. Approximately 90% of this funding is received as a result of the Wildlife and Sportfish Restoration acts.	

The revenues received from federal sources, and from the direct sale of hunting and fishing licenses, have afforded the State the ability to fulfill the conservation requirements of both State and Federal laws.

Licensing Provides a Means to Manage Wildlife Populations and Sportsmen

Unmanaged wildlife populations can damage crops and foliage. Further, wildlife populations in excess of available habitats face food shortages, as well as disease. The licensing of wildlife provides a means for the State to manage wildlife populations. The effect of unmanaged wildlife has been detailed in a report issued by the General Accounting Office (GAO) in November 2001. In this report, findings indicated wildlife helps maintain ecosystems; however, at the same time, wildlife can destroy crops, kill livestock, damage property, and pose risks to public health and safety. The damage to crops, forestry seedlings, and aquaculture products can total hundreds of millions dollars each year. Through the licensure of sportsmen, the State is able to manage wildlife populations to achieve an ecological balance between nature and society.

Licensing hunters and anglers also permits the State to control license privileges with hunter education requirements, and the ability to punish those who do not obey rules of seasons, which exist to protect the conservation of species. Those persons born from 1975 on, seeking a license, must provide evidence of having successful completion of a hunter education class. This 10-hour class instructs persons on wildlife management, safe gun handling, game care, first aid, survival, speciality hunting, and wildlife identification. **All states have begun to require hunter education of licensees depending on date of birth, which will eventually result in all hunters having undergone training.**

Conclusion

The Legislative Auditor concludes that the conservation of wildlife is an important function of the Division, and that licensing provides the Division with revenues to ensure conservation is achieved. In addition, unmanaged wildlife populations can damage crops and pose risks to public health and safety. Licensing provides a means for the State to manage wildlife populations. Finally, through hunter education requirements, the Division is able require sportsmen to gain an understanding in safe gun handling and wildlife management. **Thus, the Legislative Auditor concludes that the licensing of hunters and anglers is a necessary function that should continue to exist.**

Recommendation

1. *The Legislature should consider continuing the Division of Natural Resources.*

Issue 2: The Processes in Place in the Licensing Division of the DNR are Inefficient and Could Result in a Loss of Revenue; However, There are Options that Could be Implemented to Improve These Processes.

The first issue of this report indicated that there is a need to license hunters and anglers. However, the Legislative Auditor finds that DNR's licensing function is inefficient. The primary deficiency is that **it takes DNR nearly a year to accurately account for how many licenses were sold, how much was collected and how much is outstanding for any year. This is due to a highly manual, paper intensive process.** This raises other concerns such as:

- **Potential Loss of Revenue** - Outstanding agent receivables are not available for review until the May following a calendar year. The longer it takes to reconcile accounts, the more difficult it may become to collect outstanding balances.
- **Insufficient Enforcement of Agent Requirements** - The DNR makes exceptions to its policies for certain agents. This could allow an agent to repeatedly submit erroneous information to DNR without DNR's knowledge.
- **Loss of Interest Income** - Agents are required to submit license proceeds on a monthly basis. The DNR could be earning additional interest on these monies if agents were required to submit proceeds more frequently.
- **Inability to Produce Collected Data in a Timely Format** - The DNR is unable to produce reports, such as a summary of outstanding bond balances for agents, that may provide useful information to DNR management.

Many of the above concerns could be eliminated with the purchase of a point-of-sale computer system. This type of system would report agent receivables and other data in a more timely manner, and could allow agents to submit proceeds to the State more often than currently taking place. However, the DNR is currently estimating the cost of a point-of-sale system to be \$1 million, excluding annual operating expenses. If it is determined that a point-of-sale system should not be purchased, there are procedures that could be implemented to improve processes. The additional possible procedures include:

- **Write Legislative Rules** - Even with the purchase of a POS system, the Legislative Auditor recommends the creation and enforcement of legislative rules to ensure consistent oversight of agents;
- **Cash Management Options** - Implement cash management options offered through the State Treasurer's Office, such as a lockbox revenue collection system, and electronic payment systems;

- **Up-Front Agent Payments** - Require up-front payment for licenses from agents, versus the current system that requires agents to pay for licenses after a sale occurs;
- **Utilize Sales Reports** - Use of sales reports received from agents could assist in monitoring license proceeds available for expenditure.

Current Processes in Place at DNR

Sportsmen are required to be licensed to hunt, fish, and trap in the State of West Virginia. These licenses are sold by county clerks, and approximately 500 statewide license agents (collectively, “agents”). In addition, sportsmen are able to purchase licenses through the internet, mail, or telephone.

According to the DNR, the licenses currently sold through agents account for approximately 99% of sales transactions. Given this large volume of sales that occur at agent locations, the Legislative Auditor focused on the processes in place at the DNR to account for those sales. With regard to agent locations, §20-2-33 of the State Code states:

The director may appoint, in addition to the clerk of the county commission, agents to issue licenses under the provisions of this article to serve the convenience of the public. Each person appointed shall, before issuing any license, file with the director a bond payable to the state of West Virginia, in the amount to be fixed by the director...

Thus, an agent must obtain a bond through a bonding agency prior to selling licenses on behalf of the DNR. This allows agents to obtain and sell licenses without paying the DNR for the licenses up front, because the bonded amount would theoretically cover any outstanding receivables that become bad debt. However, the DNR issues licenses to agents in excess of the bonded amount. This is only performed after a history with the agent has been established.

In order for an agent to obtain stamps from the DNR, a “Stamps and Supplies Order Form” must first be completed. The DNR then delivers the requested supplies and stamps to the agent, who then oversees the license purchase process. This process is initiated by the completion of a license application, which is submitted by the sportsmen. The license application includes:

- Type of hunting or fishing stamp to be purchased
- License year
- Agent number
- Vital statistic information of the individual purchasing the license, which includes the name, address, height, eye color, birth date, and driver’s license number

- Signature of applicant

The above detailed information is utilized by the DNR to calculate the total number of licenses sold in a year. In addition, the statistical information is necessary for the conservation officers of the DNR to enforce hunting and fishing laws.

The completed applications must be submitted by the agents to the DNR on a monthly basis. In addition to the submittal of applications, agents must also send to the DNR all license proceeds received during the previous month and a sales report. Sales reports detail important information, such as the total number and type of licenses sold in a month. However, these sales reports are not used by the DNR to determine total monthly sales. Instead, the DNR individually scans all applications received into the DNR database. **There is approximately a 50% error rate in the scanning process.** This error rate is caused for a variety of reasons, such as incorrect pencil type being used on the applications. Applications that do not scan properly must be entered manually. During the peak season, it can take 60-90 days to enter applications into the mainframe. **Until this information is entered, DNR is not able to determine what types of licenses were sold by the agent, and thus how much money is owed to the Division, or if the amount reported on the sales report by the agent agrees to the actual applications.**

The Division sets a deadline of March 15th of each year to have all applications scanned into the DNR database. The audit of the applications is not completed until May following the end of the calendar year. For example, all 2001 applications were scanned by March 15, 2002; an audit of those applications was scheduled to be completed in May 2002. **After an audit is completed of the applications, a letter is mailed to agents that details all outstanding balances from the prior calendar year. If the agent does not submit payment for the outstanding balance and there are no other unusual circumstances, collection efforts are not made until the following year.**

Concerns About Current Processes in Place at DNR

The Legislative Auditor has concerns with the current processes in place at the DNR, as detailed below:

- **Potential Loss of Revenue** - The DNR states that outstanding agent receivables are not reviewed until the May following the end of a calendar year. In addition, DNR provides licenses to agents in excess of the amounts bonded by the agents. **The longer it takes for the DNR to reconcile licenses distributed to agents against total license proceeds received from agents during a license year, the more difficult it may be to collect outstanding receivables.** The DNR does set limits to the potential loss of revenue. For example, the DNR has stated:

[There are no] reports that aid the Division in monitoring outstanding agent balances. Instead, if an agent tries to purchase more stamps than the bond balance allows, then the outstanding balances will be investigated by the DNR [before additional licenses are issued].

Even with these limits, there is a potential loss of revenue for any licenses issued to an agent

that are above the amounts secured by a bond. For example, two large retail agents utilized by the DNR account for approximately 40%, and more than \$1 million each in license sales a year. In a worst case scenario, if a large retailer with several store locations were to file for bankruptcy, and the DNR could not collect outstanding balances from any one of the stores, the total loss from all stores could negatively impact revenues in a calendar year.

- **Insufficient Enforcement of Agent Requirements** - Statutorily, sales reports are required to be submitted on a monthly basis. Time permitting, the Division processes a report twice a month to determine if an agent is delinquent. According to DNR, those agents who have not turned in sales reports for more than two months will not receive additional license stamps until the delinquent sales reports are received. However, DNR has indicated that **exceptions are made to this rule depending on the circumstances**. For example, the DNR may feel an agent may be needed to make license sales in a certain area of the State because that agent is the only private location in the county that sells license stamps. In an effort to maintain the sale of license stamps (revenues) in the county, the DNR may decide not to enforce certain requirements for that specific agent. **This also could allow an agent to repeatedly submit erroneous information to DNR without DNR's knowledge.**
- **Loss of Interest Income** - §20-2-34 of the State Code specifies, "*All persons in this state who receive money for licenses and permits...shall, on the first day of each month, pay over to the director all moneys so collected by them during the preceding month.*" **There is a loss of interest earnings on the cash that is kept at the agent location prior to the required submittal to the State.**
- **Inability to Produce Collected Data in a Timely Format** - The Legislative Auditor requested a report from the DNR detailing outstanding agent bond balances. The DNR provided the Legislative Auditor with this listing; however, the DNR stated that the "*listing is inaccurate.*" The DNR further stated, "*This list does not reflect new agents because the program is old and does not allow for new agents to be added. In addition, the report does not accurately reflect the bond balance amount in dollars that the agent is allowed to have in their possession.*" In addition to the lack of ability to produce a report for outstanding bond balances, the DNR was unable to produce a current report detailing outstanding receivable balances from agents. **The inability to produce data in a timely manner reduces the DNR's effectiveness in oversight of agents.**

Options Available to the DNR to Reduce Concerns

Currently, the Legislative Auditor has concerns that the processes in place at the DNR could result in losses. The DNR contends that many of these concerns would be eliminated if a new point-of-sale computer system were purchased; however, this could be expensive. As a result, the DNR essentially has two options to consider to improve processes:

- 1) Purchase a point-of-sale computer system and improve processes in place; or

- 2) Accept the current computer system and improve processes in place

Point-of-Sale Computer System

An alternative to selling licenses through agents in the existing manner is to implement a point-of-sale terminal license sales system (POS system). In regard to a POS system, the Natural Resources Task Force stated the following in its March 30, 2001 “*Funding for Conservation*” report to the Governor:

With the present system, account reconciliation is so process-intensive that collection of monies due to the state for any given license year extends beyond June of the following year....The new generation of systems employs point-of-sale computer terminals and printers at all license agent locations....The Division has included the conversion to an automated license system in their long-range planning, and the Task Force endorses this concept. Though startup costs may be relatively high, the benefits to the agency and the public are great and outweigh the initial costs.

An April 2000 survey conducted by the International Association of Fish and Wildlife Agencies indicates fourteen states had a POS system at that time. A benefit of the POS system is that data on license sales is received more quickly. States with POS systems report that data is received at least weekly, some nightly. Connected with the POS system is the option of electronic fund transfers (EFT). EFTs enable a quicker and more controlled manner of acquiring license revenues from agents. **However, the negative impact of the POS system is the cost of implementation. The DNR currently estimates this cost to be \$1 million, excluding annual operating costs.**

Improve Processes in Place

Whether the decision is made to purchase a point-of-sale computer system, or to accept the current computer system in place, the DNR should improve its processes. Possible improvements could include:

- **Create Rules for the Oversight of Agents:** The DNR’s rules surrounding licensure are currently limited, and could be expanded to provide standardized procedures for the DNR to apply to its agents. The current rules provide much interpretation for the DNR to manage agent accounts. As a result, exceptions are regularly made for agents who have not followed standard procedures. These exceptions could expose the DNR to risk of loss of revenue. As a comparison, the Legislative Auditor reviewed the Lottery Commission, which also relies on its agents to sell tickets to the public. The Lottery Commission has detailed legislative rules which specify the grounds for revocation or suspension of privilege to license. The Lottery rules also indicate how collection of accounts will be handled. This includes a statement that the funds will be obtained through electronic fund transfers. Finally, the Lottery

includes in its rules an extensive application process that must be completed by agents before the agents are permitted to sell lottery tickets. While the Lottery Commission is not the same as DNR, its rules and regulations set a reasonable standard that could be easily adjusted to meet the needs of the DNR and improve the effectiveness of DNR's oversight of agents.

- **Implement Cash Management Options Offered Through the State Treasurer's Office:** The State Treasurers Office offers several options to agencies that could *"save time and money in the collection of revenues and capture of data."* Options could be implemented individually, or a combination of options could be utilized. These options may be more beneficial to the DNR under its current processes, as a POS system could include the option of EFTs, which would also improve cash management procedures at the DNR. The options are as follows:
 - ▶ **Lockbox Revenue Collection System:** The Lockbox system receives and processes revenue collections (payments), records the deposit in the West Virginia Financial Information Management System (WVFIMS) and provides the agency with the underlying payment detail. According to the Treasurer's Office, *"Agencies receive faster access to their revenues and data...This eliminates the manual work at the agency to prepare the deposit and update the agency's internal system. Current lockbox users have experienced savings from \$.50 to \$4.80 per payment."* The cost to the agency would be the rental of a post office box and the cost of designing and printing a payment stub that is compatible with the system of the Treasurer's Office.
 - ▶ **Web Based Electronic Payment System:** The web based electronic payment system would allow DNR's agents to electronically transfer license proceeds to the State. The use of an electronic payment system is preferred by one of DNR's top selling agents. The Wal-Mart Stores, Inc. Sports Licensing Task Force details in its report [directed toward agencies similar to the DNR]:

Wal-Mart prefers Electronic Fund Transfer (EFT) to your account, which is less hands on, and more efficient. This provides a lot less paperwork in the banking process for Wal-Mart and it places the money in your account the day invoices are paid.

In order for the DNR to create an electronic payment system utilizing its current processes, the DNR must first develop a secure website that agents could access through the internet. Agents would then enter the total license proceeds that are payable to the State. Once the proceeds amount is known by the DNR, the Treasurer's Office would directly sweep the balance entered out of the agent's bank account. With exception to the cost required to develop a web site for the agents' use,

this service is performed at no cost to the agent, or to the DNR. In addition, the transaction can be performed multiple times throughout a month.

- ▶ **Credit Card Payment System:** The DNR could offer agents the ability to pay license proceeds through the use of credit cards. There are additional costs associated with the use of credit cards. However, according to the Treasurer's Office, the DNR is already paying these "credit card fees" for other services it provides. The option of using credit cards to pay outstanding balances would also be offered through an internet site.

Use of an electronic payment system could be implemented under the current system in place at the DNR, or with a POS system. In either instance, the use of such a system could allow the DNR to receive cash from agents more frequently, thus increasing the possible interest earnings on license proceeds.

- **Require Payment from Agents for Licenses Up-Front:** The DNR does not require agents to pay for licenses up-front. Instead, licenses are provided to agents, who then pay the DNR at the end of each month based on the total licenses sold in that month. The option of requiring agents to pay up-front is available to the DNR and could reduce the risk of loss in revenues from agents because of bad debts. This option has successfully been implemented at the Lottery Commission within the State, which also deals with both small and large agents. However, there are some notable differences between the Lottery Commission and the DNR. The commission and bonus incentives utilized by the Lottery allow a percentage of all lottery ticket sales to revert back to the agent. Alternatively, agents for the DNR receive \$1 for every license purchase made. In addition to the \$1 received, agents receive the benefit of attracting customers that may purchase goods in addition to licenses.
- **Use of Sales Reports:** A final option that could improve processes in place at the DNR would be to utilize sales reports received from agents. This option would only be applicable under the current system, as a POS system would eliminate the need for sales reports. According to the DNR:

The sales reports received from agents detail the total number of licenses sold and the type of licenses sold. The Division utilizes these reports to determine outstanding inventories maintained at agent locations. The reports are not utilized to gain an extensive understanding of balances within the license accounts that are available for expenditure. This is because the Division believes it is inefficient to utilize the report and because the reports received from the agents are not reliable...[However,] the Division does not know the agent error rate of reporting license stamps on the sales summary report.

The Legislative Auditor notes that the Division could formally review the agent error rate of reporting license stamps on the sales summary report. If it is then determined that agents are materially and consistently inaccurate on the reports, the DNR could increase oversight of the agents and implement procedures, such as incentives, to ensure accurate reporting. Proper use of sales

reports could improve DNR's overall understanding of cash balances maintained at the Agency.

Conclusion

The DNR currently has processes in place that are inefficient and could result in loss of revenues to the agency. The DNR is reviewing the option of purchasing a POS system to improve these processes. A POS system could eliminate the necessity of printing and delivering to agents paper license materials. In addition, the collection of reports and license monies through the mail would not be required. However, the cost of such a system could be significant to the DNR. Alternatively, the DNR could continue working with the current processes already in place. These processes could be improved if the DNR made greater use of the sales reports that are already submitted by agents. With either the purchase of a new computer system, or improvement of the system already in place, the DNR should consider implementing certain procedures. These procedures include the creation of legislative rules for the management of agent accounts, and improved cash management procedures that are now offered through the State Treasurer's Office at little or no cost.

Recommendations

2. *The DNR should continue its consideration of implementing a point-of-sale terminal license sales system (POS system).*
3. *The DNR should consider requiring agents to remit license fees due the State through the use of electronic fund transfers.*
4. *A lock box system should be implemented for agents that may not have the ability to utilize electronic fund transfers.*
5. *The DNR should submit rules for legislative approval, which at minimum provide the manner in which agents will be licensed, and the legal processes to follow in selling licenses, such as data and license revenues reporting standards and agent discipline.*
6. *If the DNR chooses not to implement a POS system, the agency should consider requiring payment from agents for licenses at the time they are received by the agent, rather than after licenses are sold by agents.*
7. *If the DNR does not implement a POS system, sales reports should be utilized by the agency to monitor license proceeds available for expenditure.*

Issue 3: The DNR Consciously Accumulated Cash and Investment Balances within Its License Fund.

During the period from the beginning of Fiscal Year 1997 through the end of Fiscal Year 2001, the cash and investment balance maintained within Fund 3200 (License Fund) increased from \$1.9 to \$12.1 million. The DNR has stated that funds were consciously accumulated in the account, partially due to cash flow issues that occurred during Fiscal Year 1997. Some of the contributing factors for the increase in cash and investments are as follows:

- The inability to differentiate different types of license revenue in the License Fund made it difficult for the DNR to determine monies available for expenditure;
- The DNR has provided the Department of Administration with incomplete budget information;
- Interest from the Wildlife Endowment Fund (Fund 3224) has contributed over \$3 million to the accumulation of monies.

DNR has provided the Department of Administration with more accurate budget information for the License Fund in Fiscal Year 2002. In addition, a model has been developed to calculate cash available for expenditure on a more current basis. **However, it would be preferable to develop processes that would allow the agency to calculate cash within the License Fund using current sales figures. In addition, there should be full justification of the need for interest monies from the Endowment Fund prior to their withdrawal.**

The Inability to Differentiate Different Types of License Revenue in The License Fund Made it Difficult for the DNR to Determine Monies Available for Expenditure

All hunting and fishing license proceeds are initially deposited into the License Fund in order to deposit receipts within 24 hours. However, certain license funds (i.e. cash received from the sale of bear stamps) cannot be expended from the License Fund, as they are dedicated to another purpose. Once it has been determined what amounts should be transferred to dedicated accounts, those funds remaining in the License Fund can be used by wildlife resources, law enforcement, capital improvements, and administrative expenses. Appendix C of this report illustrates the flow of transactions through the License Fund.

The Legislative Auditor observed that the DNR currently has highly manual procedures in place to process and determine the breakdown of license proceeds between dedicated funds and funds that can be expended from the License Fund. Due to these manual processes, it can take up to 60 to 90 days for the Agency to determine the types of license revenues received. Prior to October 2000, the Division could not determine the cash available for expenditure in the License Fund until

this breakdown of license fees occurred. This lack of management within the License Fund contributed to the overall increase in the cash and investment balance over time, as the Agency could not determine actual cash.

In an effort to improve the management of the fund, in October 2000, the DNR developed a system of calculating cash available for expenditure within the License Fund on a monthly basis. This new model uses prior year sales to estimate the total amount of funds received into the License Fund that represent dedicated monies. The final audit of the system by the DNR showed that the DNR had over-distributed a small portion (1.1%) of cash from the License Fund into dedicated fund accounts. **It is an improvement that the Division has developed a model to calculate cash available for expenditure on a more current basis; however, it would be preferable to develop processes that would allow the agency to calculate cash within the License Fund using current sales figures.** The estimation model was not materially incorrect in its first year of use; however, it is important to note that any significant changes in the mixture of hunting and fishing license sales could result in larger estimation errors of cash available for expenditures within the License Fund in future years.

One procedure recommended in *Issue 2* of this report could assist the DNR in calculating cash available for expenditure. This procedure includes implementing the use of sales reports that are already received from agents on a monthly basis. Alternatively, a point-of-sale computer system could be purchased, which could automatically distribute cash received to the appropriate funds.

The DNR has Provided the Department of Administration with Incomplete Budget Information

The Division of Natural Resources, stated the following in a February 28, 2002 letter to the Legislative Auditor:

*After experiencing cash flow problems in the fall of 1996, the Division of Natural Resources (DNR) agreed to adopt a conservative approach for budget revenue estimates. Specifically, **it was agreed the revenue estimates for the Wildlife Resources - License Fund (3200) would include only estimated license sales, fund interest earnings and anticipated interest draw down from the Wildlife Endowment Fund (3224).** DNR believed employing this conservative approach would strengthen the cash situation in the Wildlife Resources - License Fund (3200). Because hunting and fishing license sales are so seasonal, it is imperative that the cash and investment reserve balance not dip below \$1.5 - \$2.0 million. **Beginning cash balances were not included as part of revenue estimates. [emphasis added]***

The Summary of Receipts and Disbursements submitted to the Secretary of Administration from the period of July 1998 through May 1999, reflect the above statement that “beginning cash balances were not included as part of revenue estimates” (See Appendix B; note that the Summary of Receipts and Disbursement prepared prior to Fiscal Year 1999 were not reviewed). **Although the**

intent of excluding beginning balances may have been to conserve money, the representation of zero cash and investments could be misleading to individuals outside of the DNR that utilize budget requests. Table 2 illustrates the cash and investment balances maintained in the License Fund versus the information provided by the DNR on the Summary of Receipts and Disbursements.

Table 2 Comparison of Expenditure Schedules to Actual Cash and Investment Balances						
Information Provided by the DNR on the Summary of Receipts and Disbursements			Actual Cash and Investment Balances per FIMS*			
Date of Form	Estimate as of	Beginning Balance per Form	Date of FIMS Balance	Cash Balance per FIMS	Investment Balance per FIMS	Total Cash & Investment Balances
7/1/1998	6/30/1998	\$0	6/30/1998	\$1,475,436	\$7,144,010	\$8,619,446
7/27/1998	6/30/1998	\$0	6/30/1998	\$1,475,436	\$7,144,010	\$8,619,446
6/23/1999	6/30/1998	\$0	6/30/1998	\$1,475,436	\$7,144,010	\$8,619,446
5/10/1999	6/30/1999	\$0	6/30/1999	\$1,222,675	\$10,555,082	\$11,777,757
8/11/1999	6/30/1999	\$1,300,000	6/30/1999	\$1,222,675	\$10,555,082	\$11,777,757
5/2/2000	6/30/2000	\$1,705,802	6/30/2000	\$2,122,659	\$10,003,621	\$12,126,280
* Amounts have been rounded to the nearest dollar.						

The “Expenditure Schedule Instructions” for Fiscal Year 2001 specifically state that in entering the estimated beginning balance for the fiscal year, the balance should include “*cash plus any funds deposited in investment accounts.*” As can be seen in Table 2 above, it was not until an amendment was filed in August 1999 that a cash balance was reflected on the Summary of Receipts and Disbursements. **Based on the Legislative Auditor review of the investment balance maintained per FIMS during a similar period of time, this cash balance recorded on the Summary by the DNR excluded any investments held by the License Fund.** The Legislative Auditor noted that if investments had been reported for the License Fund (as required) in the Fiscal Year 2001 Summary of Receipts and Disbursements, the beginning balance would have been approximately \$10 million higher than what was actually entered onto the form. This would indicate that the DNR was not being forthright in detailing certain information in its budget requests.

The DNR has since corrected this problem with its Expenditure Requests. In a letter to the Legislative Auditor, the agency stated: “*Once DNR was able to institute the new distribution model for [the License Fund], a more accurate beginning balance was reflected on the Summary of Receipts and Disbursements forms for Fiscal Year 2002.*” Indeed, a more accurate balance was reflected in the Fiscal Year 2002 Expenditure Report, as can be seen in Appendix C.

Interest from the Wildlife Endowment Fund (Fund 3224) has Contributed to the Accumulation of Monies in the License Fund.

The Endowment Fund and the Board of Trustees (Board) of the Wildlife Endowment Fund were created by an act of the Legislature in 1986. This fund is maintained separate of the License Fund; however, the interest earned on the fund can be drawn down and transferred to the License Fund for use in the conservation and management of wildlife resources. The initial disbursement of monies from the Endowment Fund to the License Fund was approved on August 13, 1996 by the Board. The total monies drawn down to the License Fund since that initial disbursement are illustrated in Table 3 below:

Table 3		
Interest Monies Drawn from the Endowment Fund		
Board Meeting Date	Monies Drawn Down	Purpose of Draw Down into The License Fund
8/13/1996	\$484,230	Supplement operating expenses in Fiscal Year 1997
1/9/1998	\$463,799	Supplement operating expenses in Fiscal Year 1998
6/10/1999	\$628,841	Supplement operating expenses in Fiscal Year 1999
6/10/1999	\$711,500	Supplement operating expenses in Fiscal Year 2000
11/15/2000	\$788,393	Supplement operating expenses in Fiscal Year 2001
Total	\$3,076,763	
<i>Source: Endowment Fund Board minutes and DNR Schedule of Draw Downs</i>		

Upon review of the Board Minutes associated with the Endowment Fund, the following areas of concern were identified:

Appropriation Requests Occurred Prior to Approval from the Board

Minutes of the January 9, 1998 and June 10, 1999 meetings indicate that interest monies from the Endowment Fund had been appropriated during the budget process. In the January 9, 1998 meeting, a Board member who was at the time an employee of the DNR, stated that “*if DNR did not receive these [interest] funds from the Endowment Fund, budgets would theoretically be short by that amount of money and services would have to be reduced in some areas.*” **This practice required the board to release the money in order to maintain the current programs of the Division.** As a result, it may have impaired the Board’s independent assessment of the need for the monies.

Endowment Interest Draw Downs May Not Have Been Needed

As seen in Table 4 below, the combined cash and investment balances within the License Fund continued to grow over time.

Table 4						
Combined Cash and Investment Balances*						
Month	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
July	1,923,261	2,921,770	5,379,390	7,863,835	10,023,731	11,090,200
August	1,655,991	2,543,957	4,729,237	7,361,307	9,455,733	10,430,759
September	1,253,648	1,974,925	4,410,259	6,993,315	8,451,560	9,784,760
October	1,495,636	2,073,595	4,181,499	6,617,839	7,833,449	9,272,589
November	2,177,385	3,020,295	5,573,970	8,155,706	9,407,631	10,765,911
December	3,531,705	5,217,033	8,031,010	10,873,934	11,208,785	13,188,378
January	3,508,746	5,471,562	8,433,578	11,292,652	11,514,032	-
February	3,724,595	5,698,769	8,561,122	11,253,238	11,402,769	-
March	3,777,657	6,014,398	8,569,380	11,555,346	11,703,537	-
April	3,376,610	5,921,368	8,755,755	11,834,825	11,244,629	-
May	3,505,954	6,809,092	8,445,871	11,700,836	11,944,248	-
June	3,512,542	5,888,394	8,619,445	11,777,757	12,126,279	-
Average	2,786,978	4,462,930	6,974,210	9,773,383	10,526,365	10,755,433
<p><i>* Amounts represent the sum of investments and cash within The License Fund and have been rounded to the nearest dollar</i></p> <p><i>Source: FIMS Cash and Investment Balances as provided by the Treasurer's Office</i></p>						

Given the increase in cash and investments within the License Fund over time, it appears that the interest drawn down from the Endowment Fund was not needed to maintain programs within the DNR. This is further illustrated in a comment made during the August 13, 1996 Board meeting in which the Director of the DNR, stated that the initial draw down of interest funds from the Endowment Fund was taken in part to “convince the legislature that the DNR is in fact utilizing the interest from this program as was intended in the law and is dealing in good faith with them in regard to using all financial resources at its disposal.”

Conclusion

The DNR’s cash and investment balances in the License Fund increased from \$1.9 million to \$12.1 million from Fiscal Year 1997 through the end of Fiscal Year 2001. As the balance was increasing, the DNR continued to report inaccurate balances on its Expenditure Request Schedules, which could be misleading to the users of the schedules. The cause of the increase can be attributed

to the processes in place in the License Division of the DNR, which have historically made it difficult to determine cash balances available for expenditure at a given point in time. In addition, the increase can be attributed to interest monies of over \$3 million drawn from the Wildlife Endowment Fund. In Fiscal Year 2002, the DNR has since improved its reporting on the Expenditure Request Schedules, and has developed a model to calculate cash available for expenditure on a more current basis. Even so, it would be preferable to develop processes that would allow the agency to calculate cash within the License Fund using current sales figures. In addition, there should be full justification of the need for interest monies from the Endowment Fund prior to their withdrawal.

Recommendations

8. *The DNR should utilize either sales reports or a point-of-sale computer system to calculate cash available for expenditure on a real-time basis.*
9. *The DNR should ensure that expenditure schedules are completed with the most up-to-date and accurate information available to the agency.*
10. *The DNR should obtain approval of withdrawals from the Wildlife Endowment Fund prior to making appropriation requests.*
11. *The DNR should be required to provide evidence to the Legislature during the annual budget process of the specific expenditures of Endowment Fund interest monies made in the prior fiscal year.*