

*[Department of Fish and Wildlife header]*

July 6, 2010

The Honorable Brian Sonntag  
State Auditor  
P.O. Box 40021  
Olympia, WA 98504-0021

Dear Auditor Sonntag:

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

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

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

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

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

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

We appreciate the Auditor's commendation of the Department's best-practice use of Building Owners' and Managers' Association International guidelines for allocating equipment and facilities costs based on square footage use.

Enclosed is the department's response to the audit.

Sincerely,  
*Signature on file*

Philip M. Anderson  
Director

Enclosure:

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

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

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

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

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

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

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

**AGENCY RESPONSE:**

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

**Action Steps and Timeframe:**

N/A

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

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

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

Each hatchery cost allocation must account for federal, state, tribal, local and court-issued guidelines, agreements, regulations, contracts, and grants. A federal mitigation hatchery funded completely with federal money allocates all its expenditures to a federal budget code. By contrast, a hatchery with multiple fund sources that produce a single species (e.g. Chinook) to meet tribal agreements, recreational fishery interests, volunteer cooperative agreements, and dedicated fund objectives benefits from the economy of scale (i.e. buying fish food in bulk).

The strict allocation of expenditures by discrete activity to each fund source, is not only administratively prohibitive, it negates the economy of scale. The Department does not purchase fish feed for only the portion of the species that is produced for the recreational fishery. Rather it purchases the fish feed for the single species that is produced to meet all of the interests and associated fund sources. In addition, the proportions of the annual operating budget of a hatchery are aligned with the proportion of the overall species production intended for that fund interest e.g. 20% of the funds are PRSE while 20% of the production is PSRE.

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

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

AGENCY RESPONSE:

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

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

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

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

Action Steps and Timeframe:

Action steps completed.

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

AGENCY RESPONSE:

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

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

Action Steps and Timeframe:

N/A

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

AGENCY RESPONSE:

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

Action Steps and Timeframe:

N/A.

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

The Department does not concur with this issue. The Department is responsible for managing funds received from state, federal, and local entities, all requiring a variety of rules including grant and contractual requirements. The Department does, however, narrowly interpret the

dedicated fund statutes. This narrow interpretation is applied so each fund receives its fair share of indirect costs. This is to reduce the exposure to an audit exception under federal regulation A-87 (Federal OMB Cost Principles). These federal regulations require the department to ensure all funds that benefit from indirect activities (e.g. payroll, accounting, personnel, information technology) receive an allocation of these costs, and all funds are treated equally in the application of its indirect rate unless excluded by state or federal law or contract.

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

AGENCY RESPONSE:

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

Action Steps and Timeframe:

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