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Ms. Erin Crotty
Commissioner
NYS Department of Environmental Conservation
625 Broadway
Albany, New York 12233-1060

Mr. John J. Long Sr.
Chairman
Conservation Fund Advisory Board
6779 Walmore Road
Niagara Falls, New York 14304

Re: Report 2001-F-14

Dear Ms. Crotty and Mr. Long:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by officials of the Department of Environmental Conservation and the Conservation Fund Advisory Board as of October 30, 2002, to implement the recommendations in our prior audit report, *Management of the Conservation Fund* (Report 99-S-29) issued on March 13, 2000. In that audit, we examined the management of the Conservation Fund and the oversight provided by the Conservation Fund Advisory Board.

Background

The Department of Environmental Conservation (Department) is responsible for protecting and managing the State's environmental resources to enhance the health, safety and welfare of the people of the State and their overall economic and social well-being. The Department regulates entities that create or discharge wastes or those that handle environmentally sensitive materials. The Department also has broad responsibilities for regulating and monitoring the use of fish and wildlife. The Department's Division of Fish, Wildlife and Marine Resources (Division) has primary responsibility for these activities, which include: licensing hunters, fishers and trappers; operating fish hatcheries and game farms; managing fish and wildlife populations; protecting habitats and wetlands; monitoring toxic contamination in fish and wildlife; and protecting and restoring endangered species.

The Conservation Fund (Fund) was established in 1925 by Chapter 56, Article VI, Section 83 of the State Finance Law (Law) to provide a stable, long-term source of revenue to help support the Division's activities. The primary source of Fund revenues comes from the sale of hunting, fishing, and trapping (sporting) licenses. The Fund pays for part of the total costs of the Department's fish, wildlife, and marine resources program (Program). The Fund supports the operation of 12 fish hatcheries, one game farm and 260 boat launches. The Fund is also used to pay the salaries of Department staff responsible for surveying fish and wildlife and their habitats, analyzing data, negotiating public access, meeting with sportsmen and sportswomen, administering contracts, providing technical assistance and information, resolving nuisance wildlife problems, managing public lands, and developing regulations and legislation. In addition, approximately one-third of the Department's Environmental Conservation Officers, who are responsible for enforcing the State's fish and wildlife laws, are paid from the Fund. The Fund consists of six sub-funds: Traditional Account, Marine Resources Account, Migratory Bird Account, Guide License Account, Surf Clam & Ocean Quahog and Life Time License Account.

The Conservation Fund Advisory Board (Board) is charged with overseeing the Department's management of the Fund in serving the interests of the general public and of the sportsmen and sportswomen in the State. Board responsibilities, as outlined in the State's Environmental Conservation Law, include requirements to report annually on the Department's use of Fund monies, to prepare annual reports on fiscal needs, and to recommend ways to meet those needs.

In the Executive Budget for 2002-03, the Governor recommended and the legislature enacted license fee increases for both resident and non-resident sporting licenses. Projections at that time showed that the Fund would have an operating deficit of approximately \$7 million by the end of State Fiscal Year (SFY) 2002-03 and without a SFY 2002-03 fee increase the operating deficit would grow to \$14.5 million by the end of SFY 2003-04. As of July 31, 2002, the Conservation Fund was overdrawn \$1.25 million due entirely to personal service payments. Since this fund does not have temporary loan authorization for non-personal service type payments, no payments except payroll payments could be made. To resolve this, the Department has journal transferred approximately \$3.6 million in Fund payments to the General Fund; thereby restoring the cash balance of the Conservation Fund so non-personal service payments could be made. As of August 26, 2002, the cash balance of the Fund is \$2.4 million.

Summary Conclusions

In our prior audit, we identified several deficiencies in the Department's operating practices. We found that the Department's use of Fund money in support of the program was consistent with State laws and regulations. However, we could not confirm the adequacy of the Department's projection of revenues and expenses. We also found that Board members do not receive a salary and have limited resources to carry out its statutory mandates.

In our follow-up review, we found that the Department and Board officials have made substantial progress in implementing the recommendations contained in our prior audit report. Department officials developed internal control procedures recommended in the prior report. They also developed the Department of Environmental Conservation Automated Licensing System (DECALS); a computerized system used by its sales agents to issue hunting and fishing licenses, and

implemented it on August 26, 2002. The system improved the controls over issuing of hunting and fishing licenses. The Conservation Advisory Board, as recommended in the audit report, reviewed appropriations and expenditures and provided a copy of its annual report to the Commissioner of the Department of Environmental Conservation and sportsmen and sportswomen. The Board has also taken steps to secure additional resources to carry out its responsibility.

Summary of Status of Prior Audit Recommendations

Our prior audit had 16 recommendations of which 12 were directed toward the Department and 4 to the Board. Department officials implemented 11 of the recommendations and 1 recommendation is no longer applicable. The Board implemented the 4 recommendations that were addressed to them.

Recommendations 1 to 12 were made to the Department. The Department has taken the following actions on the Recommendations.

Recommendation 1

Develop and maintain complete documentation of Fund revenue and expenditure projections, including the allowances made for factors that could reasonably be expected to impact future revenues and expenditures.

Status – Implemented

Agency Action – Complete revenue and expenditure information has been formulated in conjunction with the Division of the Budget and presented to the Legislature. Expenditure assumptions have been printed on cash flows while revenue assumptions have been made and incorporated into spreadsheets that project Conservation Fund revenues.

Recommendation 2

Develop written procedures for identifying and reporting total Program costs, including procedures for supervisory review.

Status – Implemented

Agency Action – Revenue and expenditure information was formulated in conjunction with the Division of the Budget and presented to the Legislature. Procedures have been written to identify total costs and are incorporated in the work papers of each annual Level of Effort Report. Supervisory review is mandatory for all reports. The Budget Services Unit of the Division of Management and Budget Services is also required to review all reports.

Recommendation 3

Work with operating units to ensure consistency in the use of time and activity codes for determining Program costs.

Status – Implemented

Agency Action – Letters are written to each Division Director of those programs that are included in the Level of Effort Report asking for the appropriate Time and Activity Codes for their divisions. Costs related to the specific codes that support the Fish, Wildlife and Marine Resources programs, as identified by each division, are then used to produce the data that forms the basis of the calculations for the Level of Effort Report. While time and activity codes used to be sole basis of formulating these percentages, Management and Budget Services now uses various other methods to verify the time and activity data from the system to ensure the reliability of the data, and to protect the integrity of its reporting methods. These methods include accessing the time and activity reports by cost center and by the item blocks associated with the programs to verify the figures; and reconcile them to the BUD 60 report prepared by the Office of the State Comptroller.

Recommendation 4

Modify the information system to flag activity reports, which do not equal time worked.

Status – Implemented

Agency Action – The current Time & Activity system calculates the total hours reported on each record to ensure that the total is not greater than 150 or 160 hours, whichever is appropriate for the employee. The system also does a reasonableness check for total hours reported in excess of 200 hours. In cases where variations or deficiencies are noted, the records are identified in the system and they are either verified or returned to the employee for correction.

Regarding the Time & Activity system, the Department has been in the process of acquiring a new time and activity system since 1998. As a result of the problems with the current system, a Task Force was formed to identify specific system requirements, solicit proposals, and make recommendations for acquiring a new system. The Task Force was made up of employees from various divisions and bargaining units. The employees were selected based upon the unique requirements of their Divisions.

The group met regularly to define system requirements. When this was completed, a series of meetings were held with potential vendors in order to identify possible acquisitions. After multiple meetings with each one of the vendors, the group recommended the acquisition of a new time and activity/leave accrual tracking system from the firm that provides the Department's Human Resource system. The Labor Accrual Tracking System (LATS) was acquired in 2000.

The contractor went through a series of ownership changes that delayed work on the project. Once the ownership changes were resolved, the Department began working with the contractor on customizing the system to meet the requirements of each bargaining unit. While the additional customization continues, 80 employees are testing the on-line time record and leave accrual tracking functions. The employees testing the system represent a

cross section of divisions and bargaining units. While a final decision has not been made on full implementation, the Department anticipates that the system will be fully operational in 2003.

Recommendation 5

Remind supervisors of their responsibilities for ensuring the accuracy of time and activity information.

Status – Implemented

Agency Action – The Department’s “Employee Time & Attendance Manual,” Section 7.4 states that supervisors are responsible for ensuring that all hours worked have been recorded to an activity code, and that the activity codes are valid. In addition, Department Fiscal Bulletin Number 254 advises supervisors that they are responsible for verifying the correctness of the employee’s time and activity coding. The bulletin is available on the Department intranet site.

Recommendation 6

Establish a system to accumulate and aggregate the results of the annual final license sales reconciliation process.

Status – Implemented

Agency Action – The new Department of Environmental Conservation Automated Licensing System (DECALS) issues sporting licenses. Before implementing the system throughout the State on August 26, 2002 it was tested in select locations in Albany County.

This system eliminates the individual stamps for each license. The licenses are issued from a central database and each sales location receives an automated report of license sales, by type, on a daily basis. At the end of each reporting period, either weekly (license officers) or monthly (license agents), the sellers are notified of the amounts due to the Department and their funds are transferred via Automated Clearing House (ACH) debit by a vendor procured through the Electronic Value Transfer Administration contract.

With the new system, the Department will know the total amounts due from all agents on a daily basis. If an ACH debit transaction fails for an agent, they will be notified and given the opportunity to remedy the failed transaction. If the next transaction fails, the agent’s ability to sell will be “shut off” until amounts due are paid in full.

Recommendation 7

Develop an accounts receivable system for sporting license sales.

Status – Implemented

See Agency Action for Recommendation 6.

Recommendation 8

Evaluate available options and take immediate steps to eliminate the backlog in license sales reconciliations.

Status – Implemented

Agency Action – The Department has eliminated the backlog.

Recommendation 9

Establish a system of comprehensive internal controls over Fund revenues received directly at the RAU, which includes, but is not limited to, the following measures:

- *establishing accountability for checks immediately upon receipt;*
- *restrictively endorsing checks immediately upon receipt, including specifying the Department name, bank account name and account number;*
- *maintaining a log of checks received and reconciling it to deposit slips;*
- *locking assets in a safe and periodically changing the safe combination; and*
- *separating critical cash handling duties among different employees.*

Status – Implemented

Agency Action – Revenue Accounting Unit procedures have been revised to address this recommendation.

Recommendation 10

Properly safeguard license stamps at all times and periodically account for unissued stamps.

Status – No longer applicable

Agency Action – License stamps are computer generated by DECALS. The computerized system was implemented on August 26, 2002.

Recommendation 11

Institute a policy of transferring eligible interest from the Trust Account to the Fund so these monies can be used to support the Program.

Status – Implemented

Agency Action – Interest has been transferred from the Trust Account to the Fund for the 1999-2000 and 2000-2001 State fiscal years. Although the transfer for the 2001-2002 State fiscal year had not been made at the time of our review, the Department anticipates that the transfer will occur in the very near future.

Recommendation 12

Consider charging different fees for Lifetime Licenses based upon the age of the applicant.

Status – Implemented

Agency Action – The Department considered the recommendation and is awaiting legislative approval for any changes that would occur for the increase of license fees.

Recommendations 13 to 16 were made to the Board. The Board has taken the following actions on the Recommendations.

Recommendation 13

Review expenditures and appropriations from the Fund and the extent to which they are consistent with requirements of State law.

Status – Implemented

Agency Action – The members of the Board, the agendas and minutes of the Board meetings, and the Board's annual report, all indicate that the Board does review expenditures and appropriations for the Fund and the extent to which they are consistent with requirements of State law. The Board monitors the activity of the lifetime license account and reviews the Department's cost allocation process.

Recommendation 14

Prepare an annual report to the Commissioner detailing findings and recommendations related to the above review. Include in the report a description of the Department's cost allocation process and the activity of the lifetime license account.

Status – Implemented

Agency Action – The Board's annual report for April 1, 2001 to March 31, 2002 to the Commissioner and sportsmen and sportswomen is available on the Department's Web site. The annual report presents the Board's findings and recommendations related to their review of expenditures and appropriations from the Fund and the extent to which they are consistent with the requirements of State law. The report also contains information pertaining to the activity of the lifetime license account and a description of the Department's cost allocation process.

Recommendation 15

Ensure each Board member is aware of his or her responsibility to oversee the Department's management of the Fund.

Status – Implemented

Agency Action – The Board provides new members with an orientation package, which includes an orientation manual and related materials. The Board also provides individual assistance to new Board members, where necessary, in making them aware of their responsibilities.

Recommendation 16

Take necessary action to secure the additional resources that may be necessary to effectively fulfill the legislatively-mandated responsibilities, including conveying those needs to the Department and the Legislature.

Status – Implemented

Agency Action – The Board has taken action to secure resources necessary to carry out its responsibilities. The Board has secured the services of a secretary to record and prepare minutes of meetings and to assist in the preparation and distribution of agendas and other documents. The Board has also secured the services of auditors to assist them in their review of information pertaining to the Fund.

Major contributors to this report were Thomas Nowinski, Charlie Krahula, and Bruce Brimmer.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We also thank the management and staff of the Department of Environmental Conservation and the Conservation Fund Advisory Board for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Carmen Maldonado
Audit Director

cc: Deirdre Taylor
Henry Hamilton