

**Wildlife Cash Fund
Division of Wildlife
Department of Natural Resources**

**Performance Audit
May 2012**



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May 17, 2012

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Wildlife Cash Fund. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Division of Parks and Wildlife and the Parks and Wildlife Board.

A handwritten signature in cursive script, appearing to read "Dianne E. Ray".



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Glossary of Terms and Abbreviations

Board – Parks and Wildlife Board

COFRS – Colorado Financial Reporting System

Commission – Wildlife Commission

Department – Department of Natural Resources

Division – Division of Wildlife

FTE – Full-time-equivalent



DIVISION OF WILDLIFE

Performance Audit, May 2012

Report Highlights



Dianne E. Ray, CPA
State Auditor

Division of Wildlife
Department of Natural Resources

PURPOSE

Review the Division of Wildlife's (the Division) financial recordkeeping practices, including calculations of the Wildlife Cash Fund unobligated reserve balance.

BACKGROUND

- On July 1, 2011, the Division was merged with the Division of Parks and Outdoor Recreation, in accordance with Senate Bill 11-208. The new entity is called the Division of Parks and Wildlife. This audit reviewed Division activities prior to the merger.
- Prior to July 1, 2011, the Division was overseen by the 11-member Wildlife Commission (the Commission).
- The Wildlife Cash Fund is the largest fund in which the Division records revenue and expenses.
- In 2006, the Commission adopted a policy that requires the Division to maintain an unobligated reserve amount in the Wildlife Cash Fund equal to or greater than 10 percent of the Division's annual revenue.

OUR RECOMMENDATIONS

The Division of Parks and Wildlife should:

- Work with the Parks and Wildlife Board to train key Division accounting staff on requirements of the Commission policy.
- Ensure the accuracy of its annual unobligated reserve balance calculation by including all appropriate expense categories in the calculation, clarifying the Wildlife Cash Fund unobligated reserve policy, implementing standard processes for calculating the reserve accurately and timely, and developing a plan to ensure continuity of job duties performed by senior-level accounting staff.

The Division and the Commission agreed with these recommendations.

EVALUATION CONCERN

The Division has not followed the Commission's policy when calculating the unobligated reserve amount for the Wildlife Cash Fund. In addition, the Division omitted \$32.4 million of expenses from financial information it presented to the Commission for Fiscal Years 2008 through 2010.

KEY FACTS AND FINDINGS

- The only years in which we found clear evidence that the Division provided the Commission the required annual unobligated reserve calculation were Fiscal Years 2007 and 2011.
- The Division's Fiscal Years 2007 and 2011 calculations of the Wildlife Cash Fund unobligated reserve amounts did not comply with the formula specified in Commission policy.
 - For Fiscal Year 2007, the Division calculated the unobligated reserve using revenue and expenses rather than current assets and liabilities, as required by Commission policy.
 - For Fiscal Year 2011, the Division included only revenue from hunting and fishing license sales rather than total annual revenue, as required by Commission policy. In addition, the Division excluded financial data for an entire enterprise fund from that year's unobligated reserve calculation.
- The Division's July 2011 recalculations of the Fiscal Years 2008 through 2010 unobligated reserve amounts were not based on the formula in the Commission's policy. Our analysis, which did follow the policy, identified 2 years—Fiscal Years 2010 and 2011—in which the unobligated reserve amounts were less than the required 10 percent of annual Division revenue.
- As of July 2011, the Division's actual unobligated reserve balance had been depleted to \$5.7 million—4 percent of the Division's Fiscal Year 2011 revenue.
- We verified that expense information the Division provided to the Commission for Fiscal Years 2008 through 2010 contained \$32.4 million in financial reporting errors. As a result, several capital projects have been delayed or eliminated.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	15	Work with the Parks and Wildlife Board (Board) to train key Division of Parks and Wildlife staff on requirements of the Board policy.	Division of Parks and Wildlife	Agree	Implemented and Ongoing
			Parks and Wildlife Board	Agree	July 2013
2	23	Ensure the accuracy of its annual unobligated reserve balance calculation, as well as other accounting information it provides to the Parks and Wildlife Board (Board), by (a) including all appropriate categories of expenses as consistent with the Board's policy, (b) working with the Board to clarify the Wildlife Cash Fund unobligated reserve policy so all components of the unobligated reserve formula are clear and understandable to Division of Parks and Wildlife (the Division) staff and Board members, (c) documenting and implementing standard processes within the Division to ensure that the Wildlife Cash Fund unobligated reserve balance and other financial data are calculated accurately and on a timely basis in accordance with Board policy, and (d) developing a plan to ensure the continuity of job duties that must be performed by financial staff.	Division of Parks and Wildlife	a. Agree b. Agree c. Agree d. Agree	a. Implemented b. Implemented and will be further refined by September 2013 c. Implemented and Ongoing d. September 2012
			Parks and Wildlife Board	a. Agree b. Agree c. Agree d. Agree	a. September 2013 b. September 2013 c. September 2013 d. September 2013

Overview of the Division of Wildlife

Chapter 1

On July 1, 2011, the Division of Wildlife was merged with the Division of Parks and Outdoor Recreation, in accordance with Senate Bill 11-208. That legislation required the two divisions to be combined into a single entity, the Division of Parks and Wildlife. Statute [Section 33-9-104(2), C.R.S.] requires the Division of Parks and Wildlife to maintain the powers, duties, obligations, and functions previously exercised by each division prior to the merger. In addition, the Wildlife Commission, the governing board that was responsible for overseeing the Division of Wildlife, was combined with the Board of Parks and Outdoor Recreation to form the Parks and Wildlife Board. This audit report pertains only to financial activities at the Division of Wildlife prior to July 1, 2011. Therefore, the remainder of this report will discuss only information pertaining to the Division of Wildlife and the Wildlife Commission when they were still separate entities (prior to the merger).

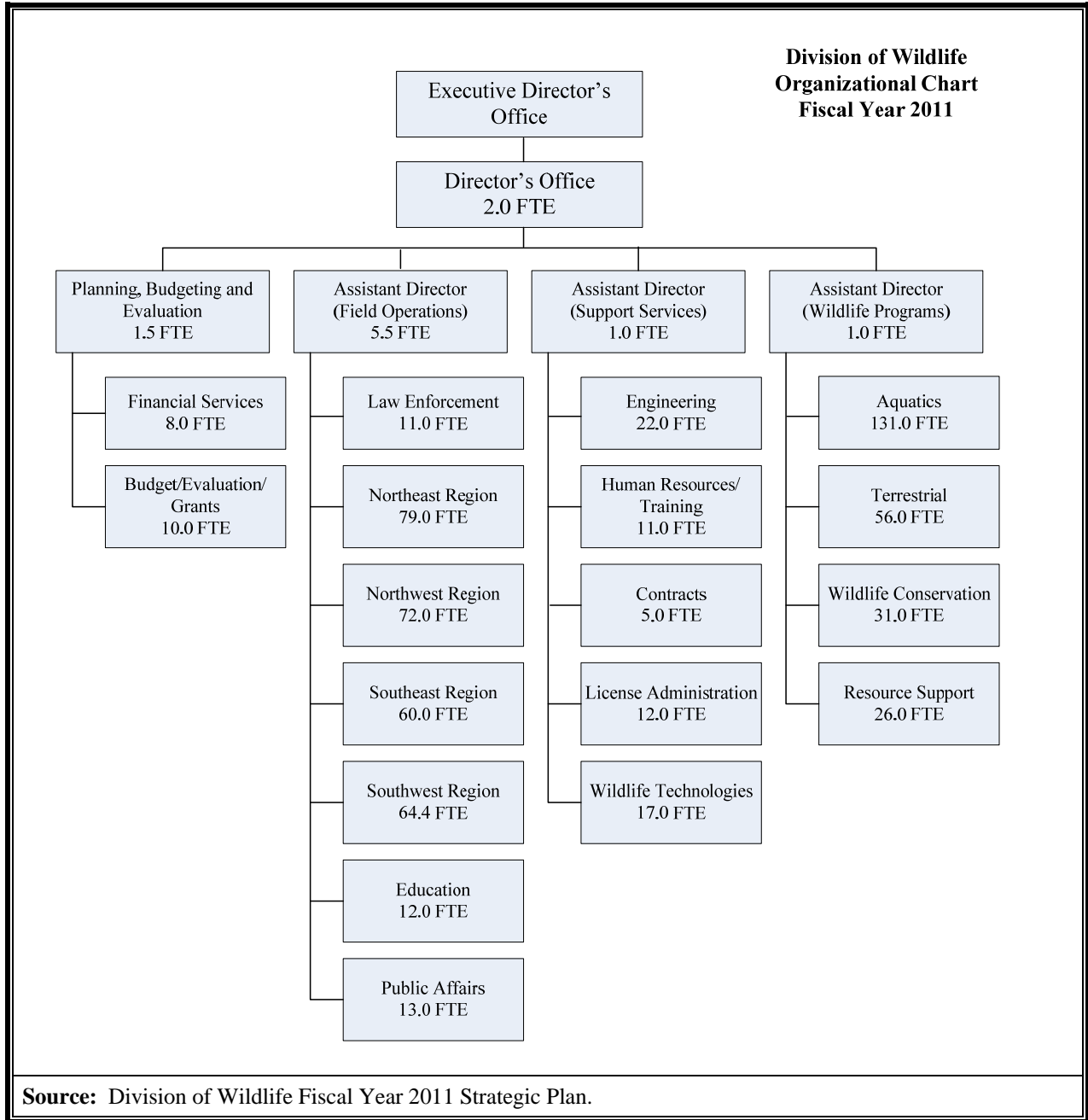
The State of Colorado's policy related to wildlife is that "wildlife and their environment are to be protected, preserved, enhanced, and managed for the use, benefit, and enjoyment of the people of this state and its visitors" [Section 33-1-101(1), C.R.S.]. The Division of Wildlife (the Division), within the Department of Natural Resources (the Department), oversees the State's wildlife resources through key activities including:

- Managing Colorado's 960 wildlife species and more than 300 wildlife areas.
- Regulating hunting and fishing activities by issuing licenses and enforcing wildlife laws.
- Acquiring and leasing land and water, or interests in land and water, for the preservation and conservation of wildlife and wildlife habitat, and for the provision of public access for hunting, fishing, and recreation activities.
- Providing technical assistance to private and other public landowners concerning wildlife and habitat management.
- Conducting research to improve wildlife management activities.
- Developing programs to protect and recover threatened and endangered species.
- Providing educational programs to the general public.

According to Section 33-1-101(2), C.R.S., all wildlife within Colorado that is not lawfully acquired and held by private ownership is the property of the State. Wildlife occupying federal lands is managed jointly by the State and the federal government. The federal government generally defers to the State when it comes to managing fish and game populations; however, both the State and the federal government retain control over the management of wildlife habitat, thereby affecting which species will thrive and where.

Organization

The Division's headquarters are located in Denver. Additionally, the Division maintains regional service centers in Colorado Springs, Denver, Durango, Fort Collins, and Grand Junction, as well as area service centers in 11 other cities and towns across the state. The following chart shows the Division's organization and its Fiscal Year 2011 appropriations for full-time-equivalent (FTE) staff.



Two Division sections relevant to this audit are the following:

- The **Financial Services** section includes the Chief Financial Officer and budget and accounting staff who are responsible for the Division’s budgeting and financial reporting activities.
- The **Support Services** section includes engineering staff, whose responsibilities include overseeing capital construction projects. These

oversight responsibilities include tracking and documenting the progress of capital construction projects and communicating with the Division's budget and accounting staff about the status of project funding, including unspent appropriated capital construction funds.

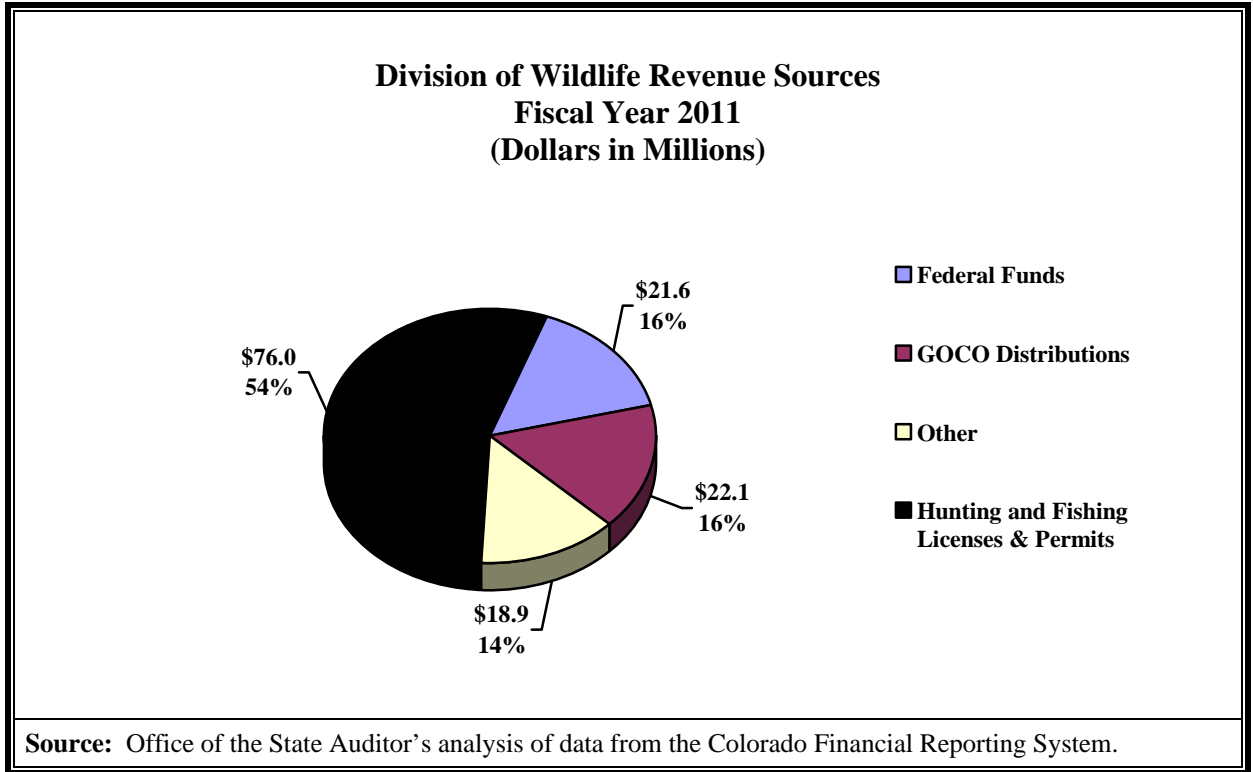
Prior to July 2011, the Division was overseen by the 11-member Wildlife Commission (Commission). With the consent of the Senate, the Governor appointed, for 4-year terms, nine voting members representing different stakeholder groups (i.e., livestock producers, agricultural or produce growers, outfitters, sportsmen or sportswomen, wildlife organizations, and boards of county commissioners). The Executive Directors of the Departments of Agriculture and Natural Resources or their designees serve as the remaining two ex-officio nonvoting members.

The Commission is a Type 1 agency, as defined by the Administrative Organization Act of 1968. As a Type 1 agency, the Commission is independent from the Department when exercising its prescribed statutory powers, duties, and functions, such as managing the State's wildlife; licensing people who hunt or fish; and promulgating rules, regulations, and orders concerning wildlife programs. The Commission makes decisions about buying or leasing land and water (or interests in land and water) and approves the Division's annual budget and long-range plans. Any powers, duties, and functions not specifically vested by statute with the Commission remain under the Department's control.

Fiscal Overview

Since 2001, the Division and the Commission have been designated as enterprises under Article X, Section 20 of the State Constitution, more commonly known as the Taxpayer's Bill of Rights. Division revenue in Fiscal Year 2011 totaled about \$138.6 million, an increase of 17 percent since Fiscal Year 2007. The Division is largely cash funded and receives a portion of its revenue from sales of hunting and fishing license and permits for the use of wildlife areas in the state. Specifically, in Fiscal Year 2011, about 54 percent of the Department's revenue came from the sale of these licenses and permits. In addition, the Division receives federal funding and distributions of state lottery proceeds from the Great Outdoors Colorado (GOCO) Trust Fund. The trust fund revenue is not recognized until expenditures are made from it. This timing difference, coupled with \$16 million in additional legacy funding for land acquisitions that was made available during this timeframe, caused revenue fluctuations over the course of the last 5 fiscal years. Finally, the Division receives revenue from various other sources, such as donations, fines, and damage awards against individuals who violated state wildlife laws and regulations, and the sale of wildlife-related merchandise (e.g., maps and other publications). The Division has 17 separate funds in which it records its revenue and expenses. The largest of these funds is the Wildlife Cash

Fund; in Fiscal Year 2011, 83 percent of the Division’s revenue was recorded in this fund. The following pie chart shows the breakout of the Division’s revenue sources in Fiscal Year 2011.



The following table shows the Division's revenue over the past 5 years, from Fiscal Years 2007 through 2011.

Division of Wildlife Revenue Fiscal Years 2007 Through 2011 (Dollars in Millions)						
Revenue Source	2007	2008	2009	2010	2011	Percentage Change: 2007 to 2011
Hunting and Fishing Licenses and Permits ¹	\$81.1	\$80.1	\$76.8	\$73.2	\$76.0	(6%)
Great Outdoors Colorado Distributions	8.6	20.4	18.1	11.2	22.1	157
Federal Funds	15.2	20.3	19.2	21.2	21.6	42
Other ²	13.7	15.1	25.7	46.6	18.9	38
Total	\$118.6	\$135.9	\$139.8	\$152.2	\$138.6	17%
Source: Office of the State Auditor's analysis of data from the Colorado Financial Reporting System.						
¹ Includes special park licenses (e.g., licenses for alligator farms) and permits to use state wildlife areas for special events.						
² Includes income from interest, donations, fees, service charges, fines and damage awards, rents and royalties, sales of products and property, state grants, transfers, and other non-routine sources.						

In Fiscal Year 2011, the Division spent about \$142 million. This amount represents a 33 percent increase since Fiscal Year 2007. Personal services accounted for the largest share of the Division's expenses. The following table shows the Division's expenses from Fiscal Years 2007 through 2011.

Division of Wildlife Expenses Fiscal Years 2007 Through 2011 (Dollars in Millions)						
Expense Type	2007	2008	2009	2010	2011	Percentage Change: 2007 to 2011
Personal Services	\$52.7	\$56.9	\$60.1	\$59.1	\$57.3	9%
Operating and Travel	33.0	37.0	37.3	36.0	38.5	17
Grants and Distributions	3.5	11.3	10.8	6.8	10.3	194
Capitalized Property	7.7	25.2	21.4	14.0	23.3	203
Other ¹	9.7	10.9	11.5	10.9	12.6	30
Total	\$106.6	\$141.3	\$141.1	\$126.8	\$142.0	33%
Source: Office of the State Auditor's analysis of data from the Colorado Financial Reporting System.						
¹ Includes required fund transfers and indirect cost assessments.						

According to Section 33-1-110(6), C.R.S., the Division Director and Department Executive Director "shall consult with the commission in the establishment of the division's budget and the expenditures of all monies appropriated to the division by the general assembly." To help fulfill this requirement and ensure sound financial management of the Division's funds, in 2006 the Commission adopted a policy that establishes parameters for the Division's spending. A key component of the Commission's policy is an unobligated reserve requirement for the Division's funds. Specifically, the policy requires that the unobligated reserve of the funds remain equal to or more than 10 percent of the Division's annual revenue.

Audit Scope and Methodology

Section 2-3-103, C.R.S., authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. Audit work was performed from April 2012 through May 2012. We acknowledge the cooperation and assistance provided by staff of the Division and the Commission.

This performance audit was conducted in response to a legislative audit request for a review of the Division's financial recordkeeping practices. To address the concerns outlined in the request, we reviewed the Division's calculations of the Wildlife Cash Fund unobligated reserve, financial recording of capital project expenses and vendor fees, expenses from the Wildlife Cash Fund, and controls over expenses and the unobligated reserve balance. We also interviewed staff at the Division and Commission about areas identified in the audit request. Finally, we reviewed statutory requirements; Commission policies; and data recorded on the Colorado Financial Reporting System (COFRS), the State's accounting system.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Wildlife Cash Fund

Chapter 2

In 2006, the Wildlife Commission (the Commission) adopted a policy establishing parameters for spending by the Division of Wildlife (the Division). The policy was readopted in February 2007 and was retained by the Parks and Wildlife Board after the July 2011 merger. According to the policy, the Division must maintain an unobligated reserve amount in the Wildlife Cash Fund equal to or greater than 10 percent of the Division's annual revenue. According to the policy, the Division is to calculate the unobligated reserve using the following formula:

$$\begin{array}{r}
 \text{Current Assets} \\
 \text{Less } \underline{\text{Current Liabilities}} \\
 \text{Gross Reserve} \\
 \\
 \text{Gross Reserve} \\
 \text{Less } \underline{\text{Unspent appropriated capital construction spending authority}} \\
 \text{Unobligated Reserve}
 \end{array}$$

The Division is to compare the unobligated reserve amount to 10 percent of the Division's total annual revenue amount to determine compliance with the Commission policy.

In this chapter, we discuss our review of the Division's calculations of the Wildlife Cash Fund unobligated reserve, financial recording of capital project expenses and vendor fees, expenses from the Wildlife Cash Fund, and controls over expenses and the unobligated reserve balance. In addition, we discuss the omission of \$32.4 million of expenses from the financial information the Division presented to the Commission and whether the total was accurate. These areas affect the Division's compliance with the Commission's policy on the required unobligated reserve calculation for the Wildlife Cash Fund. The remainder of this chapter discusses the problems we identified.

Annual Wildlife Cash Fund Unobligated Reserve Calculation

The Commission established its Wildlife Cash Fund unobligated reserve policy to guide development of the Division's annual budget and longer-term spending

plans. The Commission's policy indicates that the use of the unobligated reserve calculation will guide the Commission each year with the development of the Division's annual budget and spending decisions for the Division.

What was the purpose of the audit work?

The purpose of the audit work was to determine whether the Division provided the Commission with an annual calculation of the Wildlife Cash Fund unobligated reserve amount during Fiscal Years 2007 through 2011.

What audit work was performed and how were results measured?

Section 33-1-110(6), C.R.S., states that the Division Director and the Executive Director shall consult with the Commission in the establishing of the Division's budget and in spending of all monies appropriated to the Division by the General Assembly. Further, Commission policy requires that Division staff prepare a Wildlife Cash Fund unobligated reserve calculation on an annual basis and present the calculation to the Commission. The objective of the Commission's policy is to ensure that the Division remains on "solid financial footing in the future."

We requested the Division's Wildlife Cash Fund unobligated reserve calculations presented to the Commission for Fiscal Years 2007 through 2011. Our intent was to ensure that the calculations were prepared and presented to the Commission on an annual basis, as required.

What problem did the audit work identify?

The only years for which we found clear evidence that the Division provided the Commission with the required annual unobligated reserve calculation were Fiscal Years 2007 and 2011. The unobligated reserve calculation for Fiscal Year 2011 was prepared in November 2011, after expense omissions were identified. We discuss problems with the accuracy of this calculation in Recommendation No. 2.

We received conflicting information as to whether the Division provided the Commission with the required annual Wildlife Cash Fund unobligated reserve calculation each year from Fiscal Years 2008 through 2010. Based on interviews with Commissioners, the Division provided the unobligated reserve calculation for Fiscal Years 2007 through 2011. In addition, our review of records indicated that there was a version of the unobligated reserve amount provided to the Commission for each of the five years. Conversely, Division accounting records and information gathered from interviews with Division personnel indicate that the unobligated reserve calculations were not prepared or presented to the

Commission for Fiscal Years 2008 through 2010. Rather, other financial information was supplied to the Commission for those 3 fiscal years.

Why did the problem occur?

Although the Commission’s policy specifies that the Division is to supply the Commission with an annual unobligated reserve calculation for the Wildlife Cash Fund, Division staff stated that they were not aware of this requirement.

Why does this problem matter?

The Commission made decisions about overall Division spending based on information the Commissioners believed represented the unobligated reserve calculation for each fiscal year from Fiscal Years 2008 through 2010. Because the Commissioners had not actually received the annual unobligated reserve calculations for those years they could not fulfill their policy objective of ensuring that the Division remained on “solid financial footing.”

Recommendation No. 1:

The Division of Parks and Wildlife (the Division) should work with the Parks and Wildlife Board (the Board)—the successor to the Wildlife Commission—to train key Division of Parks and Wildlife staff on requirements of the Board’s policy. (The Board has retained the former Commission’s policy.)

Division of Parks and Wildlife Response:

Agree. Implementation date: Implemented and ongoing.

A sub-committee of the Board, a four-member Finance Committee, was established in the Fall of 2011 to work with the Division of Parks and Wildlife to ensure that the Board receives adequate financial information. The Finance Committee has met six times since then. Based on the discussions at these meetings, in May 2012 the Board provided interim guidance to the Division of Parks and Wildlife for monitoring and reporting on the level of reserves. As of May 2012, key financial staff have been trained on the required calculations. Per the responses to Recommendation No. 2 below, back-up staff will be trained and a succession plan developed to ensure that at all times in the future trained staff are available to prepare and review all reports required to comply with the Board’s policy.

Parks and Wildlife Board Response:

Agree. Implementation date: July 2013.

Beginning in July 2012, and for at least the next fiscal year, the Parks and Wildlife Board will require periodic updates from the Chief Financial Officer not less than quarterly on steps taken to train key staff on the Commission policy and the reserve calculation. Currently, the Parks and Wildlife Board has as a standing agenda item, called “financial update,” which was implemented to accomplish better communication between the Board and the Division of Parks and Wildlife on financial matters. Updates on training will be included in this standing agenda item.

Wildlife Cash Fund Unobligated Reserve Balance

As mentioned previously, the Commission is statutorily required to oversee the establishment of the Division’s budget as well as the Division’s expenses. To help fulfill this oversight responsibility, the Commission established a policy in January 2006 that requires the Division to maintain an unobligated reserve balance in the Wildlife Cash Fund that “shall not drop below a level equal to 10 percent of annual revenues.” According to the policy, the Wildlife Cash Fund Balance is defined as “all [of the] division’s enterprise fund[s] combined.” The policy specifies the following formula for calculating the annual unobligated reserve amount:

$$\begin{array}{r}
 \text{Current Assets} \\
 \text{Less } \underline{\text{Current Liabilities}} \\
 \text{Gross Reserve} \\
 \\
 \text{Gross Reserve} \\
 \text{Less } \underline{\text{Unspent appropriated capital construction spending authority}} \\
 \text{Unobligated Reserve}
 \end{array}$$

The Division is to compare the unobligated reserve amount is compared to 10 percent of the Division’s total revenue amount for the applicable year to determine compliance with the Commission’s policy.

Below are definitions, based on governmental accounting standards, of the factors included in the unobligated reserve formula. These definitions are not included in the Commission’s policy.

- **Current assets** are cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. Examples of assets other than cash include inventories of merchandise; raw materials; finished goods; operating supplies; receivables from officers, employees, affiliates, and others; and prepaid expenses.
- **Current liabilities** are obligations whose liquidation is reasonably expected to require the use of existing resources. Examples of current liabilities include payables incurred in the production of goods or in providing services to be offered for sale; collections received in advance of the delivery of goods or performance of services; and debts that are directly related to the operating cycle, such as accruals for wages, salaries, commissions, rentals, royalties, and income and other taxes.
- **Unspent appropriated capital construction spending authority** is funding that has been appropriated for capital construction activities that have been approved and are not yet completed but are still under appropriation.

On a regular basis, Division staff attend Commission meetings. According to the Commission's policy, at least annually Division staff should communicate financial information related to the Division's activities, including the unobligated reserve amount, to Commission members.

What was the purpose of the audit work?

The purpose of the audit work was to determine whether the Division accurately calculated the Fiscal Years 2007 through 2011 Wildlife Cash Fund unobligated reserve balances in accordance with Commission policy. As discussed in Recommendation No. 1, the Division only provided the Commission with unobligated reserve calculations for only Fiscal Years 2007 and 2011. However, the Division provided us with other financial information for Fiscal Years 2008 through 2010 that it had prepared and presented to the Commission in July 2011. The July 2011 information included the unobligated reserve calculations that should have been presented to the Commission for Fiscal Years 2008 through 2010. Our audit sought to evaluate the accuracy of those calculation estimates. In addition, we reviewed the Division's processes to determine whether appropriate controls were in place to ensure that the annual unobligated reserve balance is calculated accurately and in compliance with Commission policy.

Finally, the audit work sought to verify the reported \$32.4 million of Fiscal Years 2007 through 2011 expenses that the Division omitted from the financial information it provided to the Commission for those years.

What audit work was performed and how were results measured?

Governmental accounting standards and the State's Fiscal Procedures Manual state that entities should implement controls to ensure the accuracy of financial information.

The Commission's policy specifies the formula, as previously referenced, for calculating the Wildlife Cash Fund unobligated reserve.

We reviewed the Fiscal Years 2007 and 2011 unobligated reserve calculations that the Division provided to the Commission. In addition, we reviewed recalculations the Division performed for the Fiscal Years 2008 through 2010 unobligated reserve amounts.

We recalculated the unobligated reserve balance using data from the Colorado Financial Reporting System (COFRS), the State's accounting system, and compared that amount to the Division's calculation of the unobligated reserve balance that it supplied to the Commission. In addition, we performed our own calculations, using the formula specified in Commission policy, of the unobligated reserve amounts for Fiscal Years 2007 through 2011.

Finally, we obtained Fiscal Years 2008 through 2010 financial data from COFRS to verify that the Division's calculation of \$32.4 million in expense omissions for those years was accurate.

What problem did the audit work identify?

We found problems in three areas: (1) the Division's unobligated reserve calculations for Fiscal Years 2007 and 2011, (2) the accuracy of the Division's July 2011 calculation of Fiscal Years 2008 through 2010 unobligated reserve balances, and (3) the accuracy of the Fiscal Years 2008 through 2010 expense data that the Division provided to the Commission. We discuss these problems in the sections below.

Unobligated Reserve Calculations

We found two problems with unobligated reserve calculations. As discussed in Recommendation No. 1, the Division prepared the required unobligated reserve calculation for only Fiscal Years 2007 and 2011. Our review of the Division's Fiscal Years 2007 and 2011 unobligated reserve calculations, however, found that the calculations did not comply with the formula specified in Commission policy. Specifically, for Fiscal Year 2007 the Division calculated the unobligated reserve using revenue and expenses rather than current assets and liabilities. For the Fiscal Year 2011 calculation, the Division included only revenue from hunting

and fishing license sales rather than total annual revenue, as required by Commission policy. In addition, the Division excluded financial data for an entire enterprise fund from that year's unobligated reserve calculation.

We also found that the Division's recalculations, prepared in July 2011, for the Fiscal Years 2008 through 2010 unobligated reserve amounts, were not based on the formula in the Commission's policy.

The following table compares our calculations of the Fiscal Years 2007 through 2011 unobligated reserve amounts, based on the Commission's policy, with the Division's calculations and recalculations.

**Comparison of Division of Wildlife (DOW) Calculations to
Office of the State Auditor (OSA) Calculations¹
Of Wildlife Cash Fund Unobligated Reserve Amounts
Fiscal Years 2007 Through 2011
(Dollars in Millions)**

	2007		2008		2009		2010		2011	
	DOW	OSA	DOW	OSA	DOW	OSA	DOW	OSA	DOW	OSA
Current Assets	\$101.0	\$114.3	\$93.3	\$105.8	\$77.3	\$93.0	\$67.1	\$82.4	\$74.0	\$74.0
Less: Current Liabilities	59.7	61.2	56.2	58.2	52.9	55.2	49.0	51.0	50.7	50.7
Gross Reserve	41.3	53.1	37.1	47.6	24.4	37.8	18.1	31.4	23.3	23.3
Less: Unspent appropriated capital construction spending authority	0.0	19.5	21.3	21.4	21.2	20.4	26.6	26.5	15.8	17.6
Unobligated Reserve	41.3	33.6	15.8	26.2	3.2	17.4	(8.5)	4.9	7.5	5.7
Annual Revenue²	\$73.6	\$118.2	\$73.6	\$135.5	\$73.6	\$139.4	\$73.6	\$151.4	\$77.4	\$137.6
Percentage of Annual Revenue	N/A ³	28%	N/A	19%	N/A	12%	N/A	3% ⁴	N/A	4%

Source: Information provided by the Division of Wildlife and Office of the State Auditor's analysis of data from the Colorado Financial Report System (COFRS).

¹ This calculation includes "all division enterprise funds combined (i.e., all the division's funds except for principal trust funds and fiduciary donation fund), as of the end of the fiscal year."

² The Division determined annual revenue amounts based only on estimated revenue from "annual license revenue." The OSA determined annual revenue amounts based on the actual total of all Division enterprise revenue sources.

³ N/A denotes that the Division did not calculate the percentage of unobligated reserve to annual revenue, as required by Commission policy.

⁴ The Commission policy states that the unobligated reserve shall not drop below a level equal to 10 percent.

Division Expense Information

While preparing an annual report for Fiscal Year 2010, Division personnel discovered financial reporting errors in the Fiscal Years 2008 through 2010 expense information that had been provided to the Commission. Based on our calculations, we verified that these errors totaled approximately \$32.4 million, which means that the Division's expenses were underreported to the Commission by that amount.

Why did the problem occur?

The problems with the Division's unobligated reserve calculations and the identified \$32.4 million in financial reporting errors occurred for the following reasons:

- **Exclusion of Financial Data:** According to Division staff, the expense figures were understated because accounting staff inappropriately excluded expense data related to vendor commissions for fishing and hunting license sales and certain expenses capitalized by the Department, such as capital construction costs. Division staff stated that the Division financial reports used for compiling financial information omitted these types of expenses, but staff did not identify this omission prior to presenting the information to the Commission.
- **Unclear Commission Policy:** The Commission's Wildlife Cash Fund unobligated reserve policy does not clearly define "unspent appropriated capital construction spending," which is a component of the unobligated reserve calculation formula and can be open to interpretation. For example, if the Fiscal Year 2010 unobligated reserve calculation were prepared using the amount of unspent spending authority at the end of Fiscal Year 2010, the total unspent appropriated capital construction spending might include capital projects whose spending authority would expire at the end of that year. On the other hand, if it is determined that the Fiscal Year 2011 beginning spending authority figures should be used, the spending authority that expired at the end of Fiscal Year 2010 will not be included. As a result, two different amounts for unspent appropriated capital construction spending could result depending on the methodology used.

The Commission's policy also does not provide definitions for every component of the unobligated reserve balance formula in a way that would be understandable to anyone performing the unobligated reserve calculation. For example, the policy includes definitions of the terms "operating expenses" and "operating revenues," but neither term is included in the unobligated reserve formula. Meanwhile, two terms that *are* included in the unobligated reserve formula—current assets and current liabilities—are not defined.

- **Turnover and Lack of Supervisory Review:** From Fiscal Years 2007 through 2010, the Division experienced turnover and vacancies in several high-level positions, including the Division Director, Controller, and Chief Financial Officer positions. Specifically, two extended vacancies occurred in the Chief Financial Officer position—from March 2008 to March 2009,

and again from November 2009 to April 2010. In addition, the Controller position was vacant for all of Fiscal Year 2010. Persons in these positions would have been responsible for conducting supervisory reviews of the Division's financial information and calculations of the unobligated reserve amounts. Indeed, no supervisory reviews of the reserve calculations were conducted from Fiscal Years 2008 through 2011. Additionally, the supervisory reviews conducted in Fiscal Years 2007 were inadequate to ensure that the Division's unobligated reserve calculations complied with the Commission's policy. Other vacancies also occurred within key budget and accounting staff positions. The accounting staff would have been responsible for supplying some financial information to Division budget staff who compile comprehensive financial projections. Turnover in accounting positions prevented the Division from having experienced staff available to perform the required calculations.

The Division does not have a plan in place to ensure continuity in work processes when senior-level staff leave the Division. As a result, these vacancies led to a lack of adequate supervision and direction from a Division-wide perspective and contributed to the lack of oversight of preparing the required Wildlife Cash Fund unobligated reserve from Fiscal Years 2007 through 2011. In addition, the Division has not conducted succession planning or established a process to ensure that the unobligated reserve amounts are calculated on an annual basis when accounting staff who normally perform that duty are no longer employed at the Division.

- **Lack of a Standard Process for Calculating Unobligated Reserve Amounts:** The Division does not have policies or procedures in place to ensure consistency and continuity in performing the annual unobligated reserve calculation. Specifically, the Division has not defined a clear process to ensure that all staff who perform the unobligated reserve calculation input the same data components into the unobligated reserve calculation formula.
- **Lack of Clear Communication to the Commission:** According to interviews with members of the Commission, Division staff did not clearly explain the financial information that was provided to the Commission during Fiscal Years 2007 through 2011. As a result, some Commissioners believed they were receiving the required annual unobligated reserve amount for the Wildlife Cash Fund when, in fact, they were receiving other financial data. The lack of understanding between the Commission and the Division regarding what information was presented over that 5-year period indicates that communication between the Department and the Commission was inadequate.

In July 2011, the Division presented the facts and circumstances surrounding these errors to the Commission. In response, the Commission (which became the Parks and Wildlife Board in July 2011) has developed a finance subcommittee to determine the best option to pursue given that the Division has incurred \$32.4 million more in expenses than it originally reported to the Commission. In addition, the finance subcommittee will be responsible for determining whether there is a more appropriate means of calculating the unobligated reserve amount and whether the current policy is appropriate to ensure that the Division remains on solid financial footing in the future.

Why does this problem matter?

The Commission used incorrect financial information to evaluate and approve planned capital project expenses. As a result, the Commission made spending decisions based on the belief that the Division had more money available than it actually did. As of July 2011, the Division's actual unobligated reserve balance had been depleted to \$5.7 million or 4 percent of the Division's Fiscal Year 2011 revenue. As a result, several capital projects have been delayed or eliminated.

Recommendation No. 2:

The Division of Parks and Wildlife (the Division) should ensure the accuracy of its annual unobligated reserve balance calculation as well as other accounting information it provides to the Parks and Wildlife Board (Board) by:

- a. Including all appropriate categories of expenses as consistent with the Board's policy (formerly the Commission's policy).
- b. Working with the Board to clarify the Wildlife Cash Fund unobligated reserve policy so that all components of the unobligated reserve formula are clear and understandable to Division of Parks and Wildlife staff and Board members. This collaboration should include defining "unspent appropriated capital construction spending" and other accounting terms that may be open to interpretation.
- c. Documenting and implementing standard processes within the Division of Parks and Wildlife to ensure that the Wildlife Cash Fund unobligated reserve balance and other financial data are calculated accurately and on a timely basis in accordance with Board policy. These processes should also address required supervisory review(s) of all calculations of the unobligated reserve amounts and communication between the Division of Parks and Wildlife and the Board to ensure that the Board members

understand the unobligated reserve calculations and other financial information they receive.

- d. Developing a plan to ensure the continuity of job duties that must be performed by financial staff. At a minimum, the plan should address cross-training and succession of senior-level positions.

Division of Parks and Wildlife Response:

- a. Agree. Implementation date: Implemented.

All appropriate categories of expenses, consistent with the Board policy, are now included in reports provided to the Board.

- b. Agree. Implementation date: Implemented and will be further refined by September 2013.

Interim guidance that clarifies the components of the reserve policy was provided by the Board in May 2012. That guidance requires that the Division of Parks and Wildlife calculate and report a more simplified and widely accepted measurement of financial status (working capital) and that the minimum level of reserves to be maintained is based on that simplified measure. The meaning of the accounting terms involved and the calculations required are clear and have been documented. The interim guidance also requires the Division of Parks and Wildlife to evaluate the many issues raised in connection with reporting and managing the fund reserves, including all the points identified in this Recommendation No. 2, and to present recommendations for a revised, comprehensive fund balance policy to the Board for its consideration and ultimate adoption. Such a policy will need to reflect the newly merged agency and apply to both the parks funds and the wildlife funds. As such, a number of additional merger implementation decisions will need to be completed before an appropriate policy can be formulated. A new reserve policy which will address the many issues that have been identified will be developed for Commission approval by September 2013.

- c. Agree. Implementation date: Implemented and ongoing.

See parts a and b above. All calculations and reports required under the interim guidance adopted by the Board in May 2012 are currently reviewed by at least two staff in addition to the preparer. The new comprehensive reserve policy will provide for adequate and appropriate reviews of all calculations and reports to the Board.

- d. Agree. Implementation date: September 2012.

The Division of Parks and Wildlife is in the process of implementing the merger of the former Division of Parks and Outdoor Recreation and the former Division of Wildlife. The structure, staffing, and reporting relationships within the finance unit will likely change as a result. Following the anticipated reorganization, a cross-training and succession plan for all financial staff will be developed.

Parks and Wildlife Board Response:

- Agree. Implementation date: September 2013.

The Parks and Wildlife Board created a budget and finance subcommittee in the fall of 2011. The purpose of the subcommittee is to look at all financial aspects of the Division of Parks and Wildlife in a much more detailed fashion, evaluate the information and then make recommendations to the full Board. Through the process of the subcommittee and the aforementioned standing “financial update” agenda item, the Board will ensure that Recommendation No. 2, parts a, b, c, and d are implemented and that the accuracy of the annual unobligated reserve balance calculation and the other accounting information provided by the Division of Parks and Wildlife is otherwise ensured. In addition, the Board at its May 10, 2012 meeting directed the Division of Parks and Wildlife to undertake a complete review of former Wildlife Commission Policy A-11 “Wildlife Cash Fund Balance” to address the same issues raised by this audit report and the recent merger of the former Wildlife Commission and Former Board of Parks and Outdoor Recreation into the current Board of Parks and Wildlife. This review will further ensure implementation of this recommendation.

Division Expenses

In Fiscal Year 2011, the Division incurred about \$142 million in total expenses. Of this amount, 83 percent was recorded as part of the Wildlife Cash Fund, one of 17 Division funds. The following table shows the Division’s expenses for Fiscal Years 2007 through 2011.

Division of Wildlife Expenses Fiscal Years 2007 Through 2011 (Dollars in Millions)					
2007	2008	2009	2010	2011	Percentage Change: 2007 to 2011
\$106.6	\$141.3	\$141.1	\$126.8	\$142.0	33%
Source: Office of the State Auditor's analysis of data from the Colorado Financial Reporting System.					

This audit specifically focused on reviewing the following types of expenses:

- **Capital project expenses**, which are related to acquiring and maintaining capital assets, such as buildings, land, equipment, and infrastructure.
- **Vendor fees**, which are commissions the Division pays to retail establishments that sell hunting and fishing licenses.
- **Other expenses** including miscellaneous operating expenses such as materials and supplies, and interagency transfers.

What was the purpose of the audit work?

The purpose of the audit work was to review a sample of the Division's capital project expenses and vendor fees for Fiscal Years 2007 through 2011 to verify proper capitalization and recording in the Colorado Financial Reporting System (COFRS), the State's accounting system. In addition, the audit work included reviewing a sample of other type of expenses for Fiscal Years 2007 through 2011 expenses from the Wildlife Cash Fund to verify that the Division's spending complied with state laws and regulations.

What audit work was performed and how were results measured?

We reviewed accounting controls over the following samples of expenses, which the Division incurred during Fiscal Years 2007 through 2011:

- A sample of 75 capital project expenses, which include costs to construct, maintain, and repair buildings or to acquire and maintain land.
- A sample of 25 vendor fee expenses, which are fees paid to vendors that sell hunting and fishing licenses to the general public.

- A sample of 40 other expenses, including miscellaneous operating expenses and interagency transfers.

Our capital projects sample testing consisted of determining whether expenses were valid and supported with the appropriate documentation, were recorded in the proper accounts and fiscal year, and were properly recorded as a capitalized asset or appropriately expensed. We also tested the timeliness of payments to vendors based on established Division procedures requiring payment within 45 days. Because Division staff should follow the same process for recording vendor fees as other revenue and expenses, we selected 25 vendor fee expenses for testing to determine whether the gross revenue from hunting and fishing license sales was recorded and that the related vendor fees were accurately recorded as expenses. Further, we reviewed vendor fees for support of the vendor fees paid and whether those expenses were recorded in the proper fiscal year. Last, we analyzed remaining expenses within the Division, excluding payroll, that were of a significant dollar amount and chose the next highest expenses, which included interagency transfers and other supplies and reviewed for spending in compliance with various Division laws.

Out of the 140 samples tested, we did not find any instances of improper accounting and found only one insignificant accounting error related to the timeliness of a payment. This error, which we discussed with the Division, did not affect the projects recorded or the revenue or expense amounts recorded on the State's financial statements. Thus, the error did not affect the Division's unobligated reserve calculations for the Wildlife Cash Fund. Accordingly, we made no recommendation in this area.

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