

**Department of  
Fish and Game:  
Administrative  
Processes Need  
Improvement**

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# Summary

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***Audit Highlights...***

***The department:***

- ☑ Improperly allocated indirect costs.***
- ☑ Mismanaged the use of restricted funds.***
- ☑ Internal auditor found weaknesses still exist in procurement and purchasing.***
- ☑ Headquarter staff grew faster than field staff over the past 10 years.***

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***Results in Brief***

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The Department of Fish and Game (department) is responsible for maintaining native fish, wildlife, plant species, and natural areas. This includes habitat protection to ensure the survival of all species and natural areas. The department is also responsible for the diversified use of fish and wildlife, including recreational, commercial, scientific, and educational. Our review focused on whether the department manages its administrative costs in a reasonable manner, as well as the department's management of those funds that are restricted for specific purposes. We also determined what steps the department has taken to address the purchasing and contracting weaknesses that its auditors have identified at regional offices and at headquarters. Further, we developed a ten-year trend showing how the department has distributed its staff between headquarters activities and field activities. Finally, we reviewed a sample of department expenditures related to the cleanup and ongoing assessment of the 1991 chemical spill near Dunsmuir, California, and policies and procedures for responding to similar spills. Specifically, we noted the following concerns:

- The department is allocating some of its costs as indirect costs (also called administrative costs) even though these

costs are directly chargeable to a particular program. When this occurs, the programs that are inappropriately sharing these costs are being forced to pay, even though they have not benefited in any way from the expenditures. Contributing to this problem is the fact that the department has not had a written cost allocation plan since fiscal year 1992-93. Improperly allocating costs has contributed to the flaws in the management of certain departmental funds that are restricted.

- The department's management of restricted funds is flawed because it does not always capture the actual costs of program activities funded by these restricted funds, has made inappropriate loans from restricted funds, and does not provide its managers with sufficient accounting information to allow them to properly manage these funds. The department has taken steps to address some of these deficiencies. It has created a "Fund Manager" position to assist managers in the administration of their funds, but more improvement is needed.
- In 1993, the discovery of numerous irregularities at one of the regional offices led the department's auditors to do similar audits of headquarters and the other four regional offices. These audits have confirmed that weaknesses in the department's purchasing of goods and services are not restricted to only one regional office but are widespread. These audits found that the department was often not preparing purchase orders until after the purchased goods had been received, that the department was not ensuring that it had evidence of the receipt of goods or services before making payments to the vendor, and that it was not always taking advantage of vendor discounts.
- In addition, the department's award and management of contracts for services is not always effective. Internal audits of consultant contracts and the Adopt-A-Lake Program found problems in the award and management of contracts. In our review of 43 sole-source contracts, 13 did not provide sufficient justification for the reasonableness of the contract price paid by the department.
- Our analysis of the department's Salaries and Wages Supplement data over a ten-year period indicates that the department's headquarters has grown at a faster pace than its field activities. Although we acknowledge that the data used for this analysis is less than perfect, it was the best information the department had available. Also, we found

that the ratio of executive and administrative staff to total department staff is higher than that of two other comparable departments. However, the comparison of one department with another must be viewed with caution.

- We found that the department has not always used high-level positions appropriately. It created and retained exempt positions inappropriately and used a temporary help Career Executive Assignment (CEA) position to compensate a retired annuitant that did not meet Department of Personnel Administration guidelines and criteria for CEA classification.

- Although the department properly accounted for the charges to the Dunsmuir chemical spill, the costs for goods and services used in response to the spill were not always justified. In one instance, the department made excessive payments for computers.

## ***Recommendations***

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The department needs to improve its administrative processes. Specifically, it should:

- Revise its cost allocation methodology to ensure that costs are charged to the appropriate programs and paid by the proper fund;
- Improve its management over the expenditure of restricted revenues to ensure these revenues are spent for targeted purposes as expressed in state law;
- Assign responsibilities related to its purchasing, payment, and contracting practices to appropriately trained employees and hold these employees accountable for adherence to these practices to ensure that state purchasing and contracting laws and regulations are followed;
- Better distinguish field staff positions from headquarters staff positions so it can properly evaluate the need for new headquarters positions; and
- Improve its controls over the procurement of goods and services when competitive bidding is not used to ensure that the costs for these goods and services are reasonable.

## ***Agency Comments***

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The department generally agreed with our conclusions and recommendations. However, it took exception to the approach we used to conduct a 10-year study of the ratio of headquarters to field positions.

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# ***Introduction***

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## ***Background***

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The mission of the Department of Fish and Game (department) is to maintain native fish, wildlife, plants, and natural areas for their intrinsic value and direct benefits to people. This mission includes protecting and maintaining habitat in an amount and quality sufficient to ensure the survival of all native species and natural areas. At the same time, the department is responsible for ensuring the legitimate use of fish and wildlife, including recreational, commercial, scientific, and educational. This dual mission requires the department to provide for both the conservation and use of the same resources. The department takes direction from the Fish and Game Commission, which establishes policies regulating the taking of fish and wildlife but has no power to manage the department. The department also is responsible for enforcing California laws related to sport and commercial fishing and hunting.

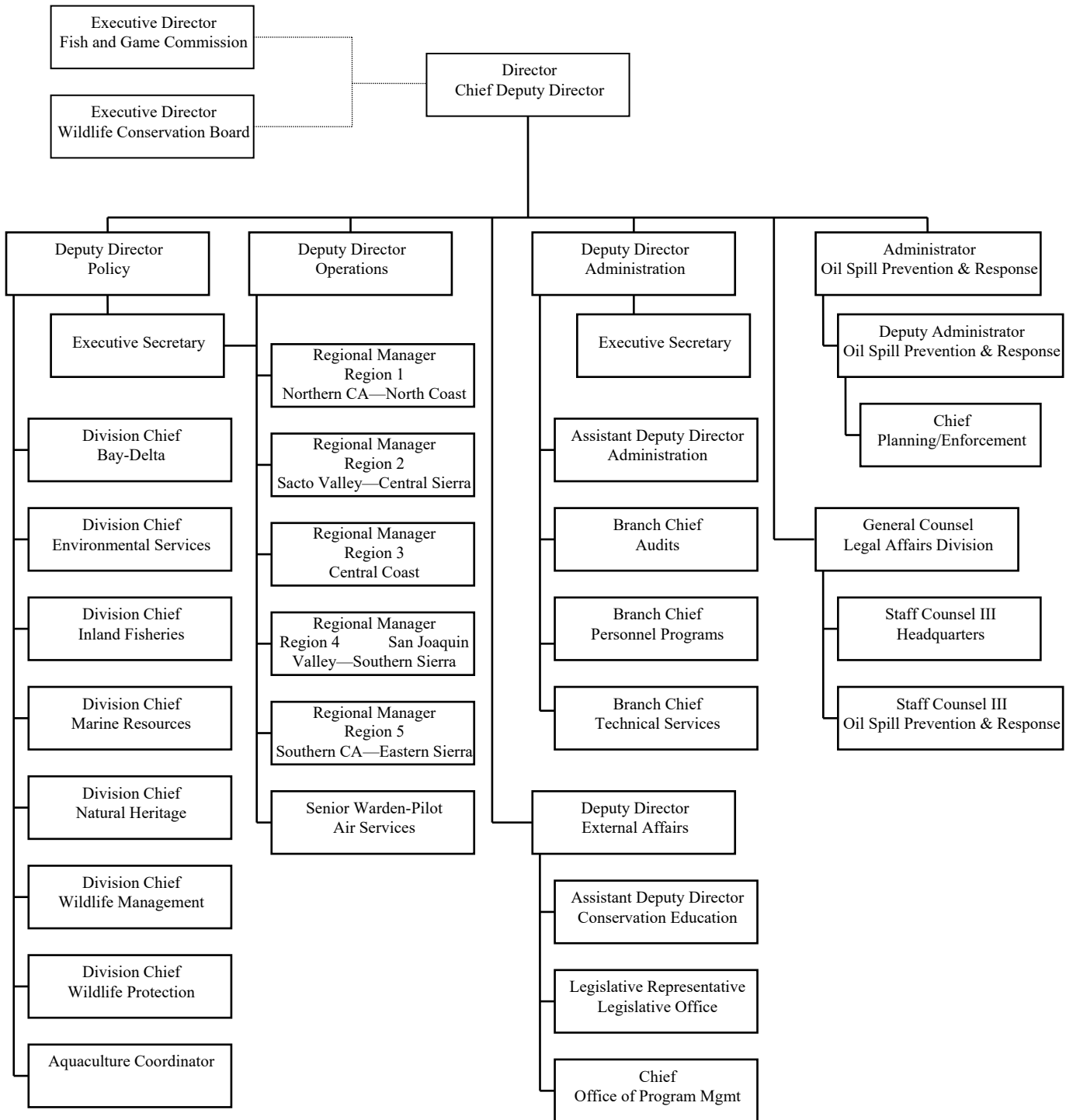
To carry out its mission, the department has been organized into seven divisions with field staff in various locations around the State (Figure 1). The specific titles and purposes of these divisions are as follows:

- The Inland Fisheries Division protects, maintains, restores, and enhances populations and habitats of inland fish, amphibians, reptiles, and aquatic invertebrates and provides for the recreational, commercial, scientific, and educational uses of these resources.
- The Bay Delta Division develops recommendations for the conservation and protection of the biological resources affected by the State Water Project, Central Valley Project, and other human activities.
- The Wildlife Management Division protects, maintains, and enhances the populations and habitats of birds and mammals and regulates the recreational hunting of these resources.



**Figure 1**

**Department of Fish and Game  
Organization Chart**



- The Natural Heritage Division identifies and conserves California's sensitive plants, animals, and natural areas.
- The Wildlife Protection Division enforces the laws and regulations enacted to protect California's wildlife resources.
- The Environmental Services Division protects, maintains, restores, and improves fish and wildlife resources and habitats.
- The Marine Resources Division protects, maintains, and enhances the populations and habitats of marine plants, invertebrates, fish, birds, and mammals and provides for the varied human uses of these resources.

In addition, the department operates an Office of Oil Spill Prevention and Response, which prevents and responds to oil spills affecting the marine waters of the State. Finally, the department has divisions for administration, external affairs, and legal affairs, which provide support to the department as a whole.

The department has offices in five regions of the State. The purpose of these regional offices is to coordinate field operations within a geographical area. However, the reporting structure related to field staff is inconsistent among the department's divisions. In certain divisions, field staff report to one of the five regional managers, but in other divisions, field staff report to the division chief. Two deputy directors oversee department policy and operations. The divisions were reorganized to report to the deputy director for policy, whereas the regional offices were reorganized to report to the other deputy director for operations. According to the Fiscal and Administrative Services Branch Chief, the department reorganized in 1994 to improve the consistency between its policy and operations. Previously, both regional managers and division chiefs made policy and operations decisions. This dual direction to staff caused inconsistent department policy and confused the reporting relationship of field staff.

The department's budgeted expenditures and projected revenues amounted to approximately \$168 million for fiscal year 1994-95. Tables 1 and 2 present budgeted expenditures by program and the related funding sources for those expenditures.

**Table 1****Budgeted Use of Funds by Programs  
for Fiscal Year 1994-95**

<b>Program</b>	<b>Budget</b>
Fisheries Management	\$ 58,463,000
Wildlife and Natural Heritage Management	31,837,000
Enforcement of Laws and Regulations	30,737,000
Environmental Services	27,338,000
Oil Spill Prevention and Response	19,420,000
Legal Services	513,000
<b>Total</b>	<b>\$168,308,000</b>

**Table 2****Budgeted Funding Sources  
for Fiscal Year 1994-95**

<b>Source</b>	<b>Amount</b>
Fish and Game Preservation Fund	\$ 74,057,000
Federal Trust Fund	28,668,000
Oil Spill Prevention and Administration Fund	17,257,000
Reimbursements	14,963,000
California Environmental License Plate Fund	10,648,000
Oil Spill Response Trust Fund	9,919,000
Public Resources Account, Cigarette and Tobacco Products Surtax Fund	7,694,000
General Fund	3,143,000
Other Sources	1,959,000
<b>Total</b>	<b>\$168,308,000</b>

As shown in Table 2, almost half of the department's funding is provided by the Fish and Game Preservation Fund. This fund has 20 subaccounts, called dedicated accounts, into which the department deposits various revenues that have been targeted for specific uses by law. Most of the revenue for these dedicated accounts comes from fees the department charges hunters and fishers for licenses and permits. Actual revenues for all 20 dedicated accounts totaled approximately \$8,500,000 in fiscal year 1994-95.

## ***Scope and Methodology***

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The Bureau of State Audits was requested by the California Legislature to conduct an audit covering various aspects of the department's operations. Specifically, we reviewed the department's allocation of administrative costs; revenues and expenditures related to dedicated accounts and special funds; internal audits related to its purchasing and contracting practices; the department's staffing levels; and its expenditures related to the 1991 Dunsmuir spill and current procedures to respond to similar spills.

Our review of the allocation of administrative costs focused on whether the department allocates appropriate costs and whether the allocation is equitable. To understand and evaluate its cost allocation methodology, we reviewed the department's cost allocation plan and interviewed department staff. To determine whether administrative costs are properly allocated and properly classified as administrative overhead, we reviewed selected allocations in fiscal years 1992-93 through 1994-95.

For our review of the department's revenues and expenditures related to the dedicated accounts and special funds, we examined the controls established to ensure that revenues and expenditures are recorded in the proper accounts. Specifically, we interviewed department employees to determine what controls are in place, we tested selected receipts to determine whether revenues were deposited into the proper fund, and we reviewed selected expenditures to determine whether funds were used for the targeted purposes.

We reviewed audits conducted by the department's internal auditors to determine whether the department has taken appropriate corrective action as a result of these audits. Specifically, we reviewed selected internal audit reports that identified weaknesses in the department's purchasing and contracting practices, ascertained whether the department still has weaknesses in these areas, and assessed the steps taken to correct the weaknesses.

We also reviewed department staffing levels for headquarters and field activities. Specifically, we reviewed the department's ratio of headquarters staff to field staff, compared the department's executive and administrative staff with similar staff of other state departments, and reviewed the department's exempt and Career Executive Assignment positions.

Our review of the department's expenditures related to the Dunsmuir spill focused on the reasonableness and appropriateness of these expenditures. We looked at the total costs charged to the project to date by categories to determine significant categories of costs. We selected transactions for these categories which included labor, legal, and travel costs and traced them to the supporting documentation. We also tested contracts for advertising, competitive bidding, justification of sole source, justification of prices, and proper approval.

Finally, to determine whether the department has adequate policies and procedures in place to respond to spills similar to the Dunsmuir spill, we selected a sample of four spills that the department has responded to since the Dunsmuir incident. We reviewed the department's policies and procedures pertaining to spills and assessed whether the department followed the appropriate procedures when responding to these four spills.

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# ***Chapter 1***

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## ***The Department's Cost Allocation Plan Charges Its Programs and Funds Inequitably***

### ***Chapter Summary***

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**T**he Department of Fish and Game's (department) cost allocation process is flawed, and we found that certain costs were charged as administrative costs that should not have been. We also found that the department's direct costs could be allocated to benefiting programs in a more equitable manner. In addition, we found that the amount accumulated in and allocated through the administration program has increased every year from fiscal year 1991-92, when administrative costs totaled \$20 million, through fiscal year 1994-95, when these costs totaled \$26 million. Finally, we found that the department has not had a written cost allocation plan since fiscal year 1992-93. As a result, some of the programs are being forced to share administrative costs that they do not benefit from. In

addition, funds that are targeted for the support of specific programs have in some cases been used to pay for other programs. In other cases, programs have not borne all the costs they should bear.

Although we reviewed the department's cost allocation procedures from fiscal year 1992-93 through fiscal year 1994-95, the results we discuss in this chapter pertain primarily to fiscal year 1994-95. We do not include the detailed results of our testing for fiscal years 1992-93 and 1993-94 because the conditions we noted in those years continued to occur in fiscal year 1994-95.

### ***Basic Principles of Cost Allocation***


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*Indirect costs must be equitably allocated to the programs that benefit from the services.*

The State Administrative Manual (SAM) requires state agencies to use an equitable method to allocate indirect costs to the programs that benefit from the services. Indirect costs are costs that cannot practically be identified as benefiting a specific program or activity and generally include administrative costs such as the cost of the executive office, general administration, budgeting, accounting, personnel, business services, management analysis, and training.



The SAM requires documentation of a cost allocation methodology by each state department. To meet this requirement, state agencies prepare a cost allocation plan (CAP). Each CAP should contain detailed information regarding the costs being allocated and the allocation method. In addition, the SAM requires that costs that can be identified directly to a program (direct costs) be charged directly to that program and emphasizes the importance of not charging costs that that program did not incur.

  
*The department accumulates indirect costs in an administrative cost pool.*

We evaluated the way the department allocates its costs among its many programs. It generally accumulates costs not directly charged to specific programs in the administrative cost pool. These costs are then allocated to the programs based on total program expenditures. Some costs are charged directly to specific programs.




A well-designed cost accounting system that charges direct and indirect costs to the appropriate programs in an equitable manner is especially important for the department because it accounts for many restricted revenues that can only be spent on specific programs. If the cost accounting system charges costs to those

programs that they should not bear, the restricted revenues will be diverted from their targeted purposes. In addition, legislation limits the amount that can be spent on administrative costs for a number of the programs funded with restricted revenues. For example, the Fish and Game Code, Section 7861.1, limits the amount of administrative costs that can be charged to the Commercial Salmon Stamp Account to 3 percent of annual expenditures for the program. If costs allocated to this program exceed the limit, the costs must be passed on to some other allowable funding source.


### ***The Department Does Not Have a Current Cost Allocation Plan***

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The department does not have a written CAP that describes its current cost allocation methodology, even though the SAM requires that every state department periodically update such a plan. The department did have a CAP in place for fiscal years 1991-92 and 1992-93, and the fiscal year 1991-92 CAP provided a reasonable method to distribute its administrative costs among its various programs. However, significant changes were made to the 1992-93 CAP, and subsequently the department stopped preparing a plan altogether.



*Programs share costs for which they receive no benefit.*



The essential purpose of a CAP is to distribute administrative costs to those programs that benefit from these costs. Beginning with the 1992-93 CAP and continuing through 1994-95, the department charged costs, such as salaries of certain division staff, to the administrative cost pool that should have been charged directly to programs. As a result, some of the programs were forced to share costs for which they received no benefit. In addition, various department funds were used to pay costs that did not relate to the targeted purposes for those restricted funds. For example, the department charged approximately \$32,000 more in administrative costs than it should have to the Augmented Deer Tags Account. The overall impact is that the hunters who paid the augmented deer tag fees overpaid by \$32,000.

The department told us that it made changes to the 1991-92 cost allocation methodology because it conflicted with the Indirect Cost Rate Proposal (ICRP) methodology. In 1991-92, the department established special “program support” cost accounts to accumulate costs of certain program units that provided indirect support to programs but were not considered administration. These costs were then allocated only to the benefiting organizational units and not to all department units. However, this method conflicted with the department’s ICRP method because the ICRP assumed allocated costs are spread across the entire organization. To alleviate this conflict, the types of costs being charged to these “program support” cost accounts were reexamined and during subsequent years were charged directly to programs or to administration. While this would explain a general increase in costs charged to the administration program, the department has no documentation or support on file to show that the changes resulted in a more equitable allocation of costs.

***The Department Has Increased the Costs It Allocates Through the Administration Program***

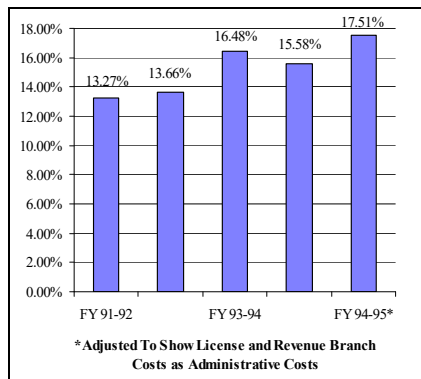
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Administration costs to total costs ratio increased 20 percent from 1991 to 1994.

Administration program costs have increased by approximately \$5.8 million since fiscal year 1991-92, whereas total expenses have increased by approximately \$14.8 million over the same period. As Figure 2 illustrates, administration program costs increased from approximately 13 percent of the total department costs in fiscal year 1991-92 to approximately 16 percent in fiscal year 1994-95, a 20 percent increase in the ratio. This increase over the three years represents a \$5.8 million addition to the costs accumulated in the administration cost pool and allocated to the programs. Further, costs related to the License and Revenue Branch (branch) were included in the administration cost pool in fiscal years 1991-92 through 1993-94 but were not included in fiscal year 1994-95. Costs for the branch totaled approximately \$3.2 million in 1994-95. If these costs had been included in the administration cost pool as in prior years, administration program costs would represent 17 percent of total costs instead of 16 percent. This indicates that the removal of the branch's costs from the pool in 1994-95 did not entirely offset other additional costs that were added to the pool in 1994-95.

**Figure 2**  
**Administrative Costs as a Percent of Total Department Costs**



◆  
*\$2,750,000 was charged to administrative costs that should have been charged directly to specific programs.*


### ***Costs Are Not Allocated Equitably***

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We reviewed six of the largest categories of administrative costs in fiscal year 1994-95 and identified approximately \$3.4 million that should have been charged directly to benefiting programs or allocated in a more equitable manner. Specifically, we found that the department improperly paid \$104,000 for costs of the Wildlife Conservation Board. We also found \$2,750,000 in costs that should have been charged directly to specific department programs.

Finally, we identified \$548,000 in costs that should be allocated in a more equitable manner. As a result, programs were inequitably charged costs for which they received no benefit. In addition, certain restricted funds have incurred costs that they should not have to absorb.

### ***The Department Pays for Costs Not Included In Its Budget***



*The department improperly pays \$104,000 per year for Wildlife Conservation Board office space.*



The department has been improperly paying for costs related to the Wildlife Conservation Board (board) at least since fiscal year 1992-93. Specifically, the department has paid approximately \$104,000 per year in rent for board office space. Although the board is part of the department, the State's Annual Budget provides separately for the support of the board. In addition, no provisions in the department's annual support appropriations authorize payment of the board's rent. As a result, the department's dedicated and non-dedicated funds have been used to support the board and diverted from their intended purpose.

### ***Direct Charges Are Allocated as Administrative Costs***

The department has improperly included direct charges as administrative costs. For fiscal year 1994-95, we identified certain costs that should have been charged directly to specific programs. For example, the salaries of some of the division chiefs and divisional administrative staff members are charged to administrative costs. However, because the efforts of these employees benefit particular division programs, the time they spend would be more appropriately charged directly to those programs. The annual charge to administrative costs for these salaries is approximately \$2.2 million.

Similarly, we found that rent for a building used exclusively by the Inland Fisheries Division is charged to administrative costs. The annual rent for this building is \$119,505. Charging identifiable program costs as administrative costs violates SAM Section 9201, which states that all direct costs must be charged to the programs they benefit. By charging direct costs as administrative costs, the responsibility and accountability for the costs are not assigned to the program controlling those costs. In addition, the costs directly benefiting a specific program are borne by other programs that did not benefit from these costs.

### ***Some Programs Are Charged for Services They Do Not Use***

Because the method used to allocate these costs is inequitable, some programs pay costs for services they do not use. Specifically, during our review of administrative costs in fiscal year 1994-95, we identified a department activity that should be charged in a more equitable manner. Costs totaling approximately \$548,000 for the Air Services Section, which provides for the aviation needs of the department, were charged as administrative costs and allocated to programs without regard to which programs actually use the section's services. However, the department's operations manual states that aircraft use will be charged to the appropriate program or activity. In fact, in fiscal year 1992-93, the department charged the costs for this section directly to the programs using its services.

According to the Fiscal and Administrative Services Branch Chief, the department began charging the costs for the Air Services Section to the administrative cost pool because of the difficulty in directly charging certain flight support activities, such as repairs and maintenance. However, we believe costs for flight support activities could be pooled and allocated to those programs that use air services based on flight hours or some other equitable base. In this way, all the costs related to the provision of air services would be borne by those programs using the service. With the current practice, the department ignores its stated policy and unfairly charges other programs and funding sources.

### ***Restricted Funds Do Not Pay Appropriate Share of Certain Costs***

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The costs of the License and Revenue Branch are not allocated in an equitable manner. Because the branch provides licensure and fee collection services for many departmental operations, its costs should be allocated to all funds for which it collects revenues. However, although 10 percent of the branch's collections are deposited into dedicated funds, these funds do not pay their share of the branch's costs. The branch is responsible for developing and selling fishing and hunting tags and permits and collecting the related revenues. During fiscal year 1994-95, the branch collected more than \$60 million in revenue, approximately \$6 million of which was restricted revenues. Restricted revenues are deposited into special

(dedicated) accounts in the Fish and Game Preservation Fund, while unrestricted revenues are deposited into the general, unrestricted portion of the fund.

The department charges all the branch's costs to the general portion of the Fish and Game Preservation Fund, and restricted funds pay nothing. As a result, even though the branch collects and processes revenues in excess of \$6 million for the dedicated programs, none of its costs are being charged to these programs.

The department is evaluating alternatives to the current system for allocating the branch's costs. Specifically, the chief of the branch recently prepared a draft proposal recommending changes in the way the branch's costs are allocated. According to the proposal, the branch would charge some items, such as printing, postage, and some staff work, directly. Other costs that are generally administrative in nature, such as those for cashiering and warehouse staff, would be charged as administrative costs. The proposal concludes that further study of the branch's expenditures is required to determine which costs can be charged directly and which should be distributed. We believe that the recommendations expressed in the proposal are sound and should be implemented.

### ***Conclusion***

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Costs accumulated in and allocated through the administration program are on the rise. In addition, the department's cost allocation methodology does not provide for an equitable allocation of costs to its programs and funding sources. As a result, the department cannot always be assured that it is spending funds for their targeted purposes.

### ***Recommendations***

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The department should carefully review its activities to better differentiate its direct costs from its indirect costs. After all costs have been categorized, the department should make appropriate changes to its cost allocation plan to ensure that all costs are allocated equitably. Finally, the department should document its cost allocation methodology, including any changes as they are made.

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# Chapter 2

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## ***Charges to Restricted Funds Are Not Always Appropriate***

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### ***Chapter Summary***

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**M**uch of the funding received by the Department of Fish and Game (department) is restricted by law. For this reason, the department has established a system of dedicated accounts designed to ensure that the expenditures from these accounts are dedicated to those activities specified in state law. In spite of this, the department has made expenditures from its dedicated accounts for purposes other than those specified in state law.

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### ***Background***


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The department receives funding for its programs from various sources. Approximately half of its funding is from the Fish and Game Preservation Fund. This fund is supported by the sale of hunting and fishing licenses, commercial fishing permit fees, and environmental review fees paid by development project applicants.

Most of these revenues are used for the general support of hunting and fishing programs and other fish and wildlife protection, management, and enforcement activities. However, the revenues from the sale of special stamps and permits, such as the salmon stamp, striped bass stamp, and deer permit tags, are restricted by law for specific purposes, such as the preservation of salmon and bass fisheries or the preservation of California's deer habitats. Many of these revenues are deposited into dedicated accounts in the Fish and Game Preservation Fund. For example, Fish and Game Code Sections 7860 through 7862 authorize the department to collect an \$85 fee when it issues a commercial fishing salmon stamp. After deducting the administrative fee, the department must deposit the money into the Commercial Salmon Stamp Account, which is a dedicated account in the Fish and Game Preservation Fund. The law


requires the department to spend \$30 for each stamp issued to raise chinook salmon to a yearling size. The remaining revenue must be spent on programs to restore, enhance, and protect salmon streams. In fiscal year 1994-95, actual revenues deposited into the Fish and Game Preservation Fund amounted to nearly \$75 million, approximately \$8.5 million of which went into 20 dedicated accounts.

In addition to the funding it receives from the Fish and Game Preservation Fund, the department is supported by other special funding sources, such as the Oil Spill Prevention and Administration Fund, which consists of fees assessed on barrels of crude oil received at or piped from marine terminals. The use of revenues from these special funds is also restricted to specific purposes.



*Because the use of dedicated accounts is restricted, matching actual costs with related revenues is important.*

Because the use of these dedicated accounts and special funds is restricted by law for specific purposes, matching of the actual costs with the revenues associated with each program is important. Management needs accurate information regarding actual costs to evaluate whether the funds were spent as required and to determine whether the revenues generated are sufficient to cover the costs of the related programs.



We tested the revenues and expenditures of the following dedicated accounts and special funds for fiscal year 1994-95 to determine whether funds were used in conformance with state law:

- Striped Bass Stamp Account;
- Salmon Stamp Account;
- Augmented Salmon Stamp Account;
- Augmented Deer Tags Account;
- Streambed Alteration Permits Account;
- Endangered and Rare Fish, Wildlife, and Plant Species Conservation and Enhancement Account;
- Oil Spill Prevention and Administration Fund; and
- Oil Spill Response Trust Fund.





In the discussion that follows, we do not make reference to each of the accounts listed above but provide selected examples illustrating the flaws in the department's management of its dedicated accounts. To some extent, however, each one of these accounts has incurred costs that are unrelated to the activities to which its funds are intended to be dedicated.

### ***Charges to Restricted Funds Not Based on Actual Costs***

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*Full-time salaries for 20 wardens are charged to the Lake and Streambed Alteration Agreement Program even though these wardens do not devote full time to the program.*  
—◆—

Charges to dedicated accounts do not always reflect the actual costs of department activities. For example, the department deposits the actual amount of permit fees collected into the Streambed Alteration Permits Account. However, labor costs charged to this account are based on estimates from a 1991 department task force report. That report concluded that the level of effort needed to carry out the Lake and Streambed Alteration Agreement Program activities was equivalent to approximately 20 full-time wardens. The department has charged 100 percent of the labor costs it incurs for 20 specified wardens to this account instead of the actual time each warden devotes to the program. Labor costs charged to the Streambed Alteration Permits Account represent approximately 79 percent of reported account expenditures. However, these labor charges are not based on the actual effort required to administer program activities. In addition, the vehicle fuel costs charged to this account are for specific vehicles that, in some cases, are assigned to wardens other than those whose labor costs are charged to the account.

Because the charges to the Streambed Alteration Permits Account do not reflect the actual costs of the activities associated with issuing streambed permits, the department cannot accurately assess whether the fees collected are sufficient to cover the costs associated with this activity. When the department cannot link its costs to the fees that it charges for particular activities, it runs the risk that those paying the fees may challenge the reasonableness of the fees. Recently, for example, the California Superior Court ruled that a fee imposed by the department related to California Environmental Quality Act projects was unconstitutional because the department could not prove that the fee charged bore a reasonable relation to its costs.

***Dedicated Funds Improperly  
Loaned to Another Fund***


In fiscal year 1988-89, the department made a loan of \$1.5 million to the Native Species Conservation and Enhancement Account using funds from 11 of the 20 dedicated accounts in the Fish and Game Preservation Fund as shown in Table 3. We believe this loan should not have been made from dedicated accounts because their use is restricted by law to purposes specifically related to the source of the revenues collected, and the legislation authorizing the loan did not specifically allow the use of dedicated funds. The loan was apparently made from the dedicated portion of the Fish and Game Preservation Fund because the non-dedicated portion had limited funds. Over the ensuing three fiscal years, the department has paid the dedicated accounts back \$1.4 million of the \$1.5 million loaned to the Native Species Conservation and Enhancement Account according to information in the governor's budget. However, the loan was not paid back from the Native Species Conservation and Enhancement Account. Instead, the department paid back the dedicated accounts by simply transferring funds from the non-dedicated portion of the Fish and Game Preservation Fund. Therefore, the loan to the Native Species Conservation and Enhancement Account is still outstanding.

**Table 3**


***Loan to the Native Species Conservation  
and Enhancement Account  
(In Thousands of Dollars)***

<b>Dedicated Account</b>	<b>Original Loan Amount</b>	<b>Loan Repayments</b>	<b>Difference</b>
Augmented Salmon Stamp	\$ 569	\$ 369	\$(200)
Striped Bass Stamp	416	515	99
Salmon Stamp	341	341	
Sea Urchin	37	37	
State Duck Stamp Account	29	29	
Penalty Assessments Training	20	25	5
Herring Tax	17	21	4
Aquaculture Program	12	15	3
Big Horn Sheep Permit	12	15	3
Life-Time Licenses Trust	9	11	2
Ocean Fishery Research and Hatchery	3	4	1
<b>Total</b>	<b>\$1,465</b>	<b>\$1,382</b>	<b>\$ (83)</b>

We have been unable to determine exactly when the loans were repaid or the exact amounts because, according to the department's internal auditors, the accounting records have been destroyed. However, the governor's budget indicates that the repayments occurred during fiscal years 1990-91 and 1991-92. In addition, as shown in Table 3, repayment information reflected in the governor's budget did not always agree with the amount that each account loaned. For example, the Striped Bass Stamp Account was overpaid by approximately \$99,000, whereas the Augmented Salmon Stamp Account is still owed approximately \$200,000.



*Because anticipated revenues have not materialized, it is unclear how the loan will be repaid.*



The amount owed to the non-dedicated portion of the Fish and Game Preservation Fund was approximately \$1.35 million as of June 30, 1995. Because the revenues from the program that received the loan have not materialized as projected, it is unclear how the loan will be repaid. According to the chief of the Fiscal and Administrative Services Branch, the department will ask the Legislature for relief of the debt to the non-dedicated portion of the Fish and Game Preservation Fund since it believes that program revenue will not be sufficient to repay the loan.

### ***Lack of Information Precludes Managers From Monitoring Charges to Dedicated Funds***

Because the department has not developed meaningful and accurate accounting information, managers responsible for programs funded with dedicated accounts and special funds do not always have sufficient information to manage their funds properly. Depending on the nature of the program, a specific department activity may be supported by one or more funds, including dedicated accounts within the Fish and Game Preservation Fund. To determine whether restricted funds have been spent in accordance with state law, managers need to know what funds support each of their activities. However, based on interviews with selected division chiefs, we found that these managers monitor charges to each of the programs in their divisions but they do not always monitor the use of funds that pay for those programs. The reason indicated by most of the managers was that the expenditure information they receive from the department's accounting office is either inaccurate or does not indicate which fund pays for each program. Accounting staff explained that the information provided to managers can be

used to determine the funds used for their programs, but the managers do not use the accounting information to the fullest extent possible. When managers responsible for spending dedicated account and special funds cannot monitor accounting charges to their funds, the department cannot ensure that it is spending funds for their targeted purposes.

### ***Corrective Action***

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The department has taken steps to improve its management of dedicated account funds. It has created a “fund manager” position within the Administration Division to help the division chiefs better manage the dedicated accounts under their responsibility. This fund manager has been assigned various duties related to dedicated accounts. These duties include the following:

- Establishing an improved system for accounting and tracking dedicated account revenues and expenditures;
- Monitoring dedicated account revenues and expenditures and assisting in revenue forecasting;
- Serving as a liaison between accounting and program personnel;
- Monitoring reporting requirements to ensure that reports to the Legislature are made on a timely basis; and
- Preparing a section on the management of dedicated funds for the policy and procedure manual.

Although the department has taken some steps to ensure that it spends restricted funds for their targeted purposes, more action is needed.

### ***Conclusion***

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By using dedicated funds improperly, the department violates the intent of various laws that authorize the collection of fees for specific purposes. In addition, the department does not meet its responsibility to properly control and manage the funds it has been authorized to spend.



## ***Recommendations***

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To better manage its dedicated accounts, we recommend that the department do the following:

- Ensure that the new system for tracking dedicated account revenues and expenditures clearly shows that restricted funds are spent in accordance with laws regarding the intended use of those funds;
- Implement a time reporting system so that it can properly charge personnel costs to its restricted funds based on the level of effort required to carry out the related program activities;
- Ensure that the accounting information it provides to program staff meets their needs; and
- Verify that it has the proper legal authority when it makes loans using restricted revenues.

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# Chapter 3

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## ***The Department's Internal Audit Reports Indicate Continuing Purchasing and Contracting Weaknesses***

### ***Chapter Summary***

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The Department of Fish and Game's (department) internal auditors have identified purchasing and contracting problems. The continuation of these problems indicates that underlying weaknesses have not been addressed sufficiently by the department.

In October 1993, the department's internal auditors reported several purchasing and contracting problems in the Region 5 office, located in Long Beach. These problems included improper procurement of goods and services, improper use of the revolving fund, and failure to document the receipt and acceptance of goods or services.

Internal auditors conducted subsequent audits of the purchasing practices at headquarters and the other four regional offices. They also conducted audits of the department's consultant services contracts and the Adopt-A-Lake Program. Each of these audits identified procurement problems, indicating that purchasing and contracting problems are not restricted to the Region 5 office.

Our audit of the department's expenditures related to the Dunsmuir spill and the dedicated accounts and special funds identified problems similar to those found by the internal auditors. In our view, these procurement problems continue because the department did not always implement the internal auditors' recommendations or the internal audit recommendations did not always adequately address the problems.


### ***The Department Has Acted To Address the Irregularities Identified at the Region 5 Office***

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One of the purposes of our audit was to determine if the department took corrective action to address irregularities identified in the Region 5 office. The internal auditors issued a report in October 1993 that identified a host of problems with the management of the region. These problems included improperly procuring personal services, circumventing the State's purchasing and contracting procedures, not having purchases approved before goods or services were obtained, not documenting the receipt and acceptance of goods or services, and improperly using the revolving fund to circumvent the State's purchasing process.

The department has taken several actions to address the irregularities identified in the Region 5 office. These actions include the following:

- Taking disciplinary action against five Region 5 employees involved in improper procurement practices;
- Establishing a task force to improve the department's procurement practices; and
- Issuing memoranda to clarify procedures for procuring goods and services.

  
*A follow-up audit at Region 5 found that many of the same procurement problems still exist.*

In addition, the department's internal auditors conducted a follow-up audit of Region 5 to determine the extent of the corrective action taken. In a September 1994 draft of the follow-up report, the internal auditors criticized many of the same procurement practices that had been criticized in the October 1993 report. The region was still not obtaining contracts as it should, was not preapproving purchases, and was still splitting purchases to circumvent procurement rules. However, the follow-up report also noted the region's improvement in areas such as procurement of personal services and use of the revolving fund.

### ***Procurement Problems Exist Throughout the Department***

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The identification of irregularities at the department's Region 5 office raised concerns about whether headquarters and the other

four regional offices were properly managing the procurement of goods and services. After examining the Region 5 office, the internal auditors conducted audits of purchasing and contracting practices at headquarters and the other four regional offices. Audits were also conducted of the department’s consultant services contracts and the Adopt-A-Lake Program. Although final audit reports have not been issued on the other four regional offices, the consultant services contracts, and the Adopt-A-Lake Program, internal audits consistently identified problems with the procurement of goods and services similar to those found in Region 5. These purchasing-and-payment-related problems appear to be widespread, as illustrated in Table 4.

**Table 4**  
**Department of Fish and Game**  
**Summary of Purchasing Audits**  
**by Internal Auditors**

Internal Audits:	Follow-up						
	Region 5	Headquarters	of Region 5	Region 1*	Region 2*	Region 3*	Region 4*
<b>Deficiencies Noted in the:</b>							
Initiation of the procurement	NR	NR	NR	x	x		x
Procurement of goods	x	x	x	x	x	x	x
Procurement of services	x	x	x		x	x	x
Receipt of goods and services	x	x	x		x	x	x
Payment of invoices	x	x			x	x	

Notes:

“x” denotes that that the weakness was identified by the audit work.

“NR” denotes that this process was not reviewed.

\* Internal audit reports not yet prepared. Information based on review of internal audit workpaper summaries.

A blank space denotes that the weakness was not identified in the audit work.

Specifically, the internal auditors noted purchasing weaknesses related to the preparation and approval of purchase orders before the goods have been received and the preparation of reports to document the receipt of goods and services.


Preparation and approval of purchase orders before goods or services are obtained is important for several reasons. When purchase orders are not prepared before goods or services are procured, opportunities for realizing economic savings and efficiencies from combining two or more purchases are missed.

Also, when purchase orders are prepared and approved after the fact, the department cannot ensure that the most competitive price available was obtained for the goods and services purchased.

Similarly, employees should prepare and distribute documented evidence that goods or services have been received and accepted. The State Administrative Manual (SAM), Section 8422.20, requires that employees receiving goods or services prepare “stock received” reports to acknowledge and document that the goods or services ordered have been received and accepted. When employees do not prepare and distribute these reports, purchasing staff members do not know the status of open purchase orders, and accounting staff do not know whether vendor invoices should be paid. In fact, in the May 1994 headquarters purchasing audit report, the internal auditors reported several instances when accounting staff paid vendor invoices without evidence that goods or services were actually received.

The internal auditors also noted several problems related to the department’s payment process, including:

- Not always taking advantage of vendor discounts;
- Incurring excessive late payment penalties; and
- Making duplicate payments to vendors.



*The current process for handling vendor invoices delays payment and limits ability to take vendor discounts for prompt payment.*

Under the department’s current procedures, field employees and the regional offices receive the original copy of vendor invoices. These invoices are processed by the offices’ “payment desk” function before being sent to the department’s accounting office in Sacramento for payment. The “payment desk” function matches the vendor invoices with purchase orders and any “stock received” reports. The matched documents are then assembled into a payment package and sent to the accounting office for payment. Handling vendor invoices in this manner creates a delay in the processing of vendor payments that has prevented the department from taking advantage of vendor discounts, led to late vendor payment penalties, and, on occasion, resulted in duplicate payments to vendors.


Finally, the internal auditors found problems with the department’s contracting practices, including obtaining services before a contract is approved and inappropriately using the sole-source justification. They also identified contracting

problems in the Adopt-A-Lake Program. This program allows the department to facilitate volunteer efforts toward rehabilitating and improving fisheries, fish habitats, and resources. In its efforts to accomplish these goals, the department assisted a contractor in preparing proposals for contracts that it subsequently awarded to the contractor, inadequately monitored the contractor's performance, and paid invoices that were not justified by the contractor's records.

We believe that many of the department's current purchasing and contracting problems continue because the department has not always implemented the audit recommendations or the recommendations did not always adequately address the problems.

### ***Internal Audit Recommendations Did Not Always Adequately Address the Department's Purchasing and Payment Problems***

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*Internal auditor recommendations should have:*

- *limited purchase order authority; and*
- *made headquarters accounting office responsible for payments.*

While the internal audits identified and reported many purchasing and payment problems at the Region 5 office and at headquarters, the audit recommendations did not always adequately address the issues. For example, the Region 5 audit report emphasized the need for employees to obtain prior approval before making purchases and recommended that regional administrators be responsible for approving regional office purchase orders and that field supervisors be responsible for approving field office purchase orders. Although the recommendation was consistent with established policies and procedures, the follow-up audit at Region 5 indicated that these problems still exist and, therefore, more action is needed. A better solution would be to provide training to employees responsible for approving purchases or to consider limiting the authority and responsibility for preparing and approving purchase orders to fewer employees.

Regarding the department not taking advantage of vendor discounts, incurring excessive late payment penalties, and making duplicate payments, the headquarters purchasing audit recommended that the regions' administrative staff ensure the prompt processing of vendor invoices, and the Region 5 audit recommended that only original vendor invoices be submitted to the headquarters accounting office to prevent duplicate payments. However, we believe that the responsibility for the proper processing of payments is more appropriately placed with the

headquarters accounting office. A better arrangement would be to require vendors to send original invoices directly to the accounting office in Sacramento rather than to field or regional offices. This change would eliminate the need for the “payment desk” function in outlying offices to handle invoices. Because invoices would be processed and paid more promptly, the accounting office could take advantage of vendor discounts and avoid late vendor payment penalties. Also, the chances for making duplicate payments to vendors would be reduced because extra copies of the vendor invoice would not exist within the department.

***The Department’s “One-Time Services”  
Authorizations Are Misused  
and Not Monitored***

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A problem that was repeatedly identified in the department’s audits was the misuse of the “one-time services” authorization. This authorization is used to procure services in place of obtaining a formal contract and does not require Department of General Services approval. This method of authorization is intended where the need for services is not anticipated, cannot be postponed, and is needed immediately for health and safety reasons, to prevent loss of state assets, or to avoid significantly higher costs.

In the past, the department did not always enter into written contracts with vendors. Rather, it simply paid the vendor invoices by indicating approval and “one-time services, no contract issued” on the invoice. The department still allows the use of “one-time services” authorizations but now requires the use of a “one-time services” authorization form. The use of the “one-time services” authorization was formalized by the department’s recently developed policy and procedure on the proper use of the new authorization form. However, this form is still not a contract because terms of the services to be provided are not disclosed, the vendor is not required to sign the form agreeing to provide the services, and no control number is required to identify and track the use of the form.

Widespread use of "one-time services" indicates they are not being restricted to their intended purpose.

Based on the widespread use of this method of authorization throughout the department, it obviously is not being restricted to its intended purposes. The internal auditors reported many misuses of the "one-time services" authorization, first in Region 5 and later in the headquarters purchasing audit. That later report recommended periodic review of these authorizations to determine the propriety of their use and whether services should be consolidated into contracts. However, the department did not implement the recommendation and, in fact, recent audits of two of the other four regional offices and our audit have identified continuing misuse of these authorizations.

***Despite Internal Audit Recommendations, Problems Still Exist***

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Our testing of the department's expenditures found problems similar to those identified by the internal auditors. We found misuse of the "one-time services" authorizations and problems with contracting practices.

Six of 22 "one-time services" authorizations were not appropriate.

Our testing of the Dunsmuir spill and various restricted-fund expenditures identified the widespread use of "one-time services" authorizations. Twenty-two of the 60 transactions we tested were "one-time services" authorizations. Six of these 22 occurred in the 1994-95 fiscal year and were not appropriate.


For example, one of the divisions misused the authorization when hiring temporary support staff services. Specifically, the Oil Spill Prevention and Response Division, responsible for preventing and responding to marine oil spills, was in need of additional clerical help because of the workload created by a large number of spills. To satisfy this need, the office hired temporary clerical services from two temporary help agencies. The services were for the same divisional unit and covered a seven-month period. The division spent \$19,000 for services from one temporary help agency and \$32,000 for services from the other agency. These services were obtained by processing 123 "one-time services" authorization forms rather than a contract, as required by SAM Section 1215.

In our view, the division should have anticipated the need to enter into a contract with the temporary help agencies, especially since the services spanned a seven-month period. Because the "one-time services" authorizations require minimal effort to procure services, the division used the authorizations to circumvent the normal contracting process. In fact, the same staff member was able to request the services, authorize




procurement, and approve payment. As a result, a written contract was not in place as required, and the department did not ensure that the State was legally protected from unsatisfactory services.

Further, the department's award and management of contracts is not always effective. Specifically, the reasonableness of contract prices or rates is not always justified. As part of the contracting process, the SAM requires departments to justify the reasonableness of the price of contracted services. This requirement applies even if the contract is exempt from bidding or if fewer than three competitive bids or proposals have been received. SAM Section 1220.1.a(2) requires an explanation sufficient to afford a basis for approval as to the reasonableness of the cost or price of the services. In addition, SAM Section 1236.2.a requires the justification of the appropriateness or reasonableness of the costs for sole-source contracts, exempt contracts, or contracts prepared when fewer than three competitive bids or proposals are received.



*The department did not provide sufficient justification for the costs of 13 out of 43 sole-source contracts reviewed.*



In our review of 43 sole-source contracts, 13 did not provide sufficient justification of the reasonableness of the contract price or rates. Ten contracts, totaling \$2,785,478 for damage assessment and scientific services, were executed without any cost justification. Two contracts, totaling \$385,000 for attorney services in relation to the Dunsmuir spill, offered no justification of the reasonableness of the hourly rates. Finally, one sole-source contract for striped bass rearing services totaling \$230,998 simply stated that the costs were very much in accord with the costs of an earlier contract; however, no analysis was documented to justify the costs of the current contract. When the department does not sufficiently justify the reasonableness of the cost of its contracts, the State cannot be assured that services are being obtained in the most economical manner possible.

### ***The Department Has Taken Some Corrective Action***

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The department has taken steps to resolve its problems regarding the procurement of goods and services. Specifically, it has revamped its administrative team. This new team has developed, implemented, and issued new written purchasing guidelines and procedures for procuring goods and services. In addition, management bulletins have been issued and a new contract processing and management manual will soon be issued

to clarify acceptable contract processing and management practices.

These written procedures will help to clarify the requirements and appropriate procedures to be followed when goods or services are procured through purchase orders or contracts. The new purchasing guide was issued in June 1995 and describes the various methods for procuring goods and services and the required forms and procedures for employees to use and follow. Various departmental bulletins have been issued clarifying the requirements and responsibilities of contract managers. Finally, the contract processing and management manual, which is in the final stages of being issued, will provide department employees with written standards for acceptable contract processing and contract management practices.

### ***Conclusion***

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Several audits of the department's purchasing and contracting practices have identified widespread problems in its procurement of goods and services. The department has taken some steps to resolve these problems, including issuing written guidelines and procedures, but we believe that more improvement is needed.

### ***Recommendations***

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The department should review its purchasing, payment, and contracting processes and identify responsibilities that should be assigned to appropriately trained employees. The department should keep in mind the primary functions of the employees and the most effective and efficient process to accomplish these responsibilities.

The department should also develop and implement processes that ensure purchasing and contracting laws and regulations are followed. Department supervisors should be made responsible and held accountable for obtaining goods and services through these administrative processes.

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# Chapter 4

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## ***The Number of Department Headquarters Positions Has Increased***

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### ***Chapter Summary***

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**O**ur review of the Department of Fish and Game's (department) staffing indicates a pattern of an increasing number of staff members at department headquarters. Our analysis shows that growth in headquarters positions has outpaced growth in field positions by 2.5 to one over the last ten years. However, we acknowledge that the department's data used in our analysis is less than perfect. Also, the ratio of executive and administrative staff relative to total department staff is twice as high as that of the Department of Forestry and Fire Protection (DFFP) and one and one-quarter times that of the Department of Parks and Recreation (DPR). However, the comparison of one department with another must be viewed with caution because of various differences between departments. Finally, although the department's creation of exempt positions is not always proper, the placement of Career Executive Assignments (CEA) within the department is appropriate, with one exception.

### ***Ten-Year Trend Indicates the Number of Headquarters Staff Has Grown Faster Than Field Staff***

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Our analysis of the position counts in the Salaries and Wages Supplement (SWS) to the governor's budget shows that the department's headquarters staff increased faster than the field staff from fiscal year 1983-84 to fiscal year 1993-94. For purposes of our analysis, we defined headquarters staff as staff of the Fish and Game Commission, the department's executive office, and the various administration branches in Sacramento, such as audits, personnel programs, and technical services. We also included all staff reporting to a Sacramento division office plus region administrative staff reporting to a regional office. We found that the total staff, excluding temporary help, increased

by 363 positions (from 1,251 to 1,614), representing a 29 percent net increase in total positions. Headquarters accounted for 259 (71 percent) of the positions and field staff accounted for the remaining 104 (29 percent) positions. In other words, headquarters staff increased faster than field staff by a ratio of 2.5 to one. The 1983-84 fiscal year headquarters staff (423 positions) represented 34 percent of the 1,251 total staff positions, whereas the 1993-94 fiscal year headquarters staff (682 positions) represented 42 percent of the 1,614 total staff positions.

The increases in headquarters staff positions can be attributed to many of the department's divisions. Table 5 shows a breakdown of the net increases in headquarters staff by division.

**Table 5**  
***Net Increase in the Number of Headquarters Positions***

<b>Organizational Unit</b>	<b>Fiscal Year 1983-84</b>	<b>Fiscal Year 1993-94</b>	<b>Net Increase</b>	<b>Percent Increase</b>
Executive and Administration	146	229	83	57%
Oil Spill Prevention and Response	0	52	52	100
Inland Fisheries	65	101	36	55
Environmental Services	43	74	31	72
Wildlife Protection	13	31	18	138
Natural Heritage	15	27	12	80
Marine Resources	30	41	11	37
Other divisions and regions	111	127	16	14
<b>Total</b>	<b>423</b>	<b>682</b>	<b>259</b>	<b>61%</b>

We discussed this information with the deputy directors and several division chiefs to obtain their perspective on our analysis and explanations for any major changes in the staffing levels during the ten-year period. Several division chiefs offered explanations for the increases in headquarters staff in their particular divisions.



*The increase in executive and administration positions represents a sizable portion of total department net increase.*



The Deputy Director of Administration explained that increases in the executive and administration division have closely paralleled increases in total department staff for the ten-year period. One would expect an increase in the department's executive and administration staff as the field staff increases because the growth in field staff would create a larger workload for accounting, budgeting, business services, and personnel staff that comprise the executive and administration staff. However, the 146 executive and administration positions represented approximately 12 percent of the 1,251 total department employees in fiscal year 1983-84, whereas the 229 executive and administration positions represented approximately 14 percent of the 1,614 total department employees in fiscal year 1993-94. The 83-position increase in the executive office and administration staff represents a sizable portion (23 percent) of the total department net increase of 363 positions over the ten-year period. Further analysis of the data identified the following significant position count changes between fiscal year 1983-84 and 1993-94 within the executive office and administration branches:

- The Executive Office increased by approximately 4 positions.
- The License and Revenue Branch increased by approximately 19 positions.
- The Fiscal, Budgets, and Contracts Branches increased by approximately 15 positions.
- The Personnel Programs Branch increased by approximately 9 positions.
- The Legal and Legislative units increased by approximately 8 positions.


The establishment of the Oil Spill Prevention and Response (OSPR) Division, as enacted by Chapter 1248, Statutes of 1990, created 52 headquarters positions between fiscal years 1991-92 and 1993-94. The OSPR is a new division intended to prevent and respond to oil spills affecting the marine waters of the State.

Our review of the Inland Fisheries Division revealed a net increase of 36 headquarters positions between fiscal years 1983-84 and 1993-94. According to its division chief, a major


contributing factor to the increase in headquarters staff was the addition of the Fisheries Restoration and Enhancement unit, created under Chapter 1545, Statutes of 1988.

The Environmental Services Division contributed a net increase of 31 headquarters staff positions between fiscal year 1983-84 and 1993-94. The division chief informed us that the increase in headquarters positions was partly attributable to four laboratories that report to the division and the new Natural Communities Conservation Plan (NCCP) pilot project. According to the division chief, staff from the pilot project currently report directly to the division, but will be reassigned to the region if the program is approved as a permanent activity.

We acknowledge that the Salaries and Wages Supplement (SWS) data used for our analysis of the department is not entirely accurate because, according to department officials, some of the positions reflected as headquarters positions are actually field positions. The positions are counted this way because these field staff report to a headquarters division rather than to a regional office. For example, during our interviews with the division chiefs, all stated that some positions are displayed as headquarters positions in the SWS but actually are field staff positions. One division chief stated that for the 1994-95 fiscal year, 34 of the 82 positions displayed in the SWS as headquarters actually operate as Inland Fisheries Division field positions. Also, the Division Chief of the Environmental Services Division stated that the laboratory and NCCP project positions are displayed in the SWS as headquarters positions but actually operate as field positions. The headquarters divisions feel that they maintain better control over the activities of these field staff by having them report directly to them. However, if this is the case, the department should correctly categorize these positions in the SWS.



*Headquarter positions may be overstated because some are field staff reporting to headquarters rather than to a region.*



In spite of such flaws, the department's SWS data was the best available to us to perform a trend analysis of the department's headquarters to field staff ratio over the ten-year period. We relied on the SWS data to distinguish headquarters from field positions, but it was not feasible to undertake a position-by-position analysis over the ten-year period. Therefore, our analysis should be viewed simply as an overall indicator of the trend in the department's headquarters to field staffing ratios.

***The Department's Executive and Administration Staff Is Proportionately Higher Than That of Two Comparable Departments***

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We also compared the executive and administration staffing levels of the department to that of comparable departments. In considering which other departments were comparable, we asked department staff for their opinion and looked at the organizational structure and the missions of other departments. The Assistant Deputy Director of Administration directed us to Resource Agency departments that had headquarters and field operations responsible for preserving the environment and its natural resources. Therefore, we used the DFFP and the DPR for comparison.

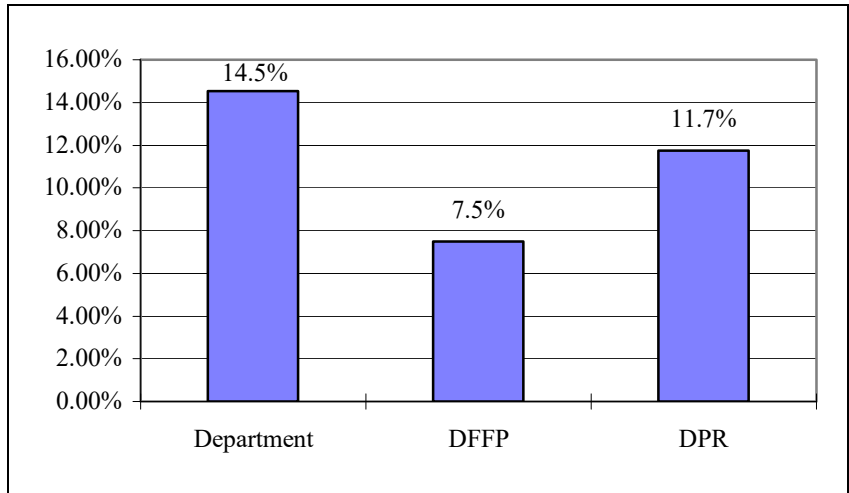
To conduct our analysis, we used the data in the SWS and classified these positions as executive and administrative based on the branches and divisions reported in the SWS. The positions we classified were the "authorized" permanent positions for the 1994-95 fiscal year. Some branches were not listed consistently under the same executive or administrative category in all three departments. Therefore, branches with similar functions were grouped together to make consistent comparisons. In addition, we did not include temporary help positions in our analysis.

Our analysis determined that the department's executive and administrative positions represented 14.5 percent of total staff, whereas the DFFP and the DPR were approximately 7.5 percent and 11.7 percent, respectively. This indicates that the department has an almost double and one and one-quarter higher percentage of executive and administrative positions to total department positions when compared to the DFFP and the DPR, respectively.

***Figure 3***  
***Percentage of Executive and Administrative Positions to Total Staff***

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However, a comparison of one department with another must be viewed with caution. Other factors could cause significant differences in the size and proportion of each department's executive and administrative ranks. For example, legislative mandates, the level of decentralization, the amount of equipment used and maintained, and the number of professional staff could cause significant differences between how departments operate and are organized. We did not attempt to assess the impact of these other factors.

### ***The Department Has Mishandled Two Exempt Positions***


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Our review of the department's exempt from civil service (exempt) positions revealed that it has mishandled the creation of two exempt positions. Exempt positions are exempt from civil service requirements, and are administered by the Department of Personnel Administration (DPA). The department has 11 exempt positions authorized by statute. Four of the exempt positions are authorized by Fish and Game Code Sections 700 and 701.3, 2 are authorized by Government Code Sections 8670.4 and 8670.6, and 5 are former civil service positions that were designated as exempt by the governor as allowed by Government Code Section 12010.6.

Of these 11 exempt positions, one was inappropriately converted from civil service to exempt, and another is used even though the position was deleted in the budget process for fiscal year 1992-93. Government Code Section 12010.6 increases the governor's managerial flexibility without increasing costs or hiring additional staff by authorizing the governor to designate certain civil service positions as exempts. Only vacant civil service positions designated as "managerial" can be designated exempt. The department inappropriately converted a Fish and Wildlife Manager (presently a Supervising Biologist) civil service position that was designated "supervisory" by the DPA. Memoranda requesting the conversion indicate that the department misrepresented the civil service position as a "management" position to the DPA and the Governor's Office. In our discussions with the DPA regarding the conversion of this position, it agreed that the conversion of this civil service position was inappropriate.



*One exempt position was inappropriately converted from civil service and another is used even though it has been eliminated from the budget.*



Another exempt position was deleted in the 1992-93 budget act but still exists within the department. The Final Change Book

documents the final changes to the governor's proposed budget. The 1992-93 Final Change Book showed that the position and budget authority for the Assistant Director of External Affairs position had been deleted from the budget act. However, in October 1991, the department deleted the exempt position from the State's payroll roster and reestablished it as a civil service "supervisory" position. Effective July 1992, the DPA approved the department's request to change the title of the exempt Assistant Director of External Affairs to General Counsel. In February 1993, the department deleted the civil service "supervisory" position from the state payroll roster and reestablished the exempt position under the new General Counsel title.

According to the DPA, the department should have obtained approval from the DPA and the Governor's Office when it converted the exempt position back to civil service. However, because the DPA is not typically made aware of positions deleted in the budget process, the department was able to convert this position without the DPA's knowledge or approval. The DPA stated that the current impact of the actions taken by the department could not be determined; however, the DPA is proposing to put into writing its currently unwritten policy regarding returning an exempt position back to civil service.

In our view, the actions of the department to retain an exempt position that had been deleted in the 1992-93 fiscal year budget circumvented the intent of the Legislature. Also, the department inappropriately reclassified the position from exempt to civil service, then later inappropriately reclassified it back to exempt without the DPA's knowledge.


### ***The Department Misused a Temporary Help CEA Position***

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To assess the reasonableness of the department's CEAs, we used the DPA Guidelines and Criteria to evaluate the appropriate use of the CEA classification. CEAs are defined by the DPA as civil service employees in "a high administrative and policy-influencing position whose primary responsibility is the managing of a major function or the rendering of advice to top level management. Such responsibility is found in the top administrative levels of State service." When deciding on whether a position should be designated as a CEA, the DPA uses

guidelines and specific criteria to evaluate the high administrative and top managerial nature of the position in question.

In our discussions regarding the appropriateness of some of the department's CEA positions, the DPA stated that it considers the "high administrative and policy influencing" role of the position as the most critical factor in approving a CEA position. The DPA reviewed all of the department's CEA positions and considers them appropriately classified.

  
*Duties and responsibilities of the position do not meet DPA guidelines for CEA level.*

However, we found that the department has hired a former division chief as a retired annuitant and is inappropriately compensating the annuitant at the CEA level. Government Code Section 21153 limits the compensation of retired annuitants to that paid other employees performing comparable duties. The department's organization chart shows this retired annuitant reports to a supervising biologist, and the duty statement describes duties and responsibilities that do not meet the DPA guidelines and criteria for CEA classification. Therefore, we believe the retired annuitant is inappropriately compensated at the CEA level.

Discussions revealed that the DPA was unaware of this position because it is a temporary help position and because DPA guidelines do not require the review and approval of temporary help CEA positions. The DPA stated that the department is responsible for ensuring its compliance with Government Code Section 21153 when hiring and compensating retired annuitants.

### ***Conclusion***

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The department's staffing information indicates an increasing headquarters staff. Ten-year SWS information shows a trend toward increasing headquarters staff positions when compared to field staff positions. The comparison of the department's executive and administrative positions to those in two other Resource Agency departments indicates that it has a higher percentage of executive and administrative positions relative to total department positions than the other two departments. Finally, because the department has mishandled the creation of two exempt positions and misused a temporary help CEA position, these high administrative positions do not appear to be properly justified.

The department claims that increases in the executive and administration divisions headquarters staff over the last ten years are in line with the overall increase in total staff. Also, some of the increase in headquarters staff is attributed to new programs and divisions and the SWS display of headquarters staff members who are actually field staff. However, the 2.5 to one rate of growth in headquarters to field positions during the past ten years and the fact that the department appears to have comparatively more executive and administrative positions than two similar state departments raise a concern about the size of its executive and administrative staff. Finally, although the DPA agrees with the department's placement of CEA positions, we found that the department has mishandled the creation of 2 of its 11 exempt positions and one temporary help CEA position.

## ***Recommendation***

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The department should closely monitor its creation of new headquarters positions. To facilitate the monitoring of such new positions, the department should ensure that, in the future, the position information displayed in the Salaries and Wages Supplement to the Governor's Budget accurately represents the placement of the department's headquarters and field employees. In addition, the department should review and ensure that its exempt and CEA positions are appropriate and properly justified.

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# Chapter 5

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## ***The Department Did Not Always Ensure That Costs Were Reasonable in Its Response to the Dunsmuir Chemical Spill***

### ***Chapter Summary***

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The Department of Fish and Game (department) properly accounted for the Dunsmuir chemical spill expenditures. It also has adequate policies and procedures for responding to similar spills to ensure that pollutants are adequately removed from the environment and that the loss of fish, wildlife, and their habitat is identified and minimized. However, procedures related to the procurement of goods and services in an emergency situation are not adequate. As a result, the costs for goods and services used in responding to the spill were not always justified. In particular, the department made questionable payments for the rental and subsequent acquisition of computers. In addition, the department did not always justify the reasonableness of costs when obtaining services through contracts exempt from advertising and bidding.

### ***Background***

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In July 1991, a Southern Pacific Railroad train derailed at the Cantara Loop on the upper Sacramento River near the town of Dunsmuir. The derailment caused a tank car to spill metam sodium into the river, killing fish and vegetation downstream. The department was designated as the lead agency in assessing the effects of the spill, restocking the river with fish, and taking legal action against Southern Pacific Railroad and other defendants. Through June 1995, the department spent approximately \$11 million for various purposes related to the incident, including natural resource damage assessment, legal costs, and employee wages and benefits. To pay for the costs related to this incident, the department used money from a variety of funding sources, including the General Fund, the California Environmental License Plate Fund, the Fish and Game

Preservation Fund, the Fish and Wildlife Pollution Cleanup and Abatement Fund, and the Oil Spill Response Trust Fund.

Legal action against Southern Pacific Railroad and other defendants resulted in two consent decrees totaling \$38 million in the department's favor. According to the terms of a settlement agreement between the parties, the defendants will make an initial payment of \$19 million and will pay the remaining \$19 million in five yearly installments. These payments are to be disbursed as follows:

- \$13 million to the state and federal government for the costs incurred during the emergency response;
- \$14 million to enhance the river's natural resources and acquire new habitat;
- \$5 million for restoration and monitoring;
- \$3 million for the Fish and Wildlife Pollution Cleanup and Abatement Fund to provide a funding base for future incidents;
- \$2 million for the Fish and Game Preservation Fund; and
- \$1 million in penalties divided evenly between the federal government and the Central Valley Regional Water Quality Control Board.

According to the department's legal counsel, payment under the Southern Pacific Railroad consent decree will occur within 90 days of when the court issues its order or when the various appeals filed by environmental groups have been exhausted. As a result, the department has received only \$2 million of the \$38 million settlement as of June 1995.

***Charges to the Dunsmuir Chemical  
Spill Are Not Always Reasonable***

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—◆—  
*Charges were properly classified as Dunsmuir expenditures.*  
—◆—


We reviewed the charges to the Dunsmuir project and found that they were properly classified as Dunsmuir expenditures; however, the department could not always justify the reasonableness of these charges. Based on our review of contracts, invoices, exception time sheets, travel expense claims, and other documents supporting the Dunsmuir expenditures, we found that the expenditures charged to the project did relate to natural resource damage assessment and cleanup efforts. However, we identified weaknesses in the controls designed to ensure that the department receives the best price for the goods and services that it procures. Specifically, we found problems in the department's rental of computers and in its justification of the reasonableness of contract prices and rates. These problems are similar to those discussed in Chapter 4 of this report.

—◆—  
*The department paid over \$53,500 to rent computers it could have bought for \$21,500.*  
—◆—

During our review of the expenditures for the Dunsmuir spill, we identified the payment of unreasonable rental fees for computers. Because of the emergency nature of the spill, the department's Region 1 office used the exemptions from advertising and competitive bidding for many of its procurements related to the spill. For example, in August 1991, regional staff members were in need of laptop computers to assess and document the damages caused by the spill. The regional office rented six laptop computers from a local vendor for an initial period of two weeks at a cost of \$9,009. After the initial two-week period, the office still needed the computers, so it rented them for another two weeks at the same rate. By the time the office was done with the six computers, it had paid more than \$53,500 in rental fees to the vendor. Because it had already paid so much for the rentals, the vendor allowed the office to keep the six computers. If it had purchased six computers at the onset, the costs would have been approximately \$21,500, or \$32,000 less than the total rental fees paid.

Additionally, our review of 24 sole-source contracts charged to the Dunsmuir spill identified 7 contracts involving total costs of \$1,030,289, where the department did not provide justification for the reasonableness of the contract price or rates. For example, in one contract for attorney services, no justification was provided. The total cost for this contract was \$300,000, and the contract rates for the attorney services ranged from \$165 per hour for in-court services to \$49 per hour for travel time. The State Administrative Manual (SAM), Section 1220.1.a(2), requires departments to justify the reasonableness of the contract price or rates. Also, SAM Section 1236.2.a requires departments to justify the reasonableness of sole-source contracts, exempt

contracts, and contracts prepared when fewer than three competitive bids or proposals were received.

  
*The department did not always take the necessary steps to ensure reasonable prices.*

Because of the emergency nature of the spill, the department was not required to use the normal procurement process to obtain the needed goods and services. Specifically, the department used the SAM provisions exempting it from advertising and competitive bidding when procuring emergency, expert witness, and legal services. However, the department did not always take the necessary steps to ensure the reasonableness of the prices and rates for the goods and services.

When the department does not take steps to ensure that reasonable prices or rates are paid for the procurement of goods and services that are not advertised or competitively bid, the State cannot be assured that a reasonable price is paid for the goods and services received.

***The Department Has Adequate Policies and Procedures To Respond to Spills Similar to the Dunsmuir Spill***

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The department has a comprehensive pollution response manual that describes in detail the procedures to follow in responding to emergency spills in the State. We believe these procedures are sufficient to ensure that pollutants are adequately removed from the environment and that the loss of fish, wildlife, and their habitat is identified and minimized. In addition, these procedures properly incorporate the use of the Office of Emergency Services' Incident Command System, which is a statewide process that departments must follow in responding to large spills that threaten the State's land or resources. We reviewed the department's response to two large and two small spills that occurred after the Dunsmuir incident and found that the department appropriately followed the procedures outlined in its emergency response manual, including the use of the Incident Command System for the large spills.

***Conclusion***

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The department's charges to the Dunsmuir spill project are properly classified as project expenditures. However, the reasonableness of costs charged to the project was not always justified. Based on our review of the department's policies and

procedures to respond to spills and our testing of a sample of spill projects, the department's policy and procedures to respond to spills similar to the Dunsmuir spill are adequate.

## ***Recommendation***

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The department should ensure the reasonableness of costs for goods and services procured in response to spills. When the department does not use the normal competitive bidding process, it should ensure that steps are taken to justify and document the reasonableness of prices and rates for goods and services. For recommendations related to the use of contracts, please refer to the recommendations found at the end of Chapter 3 of this report.

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

Respectfully submitted,

KURT R. SJOBERG  
State Auditor

Date: October 11, 1995

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