Office of the Legislative Auditor
Program Evaluation Update

GAME AND FISH FUND SPECIAL STAMPS AND SURCHARGES

February 9, 1994

94-01

DNR has not followed all statutory requirements in managing certain Game and Fish Fund revenues.

In 1991 we evaluated the Department of Natural Resources' (DNR) management of the Game and Fish Fund, including the revenues raised by five special stamp and surcharge programs.[1] We found that the statutory restrictions on administrative spending and on the use of stamp and surcharge funds were ambiguous, but we concluded that DNR's practices were consistent with statutory requirements. We suggested that the Legislature should make statutory provisions more explicit if it wanted to restrict DNR's use of special stamp and surcharge revenues.

During the 1993 legislative session, some legislators questioned whether the department was treating revenues from these special stamps and surcharges as "dedicated" to the purposes authorized in law. We agreed to review the situation even though the 1993 Legislature clarified its restrictions on the use of the revenue through a series of "riders" in DNR's appropriation bill. Our review addressed two main questions:

- **How has DNR spent and accounted for revenues generated by the stamps and surcharges?**
- **Are any changes needed in statute or in DNR's management and accounting for these special purpose revenues?**

To answer these questions, we examined expenditure data from the statewide accounting system and grouped expenditures into administrative and non-administrative categories. We also inter-

1 The *small game license surcharge* was enacted in 1957 to acquire and develop wildlife lands; the *migratory waterfowl stamp* was enacted in 1977 to acquire and develop wetlands and to protect waterfowl in their habitat; the *trout and salmon stamp* was enacted in 1981 to develop and preserve trout streams and lakes and to rear and stock trout and salmon; the *pheasant stamp* was enacted in 1983 to develop, preserve, and promote pheasant habitat; and the *fishing license surcharge* was enacted in 1983 to rehabilitate marginal fishing waters, upgrade fish propagation, improve enforcement, and purchase walleye quotas. In addition, a portion of the deer license is restricted to be used for deer and bear habitat protection and computerized licensing. In this update we only review the five separate stamp and surcharge programs.

viewed DNR program managers about their use of funds.

Revenues

Before 1993, DNR did not routinely report how much revenue from the special stamp and surcharge programs was unexpended at the end of each fiscal year and carried forward into the next fiscal year.[2, 3] DNR officials acknowledged that surcharges and stamp fees were "earmarked," but the department did not believe it was required to segregate the funds in separate accounts or to "dedicate" the carry forward balances to the allowed statutory purposes. DNR officials note that they have always had separate receipt codes in the statewide accounting system and separate appropriation accounts for these programs. They acknowledge, however, that these measures did not constitute the creation of dedicated accounts. DNR officials also note that they were attempting to balance the revenues and expenditures for these programs over a ten-year period rather than annually.

The 1993 Legislature made clear through a series of appropriation bill riders that the money for each of the special stamps and surcharges could be spent "only for the purposes specified in Minnesota Statutes."[4] The Legislature also removed DNR's open appropriation authority from the Game and Fish Fund and directly appropriated funds for each of the special stamp and surcharge programs.[5] Late in calendar year 1993, DNR began to track more carefully the balances of these revenues, and the department plans to set up separate accounts for each of the special revenue programs in the Game and Fish Fund beginning in fiscal year 1995.[6]

Total revenues for the Game and Fish Fund in fiscal year 1993 were $51 million. Of this amount, $5 million, or about 10 percent, was derived from the five special license surcharge or stamp programs. Although as noted before, special accounts have not been set up for most of the special revenue programs, revenues and expenditures can be tracked through the statewide accounting system.

According to our analysis,

- **Over the past decade, expenditures for four of the special revenue programs were less than the revenues received by DNR.**

As shown in Table 1, since the mid-1980s, four of the programs had positive "reserved fund balances," which means that not all revenues raised by the special stamps and surcharges were spent. Only the fishing license surcharge program has spent more on direct program activities than it received in revenues. Unexpended receipts from the other special surcharges and stamps represented a combined total of nearly $1.2 million of the Game and Fish Fund balance

2 Except for the small game license surcharge.

3 DNR fee reports to the Department of Finance did report estimated differences between the revenue and expenditures from the current biennium, but did not report the accumulated differences from previous fiscal years.

4 *Minn. Laws* (1993), Ch. 172, Section 5, subd. 7.

5 *Minn. Laws* (1993), Ch. 172, Section 51. We had recommended that the Legislature remove this "open appropriation" authority in our 1986 study *Fish Management* which also considered the management of the Game and Fish Fund.

6 In 1993, DNR began to keep track of and report stamp revenues, expenditures, and carryforward balances on a fiscal year basis and also began reporting balances as a part of the game and fish fund statements.

Table 1: Reserved Fund Balances for DNR Stamp and Surcharge Programs[a]

	Pheasant Stamp	Migratory Waterfowl Stamp	Fishing Surcharge	Small Game Surcharge	Trout and Salmon Stamp	Total Balance
1984	$9,620	$ 0[b]	$779,961	$207,000	$22,196	$1,020,761
1985	1,605	24,563	3,273,173	197,900	35,907	3,535,133
1986	49,314	184,539	2,865,431	148,400	83,248	3,332,918
1987	1,151	559,909	2,513,730	98,160	127,051	3,301,988
1988	135,140	535,409	2,092,136	274,279	399,043	3,437,995
1989	232,657	401,945	1,456,084	275,654	489,460	2,857,789
1990	314,242	270,529	779,046	355,718	564,546	2,286,071
1991	467,954	213,146	102,420	404,018	588,960	1,778,489
1992	644,300	342,624	0[b]	376,369	513,966	1,879,251
1993	731,741	151,674	0[b]	230,639	264,916	1.380,963

Source: DNR Game and Fish Fund Statement, November 1993.

[a]Reserved fund balance = fund balance forward + annual revenues - annual expenditures.

[b]Accumulated expenditures exceeded accumulated revenues; there was no reserved fund balance in these years.

at the end of fiscal year 1993.[7] Before fiscal year 1994, unexpended balances were not held in dedicated accounts and, therefore, increased the available cash in the Game and Fish Fund. This cash was spent on other fish and wildlife programs in several years during the 1980s.

The changes enacted by the 1993 Legislature are significant because they will not allow these practices to continue. The new law requires unexpended stamp and surcharge revenues to be set aside and carried forward for future expenditures exclusively on the activities designated in statute. Because DNR must now reserve these revenues, there will be less in unreserved balances to finance other Game and Fish appropriations. Accordingly, DNR may have to reduce other fish and wildlife program budgets, or seek fee increases earlier than it planned.

Administrative Expenditures

According to legislators and staff with whom we spoke, when the Legislature established the special revenue programs, it intended the revenues to supplement *existing* fish and wildlife management programs. In addition, except for the small game license surcharge (which was established 20 years prior to the other programs), the Legislature placed specific restrictions on the proportion of these new revenues which DNR could use for administrative purposes. In the case of the fishing license surcharge, it specified that "no more than ten percent of the money available may be used for administrative and permanent personnel costs."[8] For the migratory waterfowl and trout and salmon programs, it stipulated that "necessary related administrative

7 This is based on estimates of the balance of the Game and Fish Fund dated Nov. 5, 1993. Upon inspection, we find these estimates reasonable. Also, it is estimated that an additional $400,000 will be reserved for the deer habitat program.

8 *Minn. Stat.* §97A.065, subd. 3b.

costs [are] not to exceed ten percent of the annual revenue."[9] And for the pheasant stamp program, it specified that "necessary related administrative and personnel costs [are] not to exceed ten percent of the annual revenue."[10]

According to legislators and others, the aim of these statutory restrictions is to restrict administrative expenditures "in St. Paul" and to promote expenditures on habitat and other projects "in the field." While the purpose of the restrictions seems clear, the law does not make clear what constitutes "administrative" and "personnel" costs. In our review of DNR's expenditures, we tried to distinguish between expenditures involving the *direct delivery of goods or services* for the special revenue programs and those that provided only *indirect program support* or *general support for fish and wildlife programs*. The former we considered non-administrative expenditures, without restrictions; the latter we considered administrative expenditures, limited to 10 percent of the annual revenues.

Specifically, we considered administrative expenditures to include spending for departmental overhead, budgeting, reporting, public information, and planning and coordinating activities. All these are legitimate and needed activities, but expenditures for these purposes are restricted to 10 percent of total revenues from each stamp or surcharge. It should be noted that sometimes DNR employees who directly provide services in the field code their time to administrative categories. DNR's current cost coding system does not distinguish between field and central office staff.

We found that:

- **According to our definition of administrative expenditures, DNR has spent more than the allowable 10 percent of revenues on administrative expenditures for three of the four restricted special revenue programs over the past few years. The trout stamp program spent less than 10 percent in both 1992 and 1993.**

DNR could have avoided this problem by budgeting more of its "administrative" and "permanent personnel" costs from the Fish and Wildlife Division's operational accounts rather than from the stamp and surcharge programs. This would have been possible because, when all game and fish funds are considered, DNR spent much more on the targeted fish and wildlife activities than it received from stamps and surcharges. While this is true, it should also be noted that the Legislature intended these stamp and surcharge revenues to supplement existing program expenditures; the funds were not to replace existing funding for ongoing fish and wildlife programs. As shown below, practices have varied somewhat from year to year, and the history of each program's spending is unique.

Program Detail

Fishing license surcharge. DNR's use of these funds has changed since the program's enactment. Originally, DNR spent much of the surcharge money on cooperative projects (for fishing piers, aeration projects, etc.) with sports groups. It also used surcharge money to buy-out commercial fishing operations on Lake of the Woods. Now the buyout of commercial fishing is complete and DNR has financed most of the cooperative projects de-

9 *Minn. Stat.* §97A.075, subd. 2(5), and §97A.075, subd. 3(3).

10 *Minn. Stat.* §97A.075, subd. 4(5).

sired by sports groups. Recently, DNR's priorities have placed greater emphasis on aquatic education, environmental and permit reviews, and watershed management. Because these programs are, in many respects, extensions of DNR's basic fisheries program, the rationale for a continuing separate surcharge program is less compelling. Also, in our view, the environmental permit reviews, which represent about 1 percent of annual surcharge revenues, do not fit the definition of allowable expenditures under the surcharge statute.[11] In total, DNR has received about $2.5 million annually from the surcharge program.

DNR spent 20.8 percent of surcharge revenues on permanent personnel and administration in fiscal year 1991, 10.2 percent in 1992, and 11.8 percent in 1993. The expenditures were for two enforcement officer positions, other departmental administrative expenses, and (in 1991 only) a portion of the salaries of permanent research biologists and large lake specialists. In the case of the permanent staff salaries, DNR could have funded the positions through its operations and maintenance budget instead of the surcharge account, but chose not to switch funding sources in the middle of a fiscal year. The fisheries section kept track of its administrative expenditures, but it had based its compliance calculations on its appropriations (which have exceeded revenues by over $1 million per year recently) and had not included the money it transferred to the enforcement division.

Finally, DNR is required by law to submit an annual workplan to the House and Senate committees with jurisdiction over environment and natural resources describing the proposed use of fishing license surcharge funds. The workplan has never been submitted.

Trout and salmon stamp. These funds are intended for enhancement of DNR's management of trout and salmon populations, including developing and maintaining trout streams and rearing and stocking of trout and salmon. In recent years, the stamp has generated more than $400,000 per year. Administrative expenses paid from revenues received from the trout and salmon stamp were about 8.8 percent of the total in fiscal year 1992 and about 9.4 percent in 1993. These funds paid for the salary, office space, and expenses of a program administrator.

Pheasant stamp. The bulk of these revenues, totaling more than $500,000 each year, were used for development and restoration of pheasant habitat, reimbursements to others for maintaining habitat, and promotion of habitat preservation. Pheasant stamp revenues spent by DNR for administrative and personnel costs represented about 13.8 percent of total revenues in fiscal year 1992 and about 13.6 percent in 1993. These expenditures were associated with coordination, human resource administration, management and employee development, and various permanent and part-time personnel working on habitat projects.[12]

Migratory waterfowl stamp. Most of these funds, which total approximately $500,000 annually, were spent to develop wetlands and to manage habitat for migratory waterfowl (ducks and geese). DNR spent 14.7 percent of stamp revenues on administrative costs in fiscal

11 DNR officials believe that these expenditures are allowable under statute as habitat protection.

12 DNR officials previously defined pheasant administrative expenses to not include field personnel costs and instate travel. Excluding personnel costs, DNR reports that it spent 9.1 percent of pheasant stamp revenues on administrative costs in 1993. DNR has paid a statewide roadside coordinator and a number of part-time personnel from this account.

year 1992 and 13.4 percent in 1993. These expenditures were for administrative overhead, operational support, coordination, data management, and information systems.[13]

Small game license surcharge. Most of these funds were used for acquiring and developing wildlife habitat. The program has generated approximately $1.1 million annually. There are no statutory restrictions on the use of these monies for administrative or personnel costs. However, it should be noted that in recent years DNR has spent less on acquisition of land from this account and more on development of existing wildlife land. DNR has, for the most part, switched funding for acquisition of wildlife habitat and wetland restoration lands to sources funded by bonding (such as Reinvest in Minnesota).

Summary and Conclusion

Many of the problems we identified arose from a lack of specificity in the law concerning restrictions placed on DNR's use of stamp and surcharge revenues. Despite actions by the 1993 Legislature, some restrictions are still confusing and need to be addressed. Clarification by the Legislature, and more attention by DNR, will help ensure that these special purpose revenues are spent as intended.

As noted previously, in the past, DNR has not established separate dedicated accounts for the revenues received from the five special stamps and surcharges. We recommend that:

- **To comply with the 1993 appropriation bill "riders" DNR should establish dedicated fund accounts within the Game and Fish Fund for each of the special surcharge and stamp programs.**

Also, if the Legislature wishes to require dedicated fund accounts beyond the current biennium, it should consider clarifying current statutory language, which seems to be in conflict with the appropriation bill "riders". Of course, the Legislature could continue to add appropriation riders to future DNR appropriation bills, however that would not resolve the apparent conflicts with statutory language.

Second, DNR has not adhered strictly to the Legislature's limitation on using the special revenue funds for administrative purposes. DNR should have budgeted administrative expenditures which exceeded 10 percent of stamp and surcharge revenues to other accounts in the Game and Fish Fund. A clarification of what constitutes "administrative" spending would help DNR adhere to legislative intent. At a minimum, if the Legislature retains limits on administrative spending,

- **The Legislature should clarify the definition of "administrative" spending for fish and wildlife programs.**

The Legislature should also consider whether it wants to restrict administrative spending to 10 percent of current year revenues. Since current year revenues are uncertain, a better idea might be to restrict administrative spending to 10 percent of current year appropriations.

In our view, existing limitations on administrative spending for the stamp and surcharge programs have proven confusing and ineffective. The Legislature should consider making these spend-

13 DNR's definition of administrative expenditures for the waterfowl stamp did not include any field personnel salaries. DNR calculated it's administrative expenditures at 4.7 percent of revenues in 1993.

ing restrictions uniform for all stamp and surcharge programs. Alternatively, it could eliminate the formal restrictions and instead require DNR to report to the Legislature biennially on its level of administrative spending for these programs.

Finally, DNR should comply with the law requiring an annual workplan which shows how it plans to use funds received from the fishing license surcharge program. In addition, the Legislature may want to reconsider the allowable purposes for the fishing license surcharge program or consider whether a separate program is still necessary.

Agency Response

In response to this update, Commissioner of the Department of Natural Resources Rodney W. Sando wrote on January 21, 1994:

This is to respond to your audit of Game and Fish Fund special stamps and surcharges revenues. We thank you and your staff for the hard work and professionalism in preparing this audit.

We agree with your overall conclusion that the statutes relating to these funds have been ambiguous and unclear. This has resulted in differing interpretations of what they mean. We have managed these funds in accordance with what we understand the intent of the laws to be. We are proposing legislation to better define administrative costs. We like the distinction made in the audit between program and non-program costs and our proposal will expand on this.

While we concur with the overall conclusions and recommendations, we need to comment on some of the details presented in the audit that could lead to misunderstandings.

- *ACCOUNTING FOR FUNDS: Although the law did not provide for "dedicated" accounts until this year, we have always carefully tracked revenues and expenditures and the resulting balances. These balances are due to judicious use of these funds; we have requested appropriation of these funds as needed. It is important for those reading this audit to know that these balances have not, and will not, be transferred to any other programs. The Game and Fish Fund financial statements carry the cumulative balances as "reserved" for these statutory purposes.*

- *ADMINISTRATIVE EXPENDITURES: In several cases we have exceeded the 10% limit on administrative expenses. To prevent this in the future, we will take the following actions:*

  Propose legislation to clarify the definition of allowable administrative costs.

  Further refine our cost code structure to reflect the new definitions.

  Train field staff to code their time and expenses in accordance with the new definitions.

  Monitor administrative expenditures against the new definitions and take action where necessary to prevent exceeding the limits.

For additional information or copies of this update or our 1991 evaluation, contact:

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