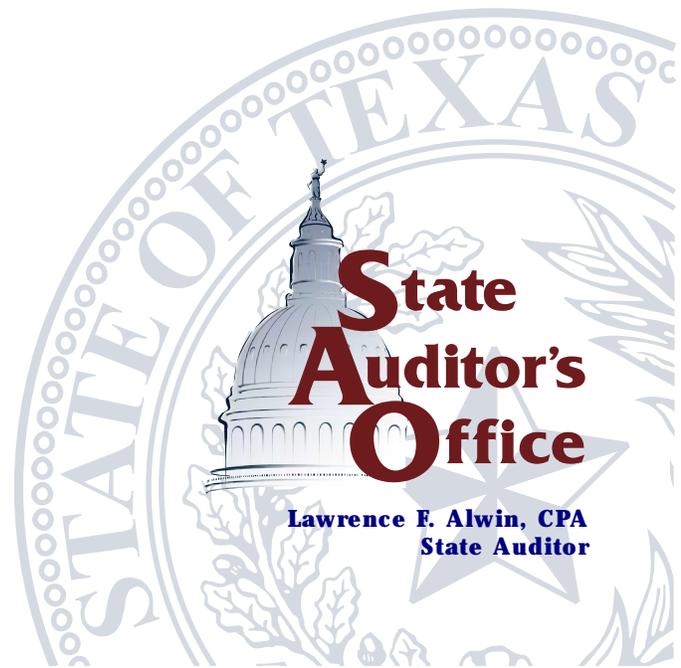


An Audit Report on

Revenue Management at the Parks and Wildlife Department

October 2001

Report No. 02-006



**Lawrence F. Alwin, CPA
State Auditor**

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Key Points of Report

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Overall Conclusion

Poor documentation of decisions and processes, absence of basic controls and oversight, and noncompliance with some statutory requirements prevent the Parks and Wildlife Department (Department) from effectively collecting and managing revenue. The Department has an ongoing history of problems with financial management. As a fee-based agency, these significant weaknesses could prevent the Department from collecting revenue that it relies on to fund its programs.

Key Facts and Findings

- The Department has not collected all revenue from its \$63 million point-of-sale (POS) licensing system due to inadequate oversight, contract deficiencies, and poor vendor performance. There is recurring evidence that all revenue has not been collected from license deputies over the life of the contract.

Information Subsequent to Completion of Fieldwork: On July 23, 2001, the Department released the POS contractor from all liability for uncollected revenue without adequate analysis to determine the amount of uncollected funds. The settlement of \$700,000 was based on the contractor's analysis of its own incomplete database. The settlement, therefore, may be insufficient to cover the potential loss to the State. In addition, the Department will now have to cover all costs associated with identifying and collecting unswept revenue from license deputies.

- The Department has not consistently allocated supercombo license revenue to statutorily restricted stamp funds. A combination of allocation methods has resulted in inaccurate fund balances in the Uniform Statewide Accounting System (USAS).
- The Department's mailroom and cash handling procedures increase the Department's risk of losing revenue due to fraud and abuse.
- Poorly designed processes contribute to a high rate of non-value-added activities in the finance division's revenue branch. Of 48 positions analyzed, activities equivalent to 19 full-time equivalent employees were assessed as non-value-added. The salaries associated with these activities equate to \$474,480 per year excluding benefits.
- The Department has not reconciled revenue in USAS and its internal accounting system since 1998. There is \$23.4 million more revenue recorded in USAS than in its internal accounting system. This prevents the Department from having accurate, timely information on revenue and leaves the Department open to fraud and abuse.

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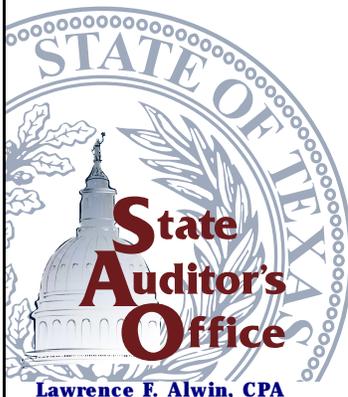


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Executive Summary

Significant weaknesses in the administrative resources division's core functions prevent the Parks and Wildlife Department (Department) from effectively and efficiently forecasting, collecting, and managing revenue. These weaknesses are characterized by poor documentation of decisions and processes, absence of basic controls and oversight, and noncompliance with statutory requirements. In some cases, the lack of controls and documentation is so extensive that the Department cannot determine if all money due to the Department has been collected and accounted for. As a fee-based agency, weak revenue processes and the lack of oversight could prevent the Department from collecting revenue that it relies on to fund its programs.

The Department Continues to Have Financial Management Weaknesses

The Department has an ongoing history of problems with financial management. Past financial management problems include:

- Inappropriate transactions in bank accounts held outside the State Treasury (fiscal year 1998). The Department has corrected this.
- Gross fiscal mismanagement of the Department's catalog operations (fiscal year 1999). The Department has corrected this.
- Inability to determine if license revenue was spent appropriately, putting the Department at risk of noncompliance with federal regulations (fiscal year 2000).
- Lack of standard oversight mechanisms for commercial ventures and other Department operations (fiscal year 2000).

Past problems and weaknesses cited in this report should not be considered isolated occurrences attributable solely to poor performance by individual employees. Rather, these are problems that reside in the Department's overall management system. Larger issues such as policies, procedures, and guidelines that shape management decisions and process design need to be

evaluated. Management should correct the conditions that allow multiple weaknesses to occur by improving its oversight and decision making processes.

The Department Has Not Accounted for All Revenue From the Sale of Hunting and Fishing Licenses

The Department has not collected all revenue from its \$63 million point-of-sale (POS) licensing system due to inadequate oversight, contract deficiencies, and poor vendor performance. The Department's reliance on the POS contractor and the stores that sell licenses (license deputies) to reconcile sales and electronic sweeps of bank accounts provides inadequate assurance that the State collects all revenue.

The Department has not quantified the amount of uncollected revenue over the life of the contract or indicated a clear course of action to recover uncollected revenue. License deputies reported that there was revenue that the POS contractor did not remove, or "sweep," from their bank accounts. Although the Department examined records at five locations operated by a large license deputy, it has not expanded the review to other license deputy locations to systematically quantify the extent of unswept revenue. Nor was this review based on a statistically valid sampling method.

The Department asked the POS contractor to explain the reason for the unswept revenue identified at the five stores. The POS contractor's analysis of its database identified error rates ranging from 0.5 to 3.6 percent. Errors were attributed to database issues, corrupt data, missing logs, lost batches, and data transmission interruptions. The lack of statistical sampling in the methodology makes it difficult to extrapolate the amount of unswept revenue based on an average error rate. The range of error rates makes a compelling case for detailed onsite reviews by the Department to identify the true extent of the problem and recover dollars due the State.

Executive Summary

Technical problems and the loss of the contractor's production database of sale transactions makes it difficult to rely on the database alone to quantify the amount of uncollected revenue.

While the Department's POS licensing system has reduced the amount of time it takes to get revenue into the Treasury, the Department could have realized \$824,000 of additional interest (over four years) if it had swept collected receipts from license deputies and state parks within three days of a license sale. State law requires that agencies or agents of the state deposit revenue at the State Treasury within three days. The Department has not requested a waiver exempting it from this requirement. If the Department had swept vendor accounts daily, it could have realized an additional \$5.2 million in interest over a four year period.

Information Subsequent to Completion of Fieldwork

On July 23, 2001, the Department released the POS contractor from all liability for uncollected revenue without adequate analysis to determine the amount of uncollected funds. The settlement of \$700,000 was based on the contractor's analysis of its own incomplete and unreliable database. The Department did not independently verify the amount of uncollected revenue reported by the contractor and, therefore, this settlement may be insufficient to cover the potential loss to the State. The Department will now have to cover all costs associated with identifying and collecting unswept revenue at licensed deputies.

The Department's ability to negotiate a fair settlement was constrained by its reliance on the old POS contractor to extend services until the new POS contractor's License Sales System (LSS) was ready. The Department extended its contract with the old POS contractor through November 4, 2001, for an additional \$1.2 million in fixed fees. Management reports that its new POS contractor will reimburse the \$1.2 million

cost of the extension, but this agreement is only verbal.

The Department Has Not Consistently Allocated Revenue to Statutorily Restricted Stamp Funds

The Department has not consistently allocated supercombo license revenue to statutorily restricted stamp funds. Funds from the sale of stamps are statutorily restricted to support conservation programs for specific species. A combination of allocation methods has resulted in inaccurate fund balances in the Uniform Statewide Accounting System (USAS).

While the Department has actually sold more stamps since the creation of the supercombo license (most of them as part of the supercombo license), the revenue allocations to the stamp funds have essentially remained flat.

Inadequate Mailroom and Cash Handling Procedures Increase the Department's Risk for Fraud and Abuse

The Department is unable to determine if all the money it receives through the mail is properly deposited. The mailroom does not consistently open all mail or send revenue received by mail directly to the cashier for deposit. Instead, the Department relies on the employees to whom the mail is addressed to return cash and checks to the cashier for log-in and deposit. An internal review in the fall of 2000 identified 569 checks worth \$43,871 received by the education division that had never been deposited. The checks were dated from September 1998 through May 2000.

A new policy requiring all mail to be opened in the mailroom and checks to be taken to the cashiers for deposit was established on May 2, 2001.

Executive Summary

Poor Process Management Has Lead to Inefficient Use of Staff Time

Poorly designed processes, undeveloped automated system interfaces, and ineffective reconciliation procedures contribute to a high rate of non-value-added-activities. We found a 40 percent non-value-added rate in our review of six sections in the revenue branch. These six sections process boat registrations, titles, and park revenue. Of 48 positions analyzed, activities equaling 19 full-time equivalent employees were assessed as not adding value. The salaries associated with these activities equate to \$474,480 per year excluding benefits.

The Department Has Not Reconciled Revenue Since Fiscal Year 1998

The Department has not reconciled revenue recorded in USAS and its internal accounting system, the Integrated Financial System (IFS), since 1998. There is \$23.4 million more revenue recorded in USAS than in IFS. The Department also has not reconciled revenue between either USAS or IFS and its four key revenue collecting and processing systems. The lack of reconciliation prevents the Department from having accurate, timely information on revenue and also leaves the Department open to fraud and abuse.

The Department Has Not Accurately Forecasted Revenue

The Department's process for forecasting revenue is poorly documented, and the Department has historically underestimated revenue. Accurate revenue projections are essential for the legislative appropriations process and for the Department's day-to-day operations, especially because the Department has not always had authority to spend revenue collected in excess of its revenue estimates.

Most of the underestimates in revenue projections occur in the Game, Fish, and Water Safety Fund (fund 009) and the State Parks Fund (fund 064).

For fiscal years 1998 through 2000, fund 009 projections were underestimated by an average of \$8.3 million (\$25 million for three years) or 10 percent per year. For the same period, fund 064 projections were underestimated by an average of \$5.1 million (\$15.3 million for three years) or 19 percent per year. For fiscal years 2002 and 2003, the forecast for fund 009 is 9.4 percent more than actual fiscal year 2000 revenue. The Department may not attain its revenue forecast for fund 009.

Problems With Automated Systems Hamper Key Financial Processes

Fragmented system ownership, lack of system interfaces, and insufficient training hamper key financial processes. Although the IFS provides management with improved control over budgets, the Department has to rely on multiple unreconciled systems for its accounting and information needs.

Summary of Audit Objective and Scope

The objective of this audit was to assess the operations of the administrative resources division.

The scope of this audit included reviews and analyses of the Department's:

- Financial controls
- Revenue forecasts provided to the Legislature for the appropriations process
- Key business processes
- Information systems, quality of data, and development timelines
- Oversight and management of its POS system
- Methods for allocating revenue to statutorily restricted stamp funds
- Compliance with key laws and statutes

The administrative resources division has an annual budget of \$13.4 million. It oversees the Department's accounting, budgeting, revenue forecasting, collecting, and reporting functions, as well as the Department's management information systems.

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The Department Continues to Have Financial Management Weaknesses

Significant weaknesses in the administrative resources division's core functions prevent the Department from effectively and efficiently collecting and managing

revenue. These weaknesses are characterized by lack of basic controls and oversight, undocumented decisions, inefficient processes, and noncompliance with some statutory requirements. In some cases, the lack of controls and documentation is so extensive that the Department cannot determine if all money due to the Department has been collected and accounted for. As a fee-based agency, the lack of oversight and weak revenue processes could prevent the Department from collecting revenue that it relies on to fund its programs.

In addition to the problems identified in this report, the Department has had four other financial management findings since fiscal year 1998.

- Inappropriate transactions in bank accounts held outside the State Treasury (fiscal year 1998). The Department has corrected this.

Examples of Fiscal Management Weaknesses Detailed in This Report

Lack of basic controls and oversight:

- The Department outsourced its \$63 million point-of-sale (POS) licensing system without adequate oversight to ensure that the State receives all revenue due to it.
- The Department is unable to determine if all the money it receives through the mail is deposited.

Poor documentation of decisions and processes:

- The Department has not documented its methods for forecasting revenue. The Department's forecasting method has historically underestimated revenue for the legislative appropriations process.
- The Department has not documented its method for allocating supercombo license revenue to statutorily restricted stamp funds. These stamp funds were created to support conservation programs but have not shared in the growth of supercombo license sales.

Noncompliance with statutory requirements:

- The Department has not requested an exemption from the three-day deposit requirement with respect to POS license deputies or state park locations.
- The Department has not required stores that sell licenses (license deputies) to comply with state and federal laws requiring license applicants to provide a social security number.

- Gross fiscal mismanagement of the Department's catalog operations (fiscal year 1999). The Department has corrected this.
- Inability to determine if license revenue was spent appropriately, putting the Department at risk of noncompliance with federal regulations (fiscal year 2000).
- Lack of standard oversight mechanisms for commercial ventures and other department operations (fiscal year 2000).

Weaknesses cited in this report should not be considered isolated occurrences attributable to poor performance by employees, but as problems that reside in the Department's overall management system. Larger issues, such as policies, procedures, and guidelines that shape management decisions and process design, need to be evaluated. Management should correct the conditions that allow multiple weaknesses to occur by improving its oversight and decision making processes.

Some organizational design issues make it difficult to define clear process ownership. For example:

- The director of special projects oversaw the development of the \$63 million license POS financial system but did not report to the chief financial officer. This key revenue system contributes almost 30 percent of the Department's budget.
- The legal function is fragmented, with each attorney working independently on specific functions. Consequently, there is no assurance that the Department is receiving comprehensive and consistent legal advice.
- The information resources division does not oversee all information technology resources, which makes system development and policy enforcement problematic.

Executive management could benefit from a systematic way to monitor division implementation of strategic objectives. The 77th Legislature passed legislation requiring the Department to implement a "balanced scorecard," which should provide all levels of management with better information to manage performance.

Recommendation:

- Executive management should evaluate the internal structure and operating processes that guide its decision making to ensure that financial management weaknesses are corrected.
- The Department should implement a balanced scorecard and use it to monitor its strategic objectives.

Section 2:

The Department Has not Accounted for All Revenue From the Sale of Hunting and Fishing Licenses

The Department has not collected all revenue from its \$63 million point-of-sale (POS) licensing system due to inadequate oversight, contract deficiencies, and poor vendor performance. The Department's reliance on the POS contractor and the stores that sell licenses (license deputies) to reconcile sales and electronic sweeps of bank accounts provides inadequate assurance that the State collects all revenue.

Technical problems, incomplete data, and the loss of the contractor's production database of sale transactions makes it difficult to rely on the database alone to

The Point-of-Sale (POS) System

The POS license system was implemented statewide on August 1, 1996. There are over 3000 retail merchants across the state that sign license deputy agreements with the Department to sell hunting and fishing licenses. License deputies receive a five percent commission on sales; the POS contractor receives 96 cents per transaction processed. The POS contractor electronically sweeps license sales revenue once a week. License sale revenue increased from \$47.7 million in fiscal year 1996 to \$62.9 million in fiscal year 2000. At the conclusion of our fieldwork, the POS contractor agreement would have expired on August 31, 2001. A new contractor selected through a request for proposal process will operate a new POS system to be called the License Sale System (LSS).

The migration from a manual process to the POS license system has reduced the time it takes to get the fees collected by the license deputies to the Treasury from an average of 60 days to approximately one week.

quantify the amount of uncollected revenue. Additionally, on July 23, 2001, subsequent to the end of our fieldwork, the Department released the POS contractor from all liability for uncollected revenue. The settlement of \$700,000 was based on the POS contractor's analysis of its own incomplete and unreliable database. The Department did not independently verify the amount of uncollected revenue reported by the contractor and, therefore, this settlement may be insufficient to cover the potential loss to the State. The Department further extended the contract through November 4, 2001, for an additional \$1.2 million in fixed fees.

While the Department's POS licensing system has reduced the amount of time it takes to get revenue into the Treasury, it could have realized \$824,000 of additional interest if it had swept collected receipts from license deputies and state parks within three days of a license sale. State law

requires that agencies or agents of the state deposit revenue at the State Treasury within three days. The Department has not requested a waiver from this requirement.

Section 2-A:

The Department's Oversight of the POS Contract Has Been Inadequate

The Department has not adequately safeguarded assets associated with the POS contract or assigned adequate resources to monitor the \$63 million POS contract. There has been a lack of continuity and clearly defined roles and responsibilities, and inadequate resources for the administration of the contract. These conditions have resulted in:

- Uncollected revenue
- Lapsed liquidated damages
- Poor documentation related to the contract
- Inadequate contractor oversight

Uncollected Revenue - There is recurring evidence that all revenue has not been swept out of license deputy bank accounts over the life of the contract, but the Department has not taken sufficient steps to determine the amount of uncollected revenue. Although the Department examined records at five locations operated by large license deputy, it has not expanded the review to other license deputy locations to systematically quantify the extent of unswept revenue. Nor was the Department's review based on a statistically valid sampling method.

The Department asked the POS contractor to explain the reason for the unswept revenue identified at these five stores. The POS contractor's analysis of its database identified error rates ranging from 0.5 to 3.6 percent. Errors were attributed to database issues, corrupt data, missing logs, lost batches, and data transmission interruptions. The lack of statistical sampling in the methodology makes it difficult to extrapolate the amount of unswept revenue based on an average error rate. The error rates computed by the POS contractor may not fully capture batches that may have been lost during transmission. There are instances of lost transactions during transmission between the license deputy terminal and the POS contractor database. The range of error rates makes a compelling case for detailed onsite reviews by the Department to identify the true extent of the problem and recover dollars due the State.

The Department has not indicated what course of action it intends to follow to recoup uncollected revenue, whether it will attempt to recoup uncollected revenue for prior years, or how it will assess damages against the POS contractor. The Department withheld \$1.36 million in payments to the contractor starting December 2000.

A Recent Review Cites Continuing Concerns About the POS System

A review of the POS system in January 2000 by an external consultant noted that the "Quality of operations of the current system has been declining over the last six months to the point that very recently a combination of system failures and mistakes by . . . [the contractor's] operations staff completely destroyed the production database and its backup. This is totally inexcusable under any circumstances and must be resolved immediately."

The external consultant recommended that the Department conduct an operational audit of all outstanding issues related to the POS system.

After the conclusion of our fieldwork, the Department settled all outstanding issues related to uncollected revenue with the POS contractor. Although the Department had informed the POS contractor that it was liable for uncollected revenue, it relied on the contractor to determine how much revenue was due to the State. However, the Department did not attempt to independently verify the amount of uncollected revenue. The Department further released all

previously withheld payments in excess of \$700,00 per this settlement. The settlement was based on the POS contractor's analysis of its unreliable database (which crashed earlier in 1999 and 2000) and the Department's review of five locations operated by a large license deputy. Technical problems, not limited to lack of data synchronization between the host and terminals, and the loss of the contractor's production database of sale transactions, makes it difficult to rely on the database alone to quantify the amount of uncollected revenue.

The Department's ability to negotiate a fair settlement was constrained by its reliance on the contractor to extend services until the new POS vendor's system was ready (the new contractor was behind schedule on bringing up its POS system.) The Department extended its contract with the old POS contractor through November 4, 2001, for an additional \$1.2 million in fixed fees. Management reports that its new POS contractor will reimburse the \$1.2 million cost of the old POS contractor's extension, but this agreement is only verbal.

Lapsed Liquidated Damages - The Department allowed \$249,000 in liquidated damage credits to lapse. When the POS system went live statewide in August 1996, a key component that enabled electronic revenue sweeps of license deputy bank

accounts was not developed. This resulted in revenue remaining in license deputy bank accounts for approximately six months before being swept. The Department assessed \$200,000 in payment credits against the POS contractor. It also negotiated \$900,000 in services to be provided by the contractor as compensation for lost interest in addition to other performance issues. The Department indicates that it negotiated service credits rather than cash because the contractor was willing to accept a higher damage assessment with credits.

The service agreement stipulated that the Department could use up to \$300,000 of services per year, but it also stipulated that if the Department did not use all \$300,000 of services in the same year it would forfeit the remaining amount. Out of \$600,000 in services for the first two years of the settlement, the Department lapsed at least \$249,383 in services. As of April 30, 2001, the Department requested \$76,474 of services on the remaining \$300,000. This left \$223,526 that had to be used by August 31, 2001.

Poor Contract Documentation - The Department's documentation related to the POS system has gaps and inconsistencies. Documentation on management decisions, such as how the Department calculated payment credits and liquidated damages, is incomplete. The Department does not appear to have systematically organized documentation on the contractor's performance or on license deputy complaints. This hinders the Department's ability to effectively oversee the POS system, and to take corrective actions as necessary.

Inadequate Contractor Oversight - The Department has not assigned adequate resources to oversee and monitor the \$63 million POS contract. No one of sufficient organizational authority was designated to manage the contract on a full-time basis. There has been a lack of continuity and clearly defined roles and responsibilities, and inadequate resources for the administration of the contract.

The Department did not have a contingency plan to assume operation of the system in the event of unsatisfactory contractor performance. The Department's oversight of the POS contractor was characterized by lack of periodic operational audits of the POS contractor or license deputies, even though the Department's internal audit and a Department-commissioned study had recommended this in 1998 and 2000, respectively. The Department also did not adequately track customer complaints and system downtime independently or require the contractor to regularly provide all data that would enable the Department to assess liquidated damages on performance issues such as delays in transfer of funds, complaint resolution time, and system downtime.

Recommendation:

The Department should:

- Conduct additional audits to determine the amount of uncollected revenue and take appropriate action to recover any funds due to the State. In lieu of auditing every license deputy, the Department could conduct a statistically valid sampling to identify the extent of unswept license sales revenue.

- Ensure that license deputies retain historical records on sales transactions until the Department can quantify the problem of uncollected revenue.
- Establish a contract monitoring function to oversee the new License Sales System (LSS) contract. The Department should periodically audit the POS contractor and license deputies to ensure all revenue is collected and received.

Section 2-B:

The Department's Contracts With the POS Contractor and License Deputies Compromise Its Ability to Collect All Revenue and Comply With Laws and Regulations

The Department's POS contract has critical gaps and places an over-reliance on the contractor for key financial controls. The Department's contracts with the POS contractor and license deputies (1) do not ensure that the Department collects all its revenue, (2) do not give the Department adequate recourse in the event of unsatisfactory performance by the POS contractor, and (3) do not ensure compliance with state and federal laws. The contracts leave the Department at risk for not collecting all revenue due and also leave the Department open to potential fraud and abuse.

Internal and External Reviews Note the Department's Over-reliance on the POS Contractor

Coopers and Lybrand LLP noted in August 1997 that processes such as account sweeps, account adjustments, customer inquiries, and customer set-ups are all handled by the POS contractor and that this design limits the Department's control over its customers and their accounts. The study was commissioned by the Department and paid for by the POS contractor as part of the first contract amendment. The report concluded that if the system continues to operate under the existing technical and procedural environment, the integrity of the transactions processed through the system and the data maintained within the system will continue to be questionable.

A 1998 internal audit report noted that there is no means of auditing license deputies to determine if proper revenues are being sent to the Department. It also stated that the contractor handles all settlements, reconciliations, and corrections for the POS system, and that the Department relies heavily on the contractor to maintain controls to ensure that the Department receives all funds. Internal audit recommended that the Department consider taking over responsibilities for reconciling and correcting the POS system.

Contractual weaknesses undermine the Department's ability to ensure that the contractor and license deputies accurately and reliably report the number of licenses sold and the amount of dollars collected. The Department relies almost entirely upon the license deputies and the contractor to reconcile sales against the amount the contractor electronically sweeps out of the license deputy bank accounts. As shown in the text box, internal and external reviews of the POS contract noted that the Department relies too heavily on the contractor to ensure that all revenue is collected. A 1998 internal audit report noted that the Department "has allowed a public concern to have the ultimate responsibility of operating a major function of its responsibility and operation."

The contracts with the license deputies do not require the license deputies to retain copies of licenses printed out by the POS terminal or maintain a separate bank account for license sale revenue. Without manual records, the Department is unable to identify "lost batches" of sales transactions that never reached the POS contractor's database. Commingling of license deputy license sale receipts with other types of transactions

increases the difficulty of reconciling POS sales to electronic sweeps of accounts. Although the contract allowed the Department to buy out the system from the contractor in the event of unsatisfactory contractor performance, the contract did not include a depreciation schedule provision for buying out the contractor's system. Therefore, the Department could not ensure a reasonable purchase price when it considered taking over the system.

The Department's license deputy contract does not appear to comply with several legal requirements:

- The Department does not appear to comply with provisions in the Parks and Wildlife Code, Section 12.704, that require license deputies to maintain records of each license, stamp, permit, or tag issued. The Department's agreements with license deputies for fiscal years 1996 through 2001 lacked a record retention requirement. The new agreement for fiscal year 2002 will include a record retention provision.
- The Department bypassed State requirements when it made the POS contractor responsible for selecting license deputies but did not have a procedure to determine the applicant's eligibility to do business with the State. This procedure bypasses Texas Government Code, Section 403.055 (f) (h). Internal audit noted this situation in 1998.
- The Department does not appear to comply with state and federal laws that require purchasers of a license to provide their social security number at the time of purchase. The Department instructed license deputies that they may issue a license even if the customer refuses to provide a social security number. Collecting social security numbers assists in the administration of laws relating to child support enforcement. Penalties for failure to comply with the federal requirement could include loss of federal funds.

The Department's contracts with the new POS contractor, effective September 1, 2001, and with license deputies have weaknesses. For example, the contracts do not:

- Require license deputies to maintain a separate bank account for license sale revenue.
- Require license deputies to deposit license sale revenue within three days.

Recommendation:

The Department should:

- Ensure that there is adequate reconciliation of the licensing system revenue. Should the Department assign this function to the contractor, it should periodically audit the contractor's performance of the reconciliation.

- Ensure that applicable state and federal laws are followed. The Department should:
 - Screen license deputies for eligibility to conduct business with the State.
 - Comply with state and federal requirements relating to providing social security numbers.
 - Require license deputies to retain copies of licenses printed out by the POS terminal.
- Consider requiring license deputies to maintain separate bank accounts for license sale receipts.

Section 2-C:

The Department Has Not Maximized Interest Earnings on License Sale Revenue

While the Department's POS licensing system has reduced the amount of time it takes to get revenue into the Treasury, the Department could have realized \$824,000 of additional interest if it had swept collected receipts from license deputies and state parks within three days of a license sale. State law requires that agencies or agents of the State deposit revenue at the State Treasury within three days. Although a waiver to the rule can be obtained, the Department did not provide written notice to the Comptroller or the State Auditor's Office of the circumstances requiring a delay in making deposits within the statutorily required timeframe.

Similarly, the Department did not require its state park locations to follow the three-day deposit requirement, although the Department's law enforcement offices are swept daily. The Department has started the process of converting local park accounts to Treasury accounts which should bring the state parks into compliance.

The Department would have realized an additional \$5.2 million in interest earnings from fiscal year 1997 through fiscal year 2000 if it had considered requiring the POS contractor to sweep license deputy and state park bank accounts on a daily basis. While this may be difficult to implement for small operators, corporate entities, which account for majority of the revenue, would be ideal candidates.

Recommendation:

The Department should:

- Ensure it is in compliance with the State's three-day deposit requirement for license sale revenue or obtain a waiver with reasonable justification.
- Consider requiring the LSS contractor to sweep license sale receipts for its largest vendors on a daily basis to maximize interest earnings.

The Department Has Not Consistently Allocated Revenue to Statutorily Restricted Stamp Funds

The Department has not consistently allocated supercombo license revenue to statutorily restricted stamp funds. In 1996, the Department began selling a

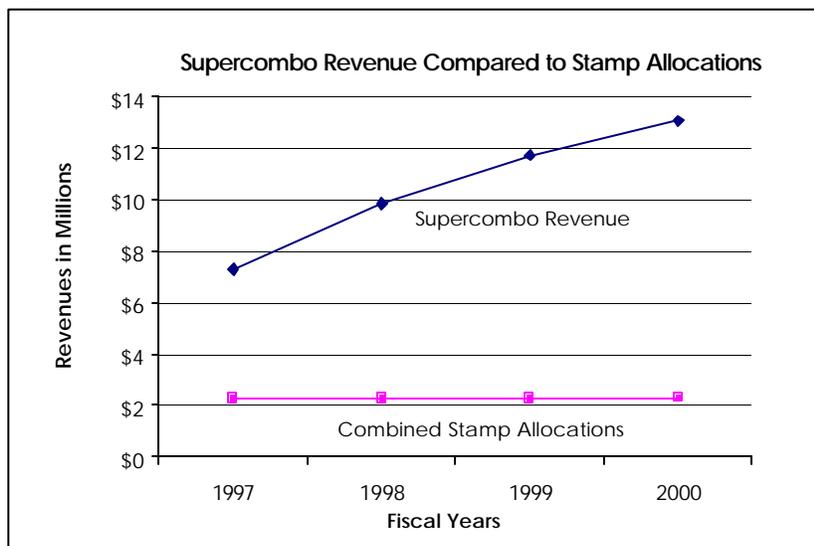
Supercombo License, Which Sells for \$49 Is Composed of:	
Resident Combination Hunting & Fishing License	\$32
Water Fowl Stamp	\$7
Turkey Stamp	\$5
White Wing Dove Stamp	\$7
Archery Stamp	\$7
Muzzleloader Stamp	\$10
Saltwater Fishing Stamp	\$7
Trout Fishing Stamp	\$7
TOTAL	\$82

supercombo hunting and fishing license that included stamps to hunt and fish specific species. Funds from the sale of these stamps are statutorily restricted to support conservation programs for those species. The enabling legislation for the supercombo license does not specify how revenue from the sale of the supercombo license should be allocated among the components of the supercombo license. Without a consistent, documented method for making this allocation (agreed to by the Parks and Wildlife Commission and its stakeholders), the Department risks misallocating and misusing funds intended for the stamp programs.

Individual species stamp sales have declined an average of 42 percent since 1996. However, the Department is actually selling more stamps, most of them as part of the supercombo license.

Figure 1 compares supercombo license revenue to the Department's allocated stamp revenue for all stamp funds. If the Department had allocated the supercombo revenue proportionately, the stamp funds would have received an additional \$1.6 million or 18 percent more revenue over the last four years.

Figure 1



Source: Department data

The Department's current allocation method allowed it to spend the \$1.6 million for general Game, Fish and Water Safety Fund (fund 009) purposes such as wildlife management and the administration and enforcement of game, fish, and water safety laws. For fiscal year 2001, the Department has increased the combined allocations to the stamp funds by \$194,000.

The Department has used a combination of two undocumented methods to allocate the funds:

- Percentage method** - In the fall of 1996, the Department instructed its POS contractor to allocate supercombo revenue to the stamp funds based on a percentage basis. The Department does not have documentation of how it calculated these percentages and the POS contractor has continued to allocate per this method.

- Fixed-sum method - The Department states that its intent has always been to provide the stamp funds a fixed amount each year, but it has been unable to provide any documentation to support that decision. Under this method, the Department guarantees the stamp funds a fixed amount to make up for the decline in stamp sales caused by supercombo sales. The Department uses revenue from the supercombo sales to supplement the revenue of individual stamps up to the fixed amount.

Statutory Requirements for Licenses

The stamp funds were statutorily created to fund conservation programs for waterfowl, whitewing dove, turkey, and trout. Revenue from the sale of stamps for waterfowl, whitewing dove, and turkey are restricted in use for research, management, and the protection of these species. Funds for these three programs can also be used for acquisition of habitat. Not more than 50 percent of waterfowl and whitewing dove revenue can be used for research and management. Trout stamp revenue is restricted to the purchase, rearing, and stocking of freshwater trout in Texas.

The supercombo license was established with the requirement that its fees shall be less than the fees for individual licenses, permits or stamps that are combined in the license package.

The percentage method provided the stamp funds with more revenue than the fixed-sum method, allowing significant balances to build up in the stamp funds. In February 2001 the Department transferred \$2.2 million out of the stamp funds to reflect how much they would have received under the fixed-sum method for fiscal years 1998, 1999, and 2000. Because the Department used the fixed-sum method while instructing the POS contractor to use the percentage method, the stamp fund balances in USAS for fiscal years 1998, 1999, and 2000 were inaccurate. However, the Department has not instructed the POS contractor to stop allocating by percentages.

Recommendation:

The Department should:

- Work with the Parks and Wildlife Commission and its stakeholders to develop a standard method to allocate proceeds from supercombo license sales to the statutorily restricted funds.
- Document its method for allocating supercombo revenue. Any changes to this method should be approved by the Parks and Wildlife Commission prior to adjusting fund balances.
- Inform the POS contractor in a timely fashion of any changes to the allocation method.
- Make timely adjustments to the Department's USAS deposits to reflect accurate fund balances.

Inadequate Mailroom and Cash Handling Procedures Increase the Department's Risk for Fraud and Abuse

Incoming Mail Not Sent to the Cashier Contains Significant Revenue

In mid 2000, the Department instituted a policy of photocopying all checks or cash in opened mail sent to individuals. This was done because of the discovery of un-deposited checks in the Education division. Our review of this mail noted that \$267,112 in cash and checks were received over a nine month period ending February 28, 2001. Of that amount, \$41,743 was in checks payable to individuals, \$18,288 was in checks payable to the Parks and Wildlife Department, and \$194,065 was in checks payable to the Parks and Wildlife Foundation or foundation-related programs. \$12,416 in checks were payable to either the Parks and Wildlife Department programs or other corporations. Five checks totaling \$600 were blank without a payee noted. We were unable to determine the final disposition of these checks because there was no identifying information in the cashiers area.

The Department is unable to determine if all the money it receives through the mail is properly deposited. The mailroom does not consistently open all mail or send revenue received by mail directly to the cashier for deposit. Instead, the Department relies on the employees to whom the mail is addressed to return cash and checks to the cashier for log-in and deposit. This system has resulted in instances of untimely revenue deposits and the potential for state funds to be misdirected.

The practice of opening all mail in the mailroom and forwarding cash and checks directly to the cashier protects funds from fraud and abuse. However, the Department uses inconsistent methods for handling incoming mail, cash, and checks:

- Unopened Mail - The mailroom maintains a list of 68 individuals whose mail it never opens. When the mailroom receives mail for these individuals, the mail handler stamps the envelope with a notice asking the recipient to return any money to the cashier for further handling. There is no system in place to determine whether such mail includes cash or checks or whether any funds are deposited.
- Personal or Confidential Mail - The mailroom does not open mail marked personal or confidential. The mailroom handles this mail the same way it handles mail for people on the do-not-open list. Again, there is no system in place to determine whether the recipients appropriately deposit any funds they receive.
- Mail Containing Cash or Checks - The mailroom forwards opened mail containing cash or checks to the recipient instead of the cashier. The mailroom does not reconcile revenue received and, therefore, has no way to determine whether the funds are returned to the cashier for deposit.

An internal review in the fall of 2000 identified 569 checks worth \$43,871 received by the education division that had never been deposited. The checks were dated from September 1998 through May 2000. Envelopes containing the checks were addressed to the supervisor of an educational program.

After the internal review, the Department required the mailroom to photocopy cash and checks in opened mail. However, it still did not require the mailroom to log cash

and checks received, nor did it attempt to track whether such funds were deposited. Furthermore, the requirement to photocopy incoming cash and checks does not address mail that the mailroom does not open. A new policy requiring all mail to be opened in the mailroom and checks to be taken to the cashiers for deposit was instituted on May 2, 2001. The policy requires recipients of personal checks to claim their checks from the mailroom. Management reports that it still needs to develop a reconciliation process to ensure that all funds are deposited.

Recommendation:

The Department should:

- Open all mail in the mailroom to identify and log in all revenue and perform an independent reconciliation of deposits to the receipt log.
- Send all revenue received in the mailroom directly to the cashier for safeguarding or deposit.

Section 5:

Poor Process Management Has Lead to Inefficient Use of Staff Time

Poorly designed processes, undeveloped automated system interfaces, and ineffective reconciliation procedures contribute to a high rate of non-value-added activities in the finance division's revenue branch. We found a 40 percent non-value-added rate in our review of six sections in the revenue branch. These six sections process boat registration, titles, and park revenue. Of 48 positions analyzed, activities equivalent to 19 full-time equivalent employees (FTEs) were assessed as non-value-added. The salaries associated with these activities equate to \$474,480 per year excluding benefits. While care must be exercised in evaluating any value-added assessment, the high rate of non-value-added activities indicates a need to reevaluate existing processes. Assessing activities as non-value-added does not necessarily equate to an immediate cost saving or reduction in FTEs, but it could identify an opportunity to reallocate resources and improve revenue processes.

The non-value-added activities generally share one or more of the following characteristics:

- Activities performed in one section are essentially duplicated by the next section in the work process. For example, one section is primarily dedicated to identifying boat registration and title documents that cannot be processed. The activities required to perform this function are reviewing the completeness of documents and the accuracy of payment and accessing the boat information system. These activities are repeated by staff in the next step of the process and could be consolidated without a significant increase in workload.

- Significant idle time is built into staffing patterns. Employee time estimates and analysis of outputs in one section indicate that 6.25 out of 10 FTEs are idle during average workload periods.
- Automation is underused. A number of staff members continue to use manual processes after the introduction of automation. Some staff members still maintain data on spreadsheets and manual logs although the data is available on automated systems. In addition, the Department has not completed various automated system interfaces, which leads to duplicate data entry activities.
- Ineffective reconciliation procedures are performed which provide little assurance that accounts are accurate. Staff members reconcile bank statements to check registers, when a more effective procedure would be to reconcile system revenue data to bank statements and Treasury sweeps and adjust each component as appropriate.

Many of the processes in the revenue branch have not been critically assessed for efficiency and effectiveness. The finance division does not appear to have effectively integrated technology into its operations, and in many cases appears to base staffing levels on peak workloads. There also appears to be unnecessary specialization of activities, which contributes to duplication of efforts and unnecessary work loops.

Recommendation:

The Department should:

- Conduct a thorough review of its key revenue processes to eliminate and streamline activities where appropriate. At a minimum, the review should consider the following: consolidation opportunities; improved use of automation; and cost benefit analysis of developing system interfaces. Work done by the State Auditor's Office may also be used to make appropriate changes.
- Consider the effect of manual data entry on data quality, and the associated costs of correction and reconciliation.

Section 6:

The Department Has Not Reconciled Revenue Since Fiscal Year 1998

The Department has not reconciled revenue between USAS and its internal accounting system IFS, since 1998. There is \$23.4 million more revenue recorded in USAS than in IFS. The Department also has not reconciled revenue between either USAS or IFS and its four key revenue collecting and processing systems. The lack of reconciliation prevents the Department from having accurate, timely information on revenue and also leaves the Department open to fraud and abuse.

Section 6-A:

The Department Has Not Accounted for the \$23.4 Million Revenue Difference Between Its Internal Accounting System and USAS

There is a \$23.4 million variance between USAS and the Department's internal accounting system for fiscal years 1998 through 2000. The Department cites the lack of review and reconciliation as the reason for not being able to explain the difference.

Discrepancies between USAS and IFS result from lack of automated system interfaces, the existence of system bugs, and insufficient user training. The lack of automated interfaces between the various revenue systems results in numerous manual data entry points. Manual data entry increases the risk for inaccurate data. System bugs that result in problems with unencumbering funds were also present during the initial implementation of IFS. Division end users of IFS have complained about a lack of adequate training on general system usage.

The Department completed statutorily required reconciliation of its appropriations for fiscal years 1998 through 2000 in March 2001.

Recommendation:

The Department should:

- Complete its reconciliation of revenue.
- Improve end user training on IFS system usage to reduce coding errors.

Section 6-B:

The Department Is Unable to Explain Variation Between USAS, IFS, and Its Revenue Subsystems

The Department was unable to provide the State Auditor's Office with raw data extracts from all revenue collecting subsystems with the exception of the Boats and Law Enforcement System (M204). The M204 system contains revenue data on boat registration and titling and law enforcement citations. The State Auditor's Office received fiscal year 2000 data from M204 to compare the accuracy of M204 data to IFS and USAS data. The revenue totals between IFS and M204 for object code 3455 (motorboat registration fees) show a difference of \$5.6 million. The revenue recorded in M204 and USAS for the same object code shows a difference of \$3.8 million. Although the total revenue in USAS and M204 shows a difference of \$1.7 million, some object codes (such as the one cited above) show significant variations which offset each other in the overall difference.

Summary-level data provided by the Department for the Park Reporting System and Reservation, Registration and Reporting System shows an aggregate difference of \$3.3 million in fiscal year 1999 and \$2.6 million in fiscal year 2000 between these systems and USAS. The Department's summary-level IFS data showed a total difference of \$3.3 million in comparison with these systems in fiscal year 2000.

A comparison of USAS data with supercombo license deposits for dedicated funds shows a \$3.5 million discrepancy for fiscal years 1998 through 2000. As noted in Section 3, the Department instructed the POS contractor to allocate fixed percentages of supercombo revenue to statutorily dedicated subaccounts in USAS. The deposits made by the POS contractor are lower than the fixed percentage allocation formula. The Department has been unable to provide an explanation for these differences. Reconciliation would identify the reason for differences and reduce the risk of fraud.

Recommendation:

The Department should:

- Reconcile all revenue subsystems with IFS and USAS regularly.
- Reconcile the POS system and USAS to determine the reasons for the variance.

Section 7:

The Department Has Not Accurately Forecasted Revenue

Table 1 | The Department's process for forecasting revenue is poorly documented, and the

Underestimates in Revenue Projections			
Fund 009			
Fiscal Year	Amount Forecasted	Amount Collected	Variance
1998	\$76,952,000	\$86,834,585	\$9,882,585
1999	\$76,952,000	\$84,886,345	\$7,934,335
2000	\$80,521,000	\$87,730,383	\$7,209,383
Fund 009 Total Variance: \$25,026,303			
Fund 064 ^a			
Fiscal Year	Amount Forecasted	Amount Collected	Variance
1998	\$21,899,000	\$24,982,215	\$3,083,215
1999	\$21,899,000	\$26,922,918	\$5,023,918
2000	\$22,280,903	\$29,527,977	\$7,247,074
Fund 064 Total Variance: \$15,354,207			
^a Fund 064 also receives \$16 million in guaranteed sporting goods sales tax revenue, which is not included in the numbers above.			

Source: USAS and the Department's LAR

Department has historically underestimated revenue. Accurate revenue projections are essential for the legislative appropriations process and for the Department's day-to-day operations. The Department has not always had authority to spend revenue collected in excess of its revenue estimates.

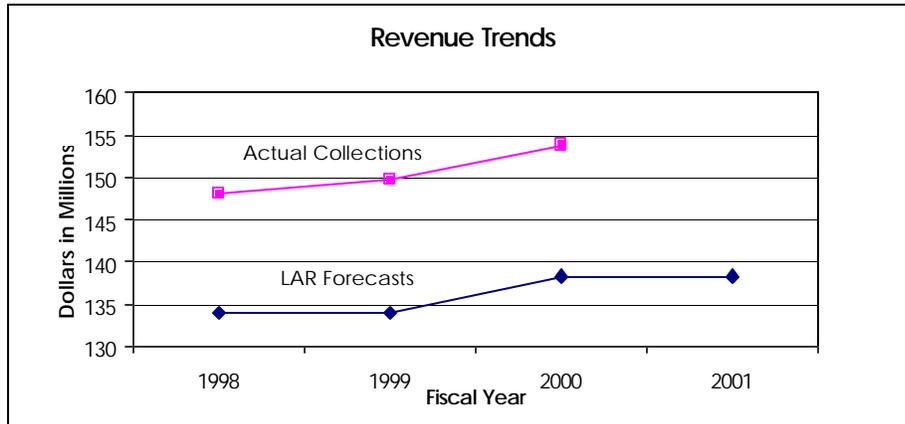
Most of the underestimates in revenue projections occur in the Game, Fish and Water Safety Fund (fund 009) and the State Parks Fund (fund 064). From fiscal year 1998 through fiscal year 2000, the Department's forecasts for funds 09 and 064 were \$25.0 million and \$15.3 million less than actual revenue, respectively. For fiscal years 1998 through 2000, fund 009 projections were underestimated by an average of \$8.3 million or

10 percent per year. For the same period, fund 064 projections were underestimated by an average of \$5.1 million or 19 percent per year.

Lack of a documented method for forecasting revenue makes it difficult to validate forecasting assumptions and compare projections to actual receipts.

The 2002 through 2003 aggregate revenue forecast for all funds appears to mirror the

Figure 2



Source: USAS and the Department's LAR

trends in actual collected receipts. For fiscal years 2002 and 2003, the legislative appropriations request (LAR) revenue forecast for fund 009 shows an increase of 9.4 percent over actual fiscal year 2000 receipts. However, the revenue projection for fund 064 for the same time period is 8.8 percent less than the actual amount collected for fiscal year 2000. It appears that the

Department may not attain its revenue forecast for fund 009, creating a potential shortfall in revenue.

Recommendation:

The Department should:

- Establish and document its methodology for forecasting revenue.
- Consider using established forecasting methodologies to improve the accuracy of revenue forecasts.

Section 8:

Problems With Automated Systems Hamper Key Financial Processes

Key financial processes are hampered by fragmented system ownership, lack of system interfaces, and insufficient training. While the IFS provides management with improved control over budgets, the Department has to rely on multiple unreconciled systems for its accounting and information needs.

Fragmented System Ownership

The parks division is the system administrator for the Reservation, Registration, and Reporting System (R3). During the audit, the information resources (IR) section and the finance division were unable to provide the State Auditor's Office with data extracts, in part because they did not control the system. Previous audits have recommended that the Department consolidate the systems under its IR section. System development cannot have a strategic focus with fragmented ownership.

Lack of System Interfaces

Lack of automated system interfaces and lack of system integration has resulted in manual data entry into the various systems. Manual data entry increases the risk of inaccurate data and may have contributed to the differences between various financial systems. As noted in Section 6, there is a \$23 million revenue difference between IFS and USAS. Manual data entry also contributes to duplicate data entry activities in the cashiers/revenue control section, which contributes to non-value-added activities.

The Department went live with its IFS in fiscal year 1998. Although the Department informed the State Auditor's Office that IFS specifications included revenue and expenditure inbound/outbound interfaces between IFS and USAS, only the accounts payable interfaces are installed. Even the inbound accounts payable interface from USAS to IFS requires some manual data entry. USAS and IFS have different account structures and details, so staff members must manually transfer the data from system to system. The Department has not used all the detailed codes in USAS which necessitates manual entry of information from USAS to IFS. The other revenue subsystems do not have any automated interfaces with either IFS or USAS.

Inadequate Training

Inadequate training and documentation contributed to numerous errors when IFS was activated. The Department's current training plan provides IFS users with only basic training. Advanced user training is not available to Department staff. In addition, the Department has not sufficiently documented how to create certain IFS reports and other processes or cross-trained employees. If the employees with this knowledge leave the Department, there is a risk that the remaining employees will not know how to use IFS effectively.

Recommendation:

The Department should:

- Provide IR with the responsibility and the authority to coordinate and manage agency-wide systems development. This could be accomplished by centralizing or consolidating system management under the information resources division.
- Conduct and complete the development of system interfaces in a timely manner to help ensure data accuracy and a promote a more efficient use of automated systems.
- Create accounts in USAS similar to the accounts and sub-accounts in IFS.
- Assess training needs and conduct user surveys to determine the timeliness and adequacy of training offered.
- Conduct a review of knowledge, skills, and abilities needed to effectively utilize the IFS.

Management's Responses and State Auditor's Follow-Up Comments



October 12, 2001

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State Auditor
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Austin, Texas 78701

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ANDREW SANSOM
EXECUTIVE DIRECTOR

Dear Mr. Alwin:

The department appreciates the opportunity to respond to your report. We are committed to improving our revenue management processes. In fact, we have already addressed some of the report's recommendations and other improvements are in progress.

While we agree with many of the recommendations, we do not believe the report is balanced in content and tone, especially in the "Key Points" and "Executive Summary." It is important that these sections reflect balance, some of which is found in the detail report section. Management, along with our commissioners, discussed this issue with your staff on several occasions.

We believe the report should place more emphasis on the benefits of our automated licensing system. In 1994 the department started the process to create the largest and one of the most complex automated licensing systems in the nation. This system has resulted in improved customer service. Our customers can now purchase all licenses at all locations. With the 1-800 telephone sales the department can sell licenses at any time of day. Sales times for a license have dropped from fifteen minutes to five minutes.

The system has also resulted in increased revenues and improved financial controls. Automated sales have allowed the department to create innovative combination licenses and drawings for outdoor recreation opportunities that increased revenue to the state. License revenue is electronically swept weekly, instead of receiving checks from sellers every two months. The department has improved financial controls and security by reducing the time funds are outstanding, eliminating inventory, and allowing immediate access to data that is regularly backed-up. We are now implementing our second automated licensing system and are using lessons learned from our first system to make improvements.

Please find attached our responses to the individual findings and recommendations. Again, we appreciate the opportunity to provide our comments.

Sincerely,

Andrew Sansom
Executive Director

*Give Thanks for
the Memories...*



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*Give to the
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*To manage and conserve the natural and cultural resources of Texas for the
use and enjoyment of present and future generations.*

Section 1: The Department Continues To Have Financial Management Weaknesses

Management's Response:

Executive management takes its responsibility for strong revenue management processes seriously. Management will make needed improvements, whether pointed out internally or by the auditor's office. In fact, we have already made improvements based on the report's recommendations.

Executive management has a number of oversight processes in place. We will review these processes and make any needed improvements. We are also in the process of implementing the legislatively required "balanced scorecard." Management has asked for the state auditor's assistance. We appreciate the help already provided.

Department management has to consider the related cost and benefits when designing and implementing internal controls. Management's challenge is finding the proper balance. We also have to strongly consider our customer's needs. Since the department operates more like a business than most governmental entities, these factors are especially important.

In some cases we may not have put sufficient resources into some of our revenue management processes. We will review the processes to determine if additional resources are needed.

We appreciate that the report gives us credit for correcting two prior findings over two years ago.

Section 2A: The Department's Oversight of the POS Contract Has Been Inadequate

Recommendation:

Conduct additional audits to determine the amount of uncollected revenue.

Management's Response:

One of the primary purposes of the automated license system is to ensure that customers can conveniently, legally fish and hunt. In order to provide immediate access to licenses, TPW created the first system that was able to sell all licenses at all locations, whether the telephone line is working or not. The tradeoff for this convenience and the resulting increased compliance with the law was an increase in the complexity of the automated system.

While there have been errors due to offline transactions, the error rates noted in the auditor's report inappropriately included licenses that were voided and those that had already been swept. Based on our audit work the correct average error rate for the population of transactions is less than one percent (.008). The funds associated with these errors have been collected from merchants or reimbursed by the POS

contractor. In addition, TPW has collected all remaining service credits from the contractor.

TPW staff audited thousands of transactions totaling over \$1 million. The audit targeted the peak time period for license sales, when we knew transactions were conducted offline. TPW is confident that significant issues were identified, that the contractor corrected the issues, and that TPW has received the associated license revenue. Also, the contractor's internal audit staff reviewed and authorized the contractor's work. The contractor's database is not unreliable nor was the database lost. The contractor has maintained a 99.84 percent uptime for running the system during the past year.

To further ensure all revenues were collected, TPW will conduct a statistically valid audit of the POS system using internal staff or external auditors. The audit is planned to start in November or December 2001.

License deputies are responsible for remitting license revenue, are liable for any outstanding amounts, and may be subject to criminal penalties if license revenue is not remitted to TPW. Our new POS contractor has agreed to assume responsibility for amounts that cannot be collected from license deputies for sales during the extension of the contractor's system.

State Auditor's Follow-Up Comment:

There is recurring evidence of unswept revenue at both license deputies and Department field offices since the inception of the POS system in 1997. The Department only initiated the reviews referenced in the report after repeated notifications of unswept revenue from one large license deputy. This license deputy reported, for example, that \$647,921 in sales receipts was not swept from its account for approximately one month in August 2000. While there were systemic problems that resulted in unswept revenue, the Department's review was limited to only these five stores for a three month period of transactions. The Department's review did not include any of the other 3,000 license deputy locations or address unswept revenue from prior years. Furthermore, the Department did not document the testing procedures it used to identify uncollected revenue at these five stores nor did its reviews comply with audit standards. Therefore, the Department has little assurance that it identified all errors and uncollected revenue during its reviews.

As noted in the report, the error rate at the five stores the Department reviewed ranged from 0.5 to 3.6 percent. Given the range of error rates noted above, it is unknown how the Department could arrive at an average error rate of .008. It should be noted that relying on the contractor's analysis of its incomplete database or the contractor's internal audit staff constitutes an inherent conflict of interest given the fact that the Department held the contractor liable for uncollected revenue. It is worth reiterating that the January 2000 study by an external consultant concluded that: ". . . [the contractor's] operations staff completely destroyed the production database and its backup. This is totally inexcusable under any circumstances and must be resolved immediately."

Recommendation:

Ensure that license deputies retain historical records on sales transactions until the Department can quantify the problem of uncollected revenue.

Management's Response:

The license agent agreement requires license sellers to remit the net license sales amount or be in violation of the Texas Penal Code for theft of public funds. All agents currently selling licenses have signed agreements requiring that records be retained for three years in addition to the current license year. The automated system sweeps weekly and there are no longer large amounts of inventory outstanding. TPW has actually avoided the potential fraud and collection issues associated with the previous manual license sales system that allowed vendors to take up to two months before remitting license sales.

State Auditor's Follow-Up Comment:

The recommendation in Section 2-A is intended to ensure that records necessary to conduct audits to identify uncollected revenue are preserved. The prior license deputy contracts did not require license deputies to keep copies of licenses, and the Department therefore may not have the information needed to identify uncollected revenue from prior years' sales.

Recommendation:

Establish a contract monitoring function to oversee the new license sales system contract. The Department should periodically audit the POS contractor and license deputies to ensure all revenue are collected and received.

Management's Response:

TPW agrees that a strong contract monitoring function is necessary. To improve our contract monitoring function, we hired a new POS contract manager on October 1, 2001.

TPW's contract with the new POS contractor, signed over a year ago, includes specific provisions regarding the ability to audit the contractor, use the database, and create reports to assist with the audit of license sellers. TPW will establish a formal annual audit process, beginning in fiscal year 2001, of the new contractor and license retailers operating the contractor's system.

TPW's contract with the POS contractor included clear requirements for operations and disaster recovery, provisions for liquidated damages, and an option to purchase the system or otherwise takeover the system in the event of unsatisfactory vendor

performance. The contractor provided TPW with daily and weekly reports that tied directly to performance. These reports and other documentation are the basis for the calculation of liquidated damages. When the system had problems that were not resolved quickly, TPW escalated our concerns to the highest levels of the contractor's management, withheld payment, assessed liquidated damages, and documented these actions. However, the contractor continues to be TPW's partner in the licensing business for one of the largest most complex systems in the nation.

TPW is the first state to undertake a total conversion from one automated license system to another. As noted above, TPW has hired a new contract manager for the new licensing system. While this position existed with the first automated system, TPW experienced employee turnover, which affected the consistency of the oversight.

Section 2B: The Department's Contracts With the POS Contractor and License Deputies Compromise Its Ability to Collect all Revenue and Comply With Laws and Regulations

Recommendation:

Ensure that there is adequate reconciliation of the licensing system revenue. Should the Department assign this function to the contractor, it should periodically audit the contractor's performance of the reconciliation.

Management's Response:

TPW's contract includes specific provisions related to revenue collection, reconciliation, and audit information. The pilot for the new system has already demonstrated a seamless process from the sale of a license to a corresponding deposit at the Treasury. Beginning in fiscal year 2001, TPW or subcontractors will periodically audit the license contractor and license deputies.

Recommendation:

Ensure that applicable state and federal laws are followed. The Department should:

- *Screen license deputies for eligibility to conduct business with the State.*
- *Comply with state and federal requirements relating to providing social security numbers.*
- *Require license deputies to retain copies of licenses printed out by the POS terminal.*

Management's Response:

TPW believed that all laws were being followed and enforced throughout this contract. Specifically,

We did not believe we needed to screen license deputies for eligibility since they retained commissions on their sales rather than direct payments from TPW. We now agree this process is necessary and will work with the Comptroller to ensure ineligible license deputies are not added to the system.

At the time the system was put in place, a federal law prohibited TPW from refusing a recreational license to someone on the grounds that they failed to provide their social security number. This law has since been superseded, and TPW now requires that customers provide their social security number before purchasing a license.

TPW has always required that license agents retain records of all license transactions. The agreement for operating under the new system, which has already been signed by current retailers, specifically requires the retention of sales receipts for three years in addition to the current license year.

State Auditor's Follow-Up Comment:

The Department's license deputy agreement effective during the fieldwork of this audit did not have a record retention requirement. We commend the Department for correcting this deficiency identified by the State Auditor's Office during this audit.

Recommendation:

Consider requiring license deputies to maintain separate bank accounts for license sale receipts.

Management's Response:

TPW will encourage license deputies to maintain separate bank accounts, however, this could present an economic hardship for many small business owners, and therefore TPW will not require separate bank accounts.

Section 2C: The Department Has Not Maximized Interest Earnings on License Sale Revenue

Recommendation:

Ensure it is in compliance with the State's three-day deposit requirement for license sale revenue or obtain a waiver with reasonable justification.

Management's Response:

TPW believes it is in compliance with the prompt payment law for collection of funds from license deputies. State law requires that "...funds collected or received by a state agency under law shall be deposited in the treasury...not later than the third business day after the date of receipt." In addition, the Parks and Wildlife Code 12.703 (b) states that "A designated entity may collect revenue for the department from license deputies." And in 12.705 (c) "The commission by rule may establish reasonable penalties for delinquent payments or reports from license deputies and may establish payment discounts for timely payments or reports from license deputies." License deputies are not the state agency, and the commission has the authority to establish the payment process. State parks accounts have been converted to Treasury accounts.

Significant sources of revenue for the state, such as lottery receipts and state sales tax revenue, are not collected within three days from retailers. At the time of this audit, the entities that collect these revenues did not believe they were required to obtain a waiver. The Comptroller's office has informed TPW that they believe we are in compliance with the law and noted that the customer's check is written to the license seller's business, not the state.

The prompt payment law, Government Code Section 404.094, goes on to state that "the state auditor shall make an estimate of any resulting financial loss to the state, taking into consideration compliance costs that would have been additionally incurred by the agency, and report the amount to the legislative audit committee, the governor, and the comptroller." The audit report does not contain the estimate for the additional compliance costs, nor has TPW been notified of the state auditor's estimate.

TPW believes that small license sellers would consider additional sweeps an economic hardship, drop out of the business, and hurt our customer's ability to purchase licenses. Our larger retailers would very likely demand an increased commission to offset their lost interest earnings. In addition, most credit card sales have not been reimbursed to the retailer before they are swept by TPW.

A one-percentage point increase in the retailers' commission is equal to almost \$700,000 per year. This increase would almost offset the potential interest revenue gained by the more frequent sweeps. There would also be additional administrative costs and confusion associated with moving to multiple sweep dates for agents.

State Auditor's Follow-Up Comment:

The Department should apply for a waiver from the three-day deposit requirement.

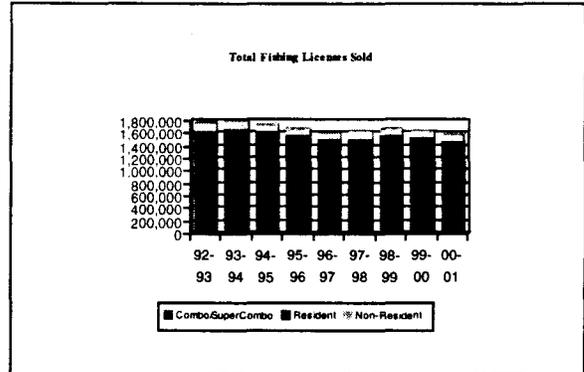
License deputies receive a 5 percent commission on all licenses sold. Based on our review of the license deputy agreement, license deputies are not entitled to additional compensation in the form of interest earned on unswept state dollars. The Department has an inherent fiduciary duty to maximize interest earnings on collected revenue.

Because revenue sweeps of license deputy bank accounts are automated, there would be minimal additional cost to the license deputy for daily sweeps. While the State Auditor's Office acknowledged in this report that daily sweeps may not be viable for small license deputies, an effort should be made to explore the feasibility of daily sweeps for its largest vendors.

Section 3: The Department Has Not Consistently Allocated Revenue to Statutorily Restricted Stamp Funds

Management's Response:

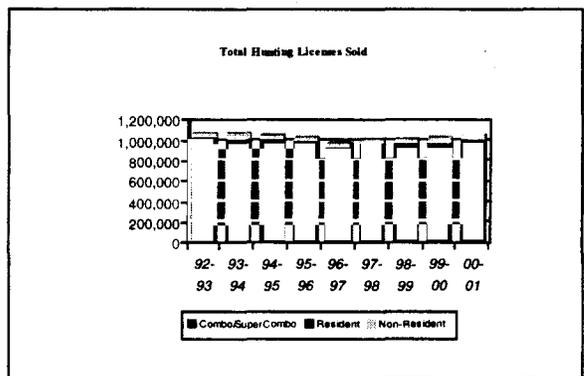
The department does not agree that a proportional allocation of supercombo revenue to the stamp funds is appropriate. We believe our previous methodology, and the new methodology under development, have resulted, and will continue to result in accurate allocations.



Since overall license sales have remained fairly steady over the last several years, we do not believe significant changes in stamp sales would have occurred if the supercombo did not exist.

The report's chart does not give a complete picture of license sales since it only shows increased supercombo sales. Since many customers have shifted to the supercombo, there has been a resulting decrease in sales of other hunting and fishing licenses. As a result, overall license sales have not increased, but remained fairly steady since the supercombo's introduction (see accompanying chart).

The \$49 supercombo license was introduced in 1996. It includes a hunting and fishing license along with seven stamps. It was introduced to increase revenue and provide value and convenience to our customers, since the products included would cost more if purchased separately. Because the supercombo would result in individual stamp



sales dropping, we knew we needed a new way to fairly allocate sales to stamp funds. Before the supercombo this was not an issue, since each stamp had to be purchased individually; therefore, we knew the exact sales figures.

The current allocation was based on historical stamp sales before the supercombo's introduction. Each stamp fund has received allocations of at least as much as they were receiving before the supercombo's introduction. Historical information was used because we knew we would not know the intent of supercombo purchasers related to each stamp, since the stamps no longer had to be purchased separately. In other words, just because someone bought a supercombo does not mean they intended to use each stamp, or any of the stamps.

The department agrees that an updated, and well documented, allocation methodology is needed. The historical information we have been using is becoming dated. The department is working with its stakeholders to develop an updated methodology to allocate funds to the stamps. In fact, this issue has been discussed during our last two commission meetings. The updated methodology may result in allocation decreases, as well as increases, to the individual stamp funds. We will complete the new methodology before the end of fiscal year 2001.

The POS contractor was timely informed of allocation changes, but the changes were not made. A change was made through USAS to accommodate the necessary changes and journal entries were made to correct previous allocations.

State Auditor's Follow-Up Comment:

We did not recommend that the Department allocate supercombo license sales revenue proportionally. Our analysis was to highlight the fact that the individual stamps that are a part of the supercombo license did not see a growth in their share as the sales of supercombo grew. Whenever a supercombo license is sold, the stamps are also sold whether utilized or not.

We commend the Department for recently beginning to work with its stakeholders and the Parks and Wildlife Commission to develop an allocation method that ensures supercombo revenue is appropriately allocated to the restricted stamp funds.

Section 4: Inadequate Mailroom and Cash Handling Procedures Increase the Department's Risk for Fraud and Abuse

Management's Response:

As noted in the report, the department implemented a policy in May 2001 requiring all mail to be opened in the mailroom and all checks to be taken to the cashier's office for deposit. A process to reconcile deposits to receipt information is under development.

Section 5: Poor Process Management Has Lead to Inefficient Use of Staff Time

Management's Response:

The department disagrees with the report's conclusion that there are 19 full-time equivalent positions performing non-value-added activities. The department also does not believe the revenue processes were adequately assessed. For example, some activities were considered non-value-added because our customers did not directly request the activity. Based on our many years of experience these activities are efficient and provide a valuable customer service.

As the report states "care must be exercised in evaluating any value-added assessment". This statement is necessary because determining whether a task adds value using this methodology is not a science, but is subjective. Since the report admits the subjectivity of the assessment, we are not sure why such precise figures are provided for the non-value-added FTE's and their salaries.

Based on documentation provided by the audit team it does not appear key process stakeholders were contacted to determine their needs. Understanding each stakeholder's needs and the interactions between stakeholder groups is important for determining the value of a process. Stakeholders who receive a benefit from a process are the only ones who can truly define its value. Some key stakeholders involved in the areas assessed are current boat owners, boat purchasers, boat dealers, tax-assessor collectors, law enforcement personnel, state treasury, and Texas Parks and Wildlife management.

While we do not agree there are 19 non-value-added FTE's, we do agree that periodic evaluations of revenue processes are important. The department will periodically perform reviews of its key revenue processes and make needed improvements. In fact, reviews are presently occurring of boat registration and titling and park revenue reporting. We also agree that further use of automation, especially system interfaces, would enhance the efficiency of our revenue processes. Finally, we will consider the impact of manual data entry on the revenue processes.

State Auditor's Follow-Up Comment:

Auditors used standard activity based costing analysis techniques in the review of the six sections reviewed. These methods have also been used by the state in its implementation of activity based costing pilot projects at other state agencies over the past four years. An assessment of a routine, repetitive process such as issuing boat titles and registration addressed basic customer requirements such as cost, quality, and time. A similar analysis conducted by the State Auditor's Office in its audit of the Park Division (SAO Report No. 99-002, September 1998) identified 19 of 26 FTEs as non-value-added. The State Auditor's Office stands by the value-added assessment conducted in its effort to improve efficiency and service delivery in state government.

Section 6A: The Department Has Not Accounted for the \$23.4 Million Revenue Difference Between Its Internal Accounting System and USAS

Management's Response:

The department has currently reconciled to within .06 percent, or \$380,722, of total revenue received in USAS. We will complete the reconciliation by December 31, 2001. Of the \$23.4 million, \$10 million was classified as Funds Held for Others (401k deposits held by ERS), and \$12 million was point-of-sale wire transfers that did not get entered into the accounting system four years ago (September 1997, the first month of the new IFS system). The department is using additional resources to complete all reconciliations. We will review our training program and make any needed improvements by December 31, 2001.

Section 6B: The Department is Unable to Explain Variation Between USAS, IFS, and Its Revenue Subsystems

Management's Response:

The POS system and USAS have been reconciled and variances identified and adjusted. The department is developing automated interfaces that will assist in the regular reconciliation of the revenue subsystems with IFS and USAS.

Section 7: The Department Has Not Accurately Forecasted Revenue

Management's Response:

Before the audit started the department had already worked with the Comptroller and the Legislative Budget Board to improve its revenue forecast. As stated in the report, the fiscal year 2002-2003 aggregate forecast for all funds mirror the trends in actual collected receipts. Although the fiscal year 2002-2003 revenue forecast for fund 009 is 9.4 percent over actual fiscal year 2000 receipts, it is within one percent of the Comptroller's Biennial Revenue Estimate.

The department agrees the forecasting methodology should be documented. We will document our methodology and consider established forecasting methodologies to further improve our estimates. We will complete the methodology by December 31, 2001.

Section 8: Problems with Automated Systems Hamper Financial Processes

Management's Response:

After interfaces are established between USAS and the internal accounting system, we will consider setting up USAS accounts and sub-accounts similar to those in IFS. Until the interfaces are complete, we believe that the costs of doing so would exceed

the benefits. IFS is used primarily for detailed budget information and decentralized purchasing and it accounts for expenditures at a more detailed level than USAS for internal reporting purposes.

The Department will take the following steps to improve its automated systems:

- *Management will consider giving Information Resources additional responsibility and authority to coordinate and manage agency-wide system development.*
- *We will develop automated system interfaces to help ensure data accuracy and promote more efficient use of automated systems.*
- *The department will assess training needs by the end of the calendar year and will develop any needed training classes by the end of the fiscal year.*
- *We will consider conducting a review of the knowledge, skills and abilities needed to effectively use IFS.*

Objective, Scope, and Methodology

Objective

Our objective was to assess the operations of the administrative resources division at the Parks and Wildlife Department (Department). The administrative resources division has an annual budget of \$13.4 million. It oversees the Department's accounting, budgeting, and revenue forecasting, collection, and reporting functions, as well as the Department's management information systems.

The objective included answering the following questions:

- Is revenue forecasting reliable and accurate?
- Does the Department have adequate controls over receipts?
- What are the approximate costs associated with non-value-added activities within the administrative resources division?
- Do the Department's current accounting systems, policies, and practices ensure reliable information on fund balances?

Scope

The scope of this audit included reviews and analyses of the Department's:

- Financial controls
- Revenue forecasts provided to the Legislature for the appropriations process
- Key business processes to assess efficiency of operations and use of resources
- Information systems, including quality of data and development timelines
- Oversight and management of its revenue-collecting point-of-sale system
- Methods for allocating revenue to statutorily restricted stamp funds
- Compliance with key laws and statutes

Methodology

Information collected to accomplish our objective included the following:

- Interviews with Department executive management, divisional management, and staff
- Minutes of Parks and Wildlife Commission meetings
- Department plans, goals, budgets, memoranda, policies, and procedures
- Administrative resources-generated data on revenue within subsystems

- Management and staff interoffice memoranda
- Newspaper articles and reports relating to the Department

Procedures and tests conducted:

- Test of the finance division's cash receipt, collection, and reporting functions
- Direct observation of processes
- Analysis of the finance division's revenue forecasting process

Analysis techniques used:

- Control reviews
- Trend analysis
- Data comparison
- Workflow mapping
- Value added assessment
- Activity analysis

Criteria used:

- State Auditor's Office Accountability Project Methodology general and specific criteria
- Texas statutes and Texas Administrative Code
- General Appropriations Act
- Department plans, policies, and procedures
- Other standards and criteria developed through secondary research sources

Other Information

Fieldwork was conducted from August 2000 through April 2001. The audit was conducted in accordance with generally accepted government auditing standards.

The following members of the State Auditor's staff performed the audit work:

- Vivek Katyal, MBA (Project Manager)
- John C. Young, MPA (Assistant Project Manager)
- Kels Farmer
- Robert Kiker

- Chiemi Perry
- Ray Ruiz
- Pam Ross
- Julie Ivie, CIA (Audit Manager)
- Craig Kinton, CPA (Audit Director)

Copies of this report have been distributed to the following:

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The Honorable Bill Ratliff, Lieutenant Governor, Vice Chair
The Honorable Rodney Ellis, Senate Finance Committee
The Honorable Florence Shapiro, Senate State Affairs Committee
The Honorable Robert Junell, House Appropriations Committee
The Honorable Rene O. Oliveira, House Ways and Means Committee

Governor of Texas

The Honorable Rick Perry

Parks and Wildlife Department

Mr. Andrew Sansom, Executive Director

Parks and Wildlife Commission

The Honorable Katharine Armstrong Idsal, Chair
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