



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
751-0590-11

Retail Sales System (RSS)

*Department of Natural Resources and
Department of Technology, Management,
and Budget*

Released:
November 2011

RSS is an automated system that processes the sale of hunting and fishing licenses, off-road vehicle and snowmobile permits, sportcards, gift cards, and donations through a network of over 1,500 retail outlets located throughout Michigan. RSS is also used by customers to purchase licenses and permits over the Internet. RSS is operational 24 hours a day, 7 days a week. For the license year ended February 28, 2011, RSS processed 4.1 million licenses and permits totaling \$59.0 million in license and permit revenue.

Audit Objective:

To assess the effectiveness of the Department of Natural Resources (DNR) and the Department of Technology, Management, and Budget's (DTMB's) efforts to ensure the accurate processing of hunting and fishing license data in RSS.

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Audit Conclusion:

DNR and DTMB's efforts to ensure the accurate processing of hunting and fishing license data in RSS were moderately effective. We noted three reportable conditions (Findings 1 through 3).

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Reportable Conditions:

DNR, in conjunction with DTMB, did not implement controls within RSS that allow verification that customers who purchased hunting and fishing licenses

met the age eligibility requirements (Finding 1).

DNR, in conjunction with DTMB, did not implement controls within RSS to prevent customers from purchasing more than one hunting license per season (Finding 2).

DNR, in conjunction with DTMB, did not establish controls to prevent the sale of hunting or fishing licenses to customers who had a hunting or fishing license revocation or a Friend of the Court violation (Finding 3).

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Agency Response:

Our audit report includes 3 findings and 3 corresponding recommendations. DNR and DTMB's preliminary response indicates that they agree with all of the recommendations.

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A copy of the full report can be
obtained by calling 517.334.8050
or by visiting our Web site at:
<http://audgen.michigan.gov>



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November 17, 2011

Mr. Timothy L. Nichols, Chair
Natural Resources Commission
and
Mr. Rodney A. Stokes, Director
Department of Natural Resources
Stevens T. Mason Building
Lansing, Michigan
and
John E. Nixon, C.P.A., Director
Department of Technology, Management, and Budget
George W. Romney Building
Lansing, Michigan

Dear Mr. Nichols, Mr. Stokes, and Mr. Nixon:

This is our report on the performance audit of the Retail Sales System, Department of Natural Resources and Department of Technology, Management, and Budget.

This report contains our report summary; description of system; audit objective, scope, and methodology and agency responses; comment, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agencies' responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agencies to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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Description of System

The Department of Natural Resources* (DNR) is authorized by Sections 324.43501 - 324.43561 of the *Michigan Compiled Laws* to issue hunting and fishing licenses and permits, special licenses, and other products. The Retail Sales System (RSS) is an automated system used by DNR to process the sale of hunting and fishing licenses, off-road vehicle and snowmobile permits, sportcards*, gift cards, and donations through point-of-sale terminals* at over 1,500 retail outlets located throughout Michigan. RSS is also used by customers to purchase licenses and permits over the Internet using the State's E-License system. RSS is operational 24 hours a day, 7 days a week.

RSS was implemented in March 1995. DNR and the Department of Technology, Management, and Budget* (DTMB) contracted with Hewlett-Packard for \$19.2 million in June 2010 to upgrade RSS. The upgrade, which was underway at the time of our audit, will include system enhancements to make the process of buying, selling, and receipting permits and licenses an economical, timely, and positive experience.

DTMB oversees the project work of the vendor to ensure that RSS is built to satisfy DNR's business requirements; uses standard, secure technology; and meets State of Michigan process and quality standards. DTMB is responsible for ensuring that the security is upgraded and improved throughout the life of the RSS application to meet new security threats. Further, DTMB coordinates with DNR in the administration and maintenance of the vendor contract, obtaining needed approvals for purchases and documenting contract changes.

For the license year ended February 28, 2011, RSS processed 4.1 million licenses and permits totaling \$59.0 million in license and permit revenue.

* See glossary at end of report for definition.

Audit Objective, Scope, and Methodology and Agency Responses

Audit Objective

The objective of our performance audit* of the Retail Sales System (RSS), Department of Natural Resources (DNR) and Department of Technology, Management, and Budget (DTMB), was to assess the effectiveness* of DNR and DTMB's efforts to ensure the accurate processing of hunting and fishing license data in RSS.

Audit Scope

Our audit scope was to examine the information processing and other records related to the Retail Sales System. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective. Our audit procedures, conducted from May through July 2011, generally covered the period March 2008 through May 2011.

Audit Methodology

We conducted a preliminary review of RSS to establish our audit objective. We obtained an understanding of selected RSS processing controls. We used the results of our preliminary review to determine the extent of our detailed analysis and testing.

To accomplish our objective, we interviewed DNR and DTMB staff and reviewed system documentation to obtain an understanding of data and data edits within RSS. We identified and tested selected data fields within RSS to determine the accuracy and completeness of processing controls. Our audit did not include a review of all processing controls, password controls, or general controls.

This report summarizes certain control weaknesses in RSS. It does not contain details of the control weaknesses because of their sensitive nature. During the course of the audit, we provided DNR and DTMB management with these details.

* See glossary at end of report for definition.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses

Our audit report includes 3 findings and 3 corresponding recommendations. DNR and DTMB's preliminary response indicates that they agree with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agencies' written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require DNR and DTMB to develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agencies to take additional steps to finalize the plan.

COMMENT, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

PROCESSING OF HUNTING AND FISHING LICENSE DATA

COMMENT

Audit Objective: To assess the effectiveness of the Department of Natural Resources (DNR) and the Department of Technology, Management, and Budget's (DTMB's) efforts to ensure the accurate processing of hunting and fishing license data in the Retail Sales System (RSS).

Audit Conclusion: DNR and DTMB's efforts to ensure the accurate processing of hunting and fishing license data in RSS were moderately effective. Our assessment disclosed three reportable conditions* related to the issuance of licenses with age eligibility requirements, the issuance of multiple licenses, and license revocations (Findings 1 through 3).

This report summarizes certain control weaknesses in RSS. It does not contain details of the control weaknesses because of their sensitive nature. During the course of the audit, we provided DNR and DTMB management with these details.

FINDING

1. Issuance of Licenses With Age Eligibility Requirements

DNR, in conjunction with DTMB, did not implement controls within RSS that allow verification that customers who purchased hunting and fishing licenses met the age eligibility requirements. As a result, the data in RSS suggests that DNR sold hunting and fishing licenses to customers who did not meet the age eligibility requirements. In addition, customers could receive inappropriate discounts on the price of licenses.

Our review of hunting and fishing licenses issued by RSS during license years 2009, 2010, and 2011 (through May 18, 2011) disclosed:

- a. DNR did not implement controls in RSS to prevent the date of birth field from being modified. As a result, DNR cannot rely on the date of birth field in RSS for customers who purchased licenses with age eligibility requirements.

* See glossary at end of report for definition.

DNR informed us that, because of the design of RSS, RSS may change a customer's date of birth on current and prior sale transactions when a customer purchases a license over the Internet using a sportcard. Our review disclosed:

- (1) DNR issued senior hunting and fishing licenses to customers who may not have met the age requirements for a senior license. Sections 324.43535 and 324.43536 of the *Michigan Compiled Laws* state that Michigan residents 65 years of age and older are eligible to purchase senior hunting and fishing licenses at a discount of 60% of the license fee for resident licenses. According to the data in RSS, 14,428 (2.3%) of 635,876 senior licenses were purchased by customers ranging in age from 1 to 64 years. The sale of senior licenses to these customers resulted in discounts totaling \$164,321.

- (2) DNR issued hunting licenses to customers who may not have met the minimum age to purchase various hunting licenses. According to the data in RSS, the following number of hunting licenses, from a total of 3.4 million hunting licenses, were sold to customers who did not meet the minimum age requirements established in the DNR Hunting Digest:

Minimum Age to Purchase License	Number of Customers Not Meeting Minimum Age	Number of Licenses Purchased	Age Range of Customers
10	10	18	0 to 9
12	5	5	0 to 11
16	13	13	3 to 11
17	65	73	-1 to 15
Total	<u>93</u>	<u>109</u>	

- (3) DNR issued youth hunting and fishing licenses to customers who may have exceeded the maximum age to purchase youth licenses. Youth licenses are available for purchase to children under age 17 according to the DNR Hunting Digest and Fishing Guide. According to the data in RSS, 297 (0.2%) of 184,704 youth hunting or fishing licenses were issued to customers ranging in age from 17 to 76 years. Youth licenses are

priced less than adult licenses to encourage young people to hunt and fish in Michigan. Issuing the 297 youth licenses to these customers resulted in discounts totaling \$3,812.

- (4) DNR issued hunting and fishing licenses to customers with unreasonable ages. The data in RSS showed:
 - (a) 11 customers ranging in age from 117 to 137 years at the time of purchase who purchased 12 hunting or fishing licenses.
 - (b) 142 customers ranging in age from -1 to 0 years at the time of purchase who purchased 155 hunting or fishing licenses.
- (5) DNR issued hunting and fishing licenses to customers who did not have a date of birth in RSS. As a result, DNR cannot verify that these customers met the age eligibility requirements for the licenses purchased. We noted 3,639 customers who purchased 6,087 hunting or fishing licenses whose date of birth was blank in RSS.

DNR informed us that a customer's name, address, height, weight, gender, and date of birth is updated on RSS from a nightly matching process with the Department of State's driver's license database for customers who used a valid Michigan driver's license or identification card to purchase licenses. However, a blank record is returned for customers who used an invalid driver's license.

- b. DNR, in conjunction with DTMB, did not establish controls in RSS to allow tracking of licenses issued to legally blind and disabled veteran customers. As a result, DNR cannot determine if customers who purchased senior licenses who did not meet the age eligibility requirements were legally blind or disabled veterans.

Section 324.43537 of the *Michigan Compiled Laws* states that customers who are legally blind or are a disabled veteran are allowed to purchase licenses at a senior rate. The DNR Hunting Digest states that customers who are legally blind must possess proof of impairment in the form of a Michigan identification

card to get the discounted rate. A letter from the U.S. Department of Veterans Affairs confirming the disabled status is required for disabled veterans to purchase hunting and fishing licenses at the senior rate.

As noted in part a.(1), according to the data in RSS, 14,428 customers ranging in age from 1 to 64 years purchased senior licenses. Based on the data in RSS, it is not possible to determine if these licenses were appropriately issued to customers who were eligible for the senior discount because they were legally blind or a disabled veteran.

Although we did not note a high number of exceptions, the issues noted in this finding will continue to occur in the future unless the missing controls or edits are established in RSS.

RECOMMENDATION

We recommend that DNR, in conjunction with DTMB, implement controls within RSS that allow verification that customers who purchased hunting and fishing licenses met the age eligibility requirements.

AGENCY PRELIMINARY RESPONSE

DNR and DTMB agree with the finding that RSS does not have the functionality to verify that all customers who purchased hunting and fishing licenses met the age eligibility requirements. Regarding part b., DNR and DTMB informed us that RSS does not have the capability to conclusively verify customer disability status relative to statutorily allowed discount criteria, which equates to the senior discount amount. This lack of conclusive verification of disability status is most prevalent on Internet license sales. DNR and DTMB will evaluate whether controls are economically feasible and warranted by September 30, 2012.

FINDING

2. Issuance of Multiple Licenses

DNR, in conjunction with DTMB, did not implement controls within RSS to prevent customers from purchasing more than one hunting license per season. As a result, customers inappropriately purchased more than one hunting license during a license year.

Section 324.43558(1)(h) of the *Michigan Compiled Laws* states that a person is guilty of a misdemeanor if the person obtains or purchases more than one license for a hunting season, except as specifically authorized by law or if the applicant's license has been lost or destroyed.

Our review disclosed:

- a. DNR, in conjunction with DTMB, did not implement controls in RSS to prevent customers from purchasing more than one spring or fall wild turkey or bear license per season.

Customers can enter a drawing to purchase limited quota licenses* as an individual or as a member of a hunting party. However, customers could purchase more than one license or exceed their license limit.

We reviewed RSS data for license years 2009 (March 1, 2009 through February 28, 2010) and 2010 (March 1, 2010 through February 28, 2011) to identify customers who purchased more than one license. We noted 171 and 84 customers in license years 2009 and 2010, respectively, who were successful in the drawing and purchased more than one license:

License Type	License Year			
	2009		2010	
	Customers Who Purchased More Than One License	Total Number of Customers Who Purchased Licenses	Customers Who Purchased More Than One License	Total Number of Customers Who Purchased Licenses
Bear	8	8,774	8	8,465
Wild Turkey:				
Spring	127	44,137	71	38,901
Fall	36	9,830	5	2,422
	<u>171</u>		<u>84</u>	

- b. DNR, in conjunction with DTMB, did not implement controls in RSS to prevent customers from purchasing more than one leftover spring or fall wild turkey hunting license. DNR awards a limited number of wild turkey hunting licenses through a drawing each fall and spring season. Any licenses that remain after

* See glossary at end of report for definition.

the drawing are available for purchase until the maximum number of licenses are sold. Our review of RSS data for license year 2009 disclosed that 68 of 36,942 (0.2%) and 22 (0.2%) of 10,951 customers inappropriately purchased more than one leftover spring and fall wild turkey hunting license, respectively. Sections 3.300a(5) and 3.300b(3) of the Wildlife Conservation Order allow customers to purchase only one leftover wild turkey hunting license each season.

- c. DNR, in conjunction with DTMB, did not implement controls in RSS to prevent customers from purchasing more than one archery, firearm, or combination deer hunting license. For license years 2009, 2010, and 2011 (through May 18, 2011), we noted:

Deer License Type	License Year					
	2009		2010		2011*	
	Customers Who Purchased More Than One License	Total Number of Customers Who Purchased Licenses	Customers Who Purchased More Than One License	Total Number of Customers Who Purchased Licenses	Customers Who Purchased More Than One License	Total Number of Customers Who Purchased Licenses
Archery	537	45,650	546	48,084	5	1,269
Firearm	2,181	249,203	2,073	229,364	9	2,353
Combination	2,160	220,126	2,286	248,671	76	8,172

* Through May 18, 2011, representing 21% of the license year.

- d. DNR, in conjunction with DTMB, did not implement controls in RSS to prevent seniors from purchasing more than one senior archery or firearm deer hunting license at a discounted rate. The sale of more than one senior archery or firearm deer hunting license to these customers resulted in discounts totaling \$6,831.

Sections 324.43526 and 324.43527 of the *Michigan Compiled Laws* state that the senior discount on archery and firearm deer hunting licenses is only

available for one deer hunting license of each type per customer per season. For license years 2009, 2010, and 2011 (through May 18, 2011), we noted:

Deer License Type	License Year					
	2009		2010		2011*	
	Customers Who Purchased More Than One License	Total Number of Customers Who Purchased Licenses	Customers Who Purchased More Than One License	Total Number of Customers Who Purchased Licenses	Customers Who Purchased More Than One License	Total Number of Customers Who Purchased Licenses
Senior Archery	40	4,533	39	5,326	2	754
Senior Firearm	304	35,248	338	36,256	8	1,844

* Through May 18, 2011, representing 21% of the license year.

- e. DNR, in conjunction with DTMB, did not implement controls in RSS to prevent customers from purchasing both a combination deer hunting license and an archery or firearm deer hunting license. Our review of RSS data for license years 2009, 2010, and 2011 (through May 18, 2011) disclosed the following number of instances in which customers inappropriately purchased a combination and an archery or firearm deer hunting license:

	License Year		
	2009	2010	2011*
Combination and archery deer hunting licenses	2,443	2,546	110
Combination and firearm deer hunting licenses	2,156	2,208	57

* Through May 18, 2011, representing 21% of the license year.

RECOMMENDATION

We recommend that DNR, in conjunction with DTMB, implement controls within RSS to prevent customers from purchasing more than one hunting license per season.

AGENCY PRELIMINARY RESPONSE

DNR and DTMB agree with the finding that controls are lacking within RSS to prevent customers from purchasing more than one hunting license for seasons with

a one-license restriction. DNR and DTMB informed us that statutory requirements exist that places the responsibility on the customer to not purchase more than one license during certain hunting seasons. DNR and DTMB will evaluate whether the recommended controls are economically feasible and warranted by September 30, 2012.

FINDING

3. License Revocations

DNR, in conjunction with DTMB, did not establish controls to prevent the sale of hunting or fishing licenses to customers who had a hunting or fishing license revocation or a Friend of the Court (FOC) violation. As a result, customers were able to purchase hunting or fishing licenses who should not have been allowed to by law.

We reviewed RSS data for license years 2009, 2010, and 2011 (through May 18, 2011) to determine if customers with license revocations or FOC violations inappropriately purchased hunting or fishing licenses. According to the data in RSS, 797 customers with hunting or fishing license revocations or FOC violations purchased 2,273 hunting and fishing licenses. The majority of these had FOC violations.

Section 324.43559 of the *Michigan Compiled Laws* states that a person who is convicted of violating a hunting or fishing regulation may have a revocation placed on his/her current hunting and fishing license for the remainder of the year and on future hunting and fishing licenses for the next year or longer. In addition, Section 552.628 of the *Michigan Compiled Laws* states that a recreational or sporting license may be subject to suspension for persons with a child support arrearage and that a suspension order or notice will be sent to the licensing agency unless the payer responds by paying the arrearage or requesting a hearing within 21 days after the date of mailing the notice.

DNR uses RSS to track whether a customer has violated a hunting or fishing regulation or, as requested by the Department of Human Services, an FOC order and, therefore, should be restricted from purchasing a hunting or fishing license.

However, DNR, in conjunction with DTMB, did not program RSS to reject the sale of a hunting or fishing license to a customer with a license revocation or an FOC violation.

RECOMMENDATION

We recommend that DNR, in conjunction with DTMB, establish controls to prevent the sale of hunting and fishing licenses to customers who have a hunting or fishing license revocation or an FOC violation.

AGENCY PRELIMINARY RESPONSE

DNR and DTMB agree with the finding that controls are lacking within RSS to prevent customers with a revocation or a violation from purchasing a license. DNR, in conjunction with DTMB, will evaluate cost-benefit considerations of preventing revoked customers from purchasing the associated license by September 30, 2012.

GLOSSARY

Glossary of Acronyms and Terms

Department of Natural Resources (DNR)	The Department of Natural Resources and the Department of Environmental Quality were abolished by Executive Order No. 2009-45 and combined and renamed the Department of Natural Resources and Environment effective January 17, 2010. The Department of Natural Resources and Environment was abolished by Executive Order No. 2011-1 and again split into two separate departments, the Department of Natural Resources and the Department of Environmental Quality, effective March 13, 2011.
Department of Technology, Management, and Budget (DTMB)	Executive Order No. 2009-55 renamed the Department of Management and Budget as the Department of Technology, Management, and Budget (DTMB), effective March 21, 2010. It also transferred all of the authority, powers, duties, functions, responsibilities, records, personnel, property, equipment, and appropriations of the Michigan Department of Information Technology (MDIT) to DTMB by a Type III transfer and abolished MDIT.
effectiveness	Success in achieving mission and goals.
FOC	Friend of the Court.
limited quota license	A hunting license for antlerless deer, bear, elk, spring or fall wild turkey, or reserved waterfowl that is issued as a result of an application process and a selection process, by which the number of licenses available for issuance is limited and based on quotes established by DNR.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.

point-of-sale terminal	A computer terminal used by RSS agents to sell hunting and fishing licenses and permits.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
RSS	Retail Sales System.
sportcard	An identification card issued by DNR to persons without other acceptable identification (a Michigan driver's license or Michigan identification card issued by the Department of State) to enable them to apply for a license. Sportcards were primarily intended for youths and out-of-State residents who do not qualify for other acceptable types of identification.

