AUDIT

OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

U.S. Fish and Wildlife Service Grants Awarded to the State of Arizona, Game and Fish Department, From July 1, 2019, Through June 30, 2021, Under the Wildlife and Sport Fish Restoration Program

This is a revised version of the report prepared for public release.

Report No.: 2022–WR–003

March 2024

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INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

MAR 25 2024

Memorandum

To: Martha Williams
Director, U.S. Fish and Wildlife Service

From: Bryan Brazil
Director, Western Region Audit Division

Subject: Final Audit Report – *U.S. Fish and Wildlife Service Grants Awarded to the State of Arizona, Game and Fish Department, From July 1, 2019, Through June 30, 2021, Under the Wildlife and Sport Fish Restoration Program*
Report No. 2022–WR–003

This report presents the results of our audit of costs claimed by the Arizona Game and Fish Department under grants awarded by the U.S. Fish and Wildlife Service through the Wildlife and Sport Fish Restoration Program.

We provided a draft of this report to the FWS. The FWS concurred with 14 recommendations and will work with the Arizona Game and Fish Department to implement corrective actions. The full responses from the Arizona Game and Fish Department and the FWS are included in Appendix 4. In this report, we summarize the Arizona Game and Fish Department's and the FWS' responses to our recommendations, as well as our comments on their responses. We list the status of the recommendations in Appendix 5.

Please provide us with a corrective action plan based on our recommendations by June 24, 2024. The plan should provide information on actions taken or planned to address each recommendation, as well as target dates and titles of the officials responsible for implementation. It should also clearly indicate the dollar value of questioned costs that you plan to either allow or disallow. If a recommendation has already been implemented, provide documentation confirming that the action is complete. For any target implementation dates that are more than 1 year from the issuance of this report, the Arizona Game and Fish Department should establish mitigating measures until the corresponding recommendations are fully implemented and provide those measures in the response.[1] Please send your response to aie_reports@doioig.gov.

We will notify Congress about our findings, and we will report semiannually, as required by law, on actions you have taken to implement the recommendations and on recommendations that have not been implemented. We will also post a public version of this report on our website. If you have any questions, please contact me at aie_reports@doioig.gov.

[1] The Good Accounting Obligation in Government Act, Pub. L. No. 115–414, 132 Stat. 5430 (2019), requires that all recommendations that are not implemented and have been open more than 1 year be reported in the annual budget justification submitted to Congress.

Contents

Introduction

Objectives

In June 2016, we entered into an intra-agency agreement with the U.S. Fish and Wildlife Service (FWS) to conduct audits of State agencies receiving grant funds under the Wildlife and Sport Fish Restoration Program (WSFR). These audits assist the FWS in fulfilling its statutory responsibility to oversee State agencies' use of these grant funds.

The objectives of this audit were to determine whether the Arizona Game and Fish Department (Department) used grant funds and State hunting and fishing license revenue for allowable fish and wildlife activities and complied with applicable laws and regulations, FWS guidelines, and grant agreements.

See Appendix 1 for details about our scope and methodology. See Appendix 2 for sites we visited.

Background

The FWS provides grants to States[1] through WSFR for the conservation, restoration, and management of wildlife and sport fish resources as well as educational and recreational activities. WSFR was established by the Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act.[2] The Acts and related Federal regulations allow the FWS to reimburse grantees a portion of eligible costs incurred under WSFR grants—up to 75 percent for States and up to 100 percent for the Commonwealths, territories, and the District of Columbia.[3] The reimbursement amount is called the Federal share. The Acts require that hunting and fishing license revenue be used only for the administration of participating fish and wildlife agencies. In addition, Federal regulations require participants to account for any income earned from grant-funded activities and to spend this income before requesting grant reimbursements.

[1] Federal regulations define the term "State" as the 50 States; the Commonwealths of Puerto Rico and the Northern Mariana Islands; the territories of Guam, the U.S. Virgin Islands, and American Samoa; and the District of Columbia (Dingell-Johnson Sport Fish Restoration Act only).

[2] Formally known, respectively, as the Federal Aid in Wildlife Restoration Act, 16 U.S.C. § 669, as amended, and the Federal Aid in Sport Fish Restoration Act, 16 U.S.C. § 777, as amended.

[3] The District of Columbia does not receive funding under the Pittman-Robertson Wildlife Restoration Act.

Results of Audit

We determined that the Department did not ensure that grant funds and State hunting and fishing license revenue were used for allowable fish and wildlife activities. We also found that the Department did not comply with applicable laws and regulations, FWS guidelines, and grant agreements.

We found the following:

- **Questioned Costs.** We questioned $2,062,343 ($1,546,757 Federal Share) as unallowable and $48,834 ($36,625 Federal Share) as unsupported. We questioned costs regarding the purchase of an aircraft, merit-based incentive pay, and administrative leave due to investigations into employee conduct. We also considered costs regarding tuition reimbursement, insufficient documentation of volunteer hours, and accumulated and unused leave payouts for two employees to be unsupported.

- **Control Deficiencies.** We found opportunities to improve controls in reporting program income, leave accounting, ensuring control of real property, subaward reporting, and unfunded liabilities.

Figure 1: Summary of Unallowable and Unsupported Costs (Federal Share)

Issue	Unallowable Costs ($)	Unsupported Costs ($)	Total ($)
Aircraft allocation	1,497,008	–	1,497,008
Merit-based incentive pay	33,728	–	33,728
Tuition reimbursements	–	16,383	16,383
Administrative leave for employee investigations	16,021	–	16,021
In-kind contributions	–	16,199	16,199
Leave costs and annual leave payouts	–	4,043	4,043
Totals	**$1,546,757**	**$36,625**	**$1,583,382**

See Appendix 3 for a statement of monetary impact.

Questioned Costs—$2,111,177 ($1,583,382 Federal Share)

Improper Allocation of Aircraft—Questioned Costs of $1,996,011 ($1,497,008 Federal Share)

Federal regulations state that a cost is allocable to a particular grant if the services involved are chargeable to that grant in accordance with the relative benefits received.[4]

Federal regulations also state that if a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.[5]

Federal regulations state that equipment must be used by the non-Federal entity in the program or project for which it was acquired as long as needed, whether or not the program or project continues to be supported by the Federal awarding agency. [6]

The Department charged the full purchase amount ($1,996,011, including tax) for a new aircraft (Asset No. F6906) to WSFR Grant No. F19AF01036. According to the Federal regulations, the aircraft must be used solely for the purpose for which it was acquired. Because the FWS approved the purchase based on the grant narrative, the Department should use the aircraft only for those purposes listed in the grant narrative. However, we determined that the Department used this grant-purchased aircraft about 50 percent of the time for non-WSFR projects during the audit period (see Figure 2).

Figure 2: Asset No. F6906 Engine Hours Logged for WSFR and Non-WSFR Projects in Fiscal Year (FY) 2020 and FY 2021

Asset No. F6906	FY 2020		FY 2021	
	Hrs	%	Hrs	%
WSFR		44	121.5	52
Non-WSFR	49.2	56	110.2	48
Totals	**88.5**	**100%**	**231.7**	**100%**

[4] 2 C.F.R. § 200.405(a).

[5] 2 C.F.R. § 200.405(d).

[6] 2 C.F.R. § 200.313(c)1.

The Department stated that the aircraft was originally intended to be used solely for comprehensive management system (CMS)[7] grant projects, but the COVID–19 pandemic required that it perform work on other non-grant projects. However, we observed that the Asset No. F6906 aircraft was used for non-grant projects prior to March 2020—the time when the COVID–19 pandemic would have begun impacting State operations. We examined Asset No. F6906 aircraft engine hours from July 2019 to March 2020 for all the Department's aircraft and found that the ratio of hours logged for WSFR and non-WSFR projects was similar across the fleet (see Figure 3). We therefore believe the Department should have anticipated that the Asset No. F6906 aircraft would also be used on non-WSFR projects—particularly since, at the time the Department purchased the Asset No. F6906 aircraft, it was aware that other Department aircraft were not being used entirely on WSFR grants.

Figure 3: Pre-COVID–19 Pandemic Engine Hours Logged for WSFR and Non-WSFR Projects by Asset, 7/1/2019–3/14/2020

	WSFR		Non-WSFR		
Aircraft Asset No.	**Hours**	**%**	**Hours**	**%**	**Total Hours**
A6905	33.7	15	188.4	85	222.1
F6904	175.0	63	104.9	37	279.9
F6005	156.0	50	159.0	50	315.0
A6901	38.9	34	75.0	66	113.9
F6906	3.1	38	5.0	62	8.1
Total	**406.7**	**43%**	**532.3**	**57%**	**939.0**

The Department did not proportionally allocate the purchase cost of the aircraft to the WSFR and non-WSFR projects that would benefit from its use or reallocate the cost of the plane purchase at the end of the grant period once it was apparent the plane would be used for non-WSFR activities.

The Department reimbursed WSFR grants for costs associated with the aircraft's use on non-grant activities. The Department calculated a rental rate per engine hour for the aircraft. As the aircraft was being used for non-WSFR activities, the Department's accounting division would credit the original funding source (in this case, the grant) for the value of the hours used on non-WSFR activities.

We do not consider this methodology to be reasonable for the following reasons: (1) it allows for the entire capital asset costs to be charged to the grant up-front, essentially burdening the Federal grant with a large purchase, and (2) this equipment has an expected useful life of greater than 1 year, but this purchase is for a 1-year grant; therefore, future periods of non-WSFR use would not be credited to the appropriate grant.

[7] A CMS is a State's method of operations that links programs, financial systems, human resources, goals, products, and services together into one interconnected system. It requires (1) assessing the current, projected, and/or desired status of fish and wildlife resources; (2) developing a strategic plan for the State's fish and wildlife resources; (3) implementing the strategic plan through an operational planning process; and (4) evaluating the results.

The Department did not proportionally allocate the costs related to this aircraft because it does not have established policies and procedures that require an analysis of whether the purchase costs of capital assets are properly allocated to WSFR grants based on the proportional benefits it anticipates the grant will receive.

Because the Department charged Grant No. F19AF01036 for the full purchase price of this aircraft, it did not properly allocate the costs among the appropriate funding sources; therefore, the grant was overcharged. In addition, the amount charged to the grant may have exceeded the benefits the grant received.

We are not calculating the proportionate costs that should have been split among various funding sources when the aircraft was purchased, since it is the Department's responsibility to document a reasonable cost allocation methodology. Therefore, we are questioning the total amount of $1,996,011 in costs as unallowable.

Recommendations
We recommend that the FWS require the Department to: 1. Resolve the Federal share ($1,497,008) of unallowable questioned costs related to the acquisition of an aircraft. 2. Implement policies and procedures to ensure the costs of capital assets are properly allocated to WSFR grants based on the proportional benefits the grants receive.

Improper Accounting of Merit-Based Incentive Pay—Questioned Costs of $44,971 ($33,728 Federal Share)

Federal regulations state that a cost is allocable to a particular grant if the services involved are chargeable to that grant in accordance with the relative benefits received.[8]

The Department improperly allocated employee merit-based incentive pay to WSFR grants during the audit period. The Department has an awards and recognition program for its employees through which they are eligible to receive merit-based incentive pay based on their performance. We determined that the merit-based incentive pay charged to WSFR grants is not commensurate with the actual time employees spent working on the grants.

According to the Department, employees have an accounting "home code" that is used when coding personnel-related expenditures in the accounting system. The Department's accounting process for merit-based incentive payments requires division managers to identify and confirm appropriate funding codes that merit pay should be allocated to. The division managers then send

[8] 2 C.F.R. § 200.405(a).

those allocations to the Department's accounting office, and the accounting office allocates merit-based incentive payments using those allocations.

We reviewed all payroll records for employees that received merit pay: 176 employees for fiscal year (FY) 2020 and 168 employees for FY 2021. Of the 344 merit-based incentive payments we reviewed, 342 were allocated 100 percent to the employee's home code. This occurred despite many employees charging significant amounts of time to non-WSFR activities during the year.

We calculated what portion of each employee's total time was dedicated to WSFR grants to determine an allocation percentage. Next, we multiplied these allocation percentages by the merit-based incentives those employees received to determine the amount of merit-based incentives that could be charged to the grants. We then compared these amounts to the actual amounts the Department charged to the awards to determine questioned costs. We question costs totaling $44,971 ($33,728 Federal share) as unallowable, as shown in Figure 4.

Figure 4: Questioned Costs Related to Improper Accounting of Merit-Based Incentive Pay

Grant No.	Grant Title	Questioned Costs ($) (Federal Share) Unallowable
F19AF01036	Comprehensive Management System	18,686
F19AF01034	Boating Access Facilities Administration, Operations and Maintenance	586
F20AF10471	Comprehensive Management System	14,160
F20AF10529	Boating Access Facility Administration, Operations and Maintenance	296
Total		**$33,728**

This occurred because division managers rarely altered the merit-based incentive pay allocations. Therefore, payments were fully allocated to employee home codes instead of to accounting codes that pertained to work performed during the year. Furthermore, the Department did not have a mechanism in place to review those allocations to ensure merit-based incentive pay charged to grants did not exceed the value of the incentive pay earned on those specific grants.

Because the Department did not allocate the merit-based incentive benefits to grants based on the proportion of the employees' actual work performed on those grants, WSFR grants were overcharged by a total of $44,971 in unallowable costs.

Recommendations
We recommend that the FWS require the Department to: 3. Resolve the Federal share ($33,728) of questioned costs related to unallowable merit-based incentive pay charged to WSFR grants. 4. Implement policies and procedures to ensure merit-based incentive benefits allocated to a grant code do not exceed the value of the benefits earned on that grant.

Unauthorized Tuition Reimbursements—Questioned Costs of $21,844 ($16,383 Federal Share)

According to the Pittman-Robertson Act, a State participates in the Act by submitting full and detailed statements of any wildlife restoration project proposed for that State. The FWS shall approve only comprehensive plans or projects that are substantial in character and design.[9]

Additionally, for costs to be allowable, they must be necessary and reasonable for the performance of the award.[10] To avoid any dispute based on unreasonableness or non-allocability, the non-Federal entity may seek prior written approval from the FWS before incurring special or unusual costs.[11]

"Costs of part-time education at an undergraduate or post-graduate college level, including those provided at the organization's own facilities, are allowable only when the course or degree pursued is relative to the field the employee is now working or may reasonably be expected to work."[12] Tuition remission is allowable provided that an individual is conducting activities necessary to the Federal award, is provided in accordance with established policy, and is consistently provided in a like manner to students in return for similar activities conducted under Federal awards.[13]

Grant award letters for Grant Nos. F19AF01036 and F20AF10471 explain that any projects or activities not identified in the grant award letter are only approved for activities with planning, design, and coordination. The FWS must approve any other activities or projects in writing.

We found that the Department improperly charged tuition reimbursements to WSFR grants without the FWS' prior approval. For FY 2020, we determined that there were unsupported tuition reimbursements of $14,718 charged to Grant No. F19AF01036 for two employees

[9] The Federal Aid in Wildlife Restoration Act of 1937 (also known as the Pittman-Robertson Act) at U.S.C. § 669(e)(1)(2).

[10] 2 C.F.R. § 200.403(a).

[11] 2 C.F.R. § 200.407.

[12] 2 C.F.R. § 230, Appendix B, "Selected Items of Cost," 49(b).

[13] 2 C.F.R. § 200.466(a).

completing college courses at two universities. Similarly, for FY 2021, we determined that there were unsupported tuition reimbursements of $7,126 charged to Grant No. F20AF10471 for two employees completing college courses at two universities. However, the WSFR grant budget proposals did not mention tuition reimbursements, provide an explanation of how these costs would be properly allocated to grant codes, or state how they would benefit the grants in the grants' budget proposals. In addition, an FWS official told us that the FWS does not have a record of a request or approval for tuition reimbursements.

The FWS, as the Federal awarding agency, is best suited to determine whether the costs would be applicable and relevant to the grant purpose. However, we determined that the Department's policies and procedures do not state that there must be prior written approval from the FWS for the tuition reimbursement of its employees if it is planned to be charged to WSFR grants, as required by the grant award letter.

Not ensuring that the FWS has given prior approval for significant items of cost, such as tuition reimbursements, could result in additional unauthorized expenditures that impair the Department's and the FWS' ability to ensure that items purchased with grant funds are used, monitored, and disposed of in accordance with Federal regulations. Furthermore, while tuition costs may be allowable charges to Federal awards, failing to request the FWS' prior written approval for tuition costs charged to grants prevents the FWS from determining whether the specific costs are necessary and reasonable for the Federal award.

Because the Department did not obtain the FWS' prior approval for these tuition reimbursements charged to WSFR Grant Nos. F19AF01036 and F20AF10471, we are questioning the full $21,844 as unsupported costs.

Recommendations
We recommend that the FWS require the Department to: 5. Resolve the Federal share ($16,383) of unsupported questioned costs related to the tuition reimbursements charged to grants. 6. Implement policies and procedures to ensure costs of tuition reimbursements receive prior written approval from the FWS.

Improper Accounting of Administrative Leave for Employee Investigations—Questioned Costs of $21,362 ($16,021 Federal Share)

Federal regulations state that costs must be necessary and reasonable for grant performance[14] and must be necessary for the award's proper and efficient performance.[15]

[14] 2 C.F.R. § 200.403(a).

[15] 2 C.F.R. § 200.404(a).

We found that the Department improperly charged unallowable administrative leave to WSFR grants during the audit period. Department management placed three employees on administrative leave during the audit period while it internally investigated potential misconduct. The Department charged the costs associated with those periods of administrative leave to WSFR grants during our audit scope.

Specifically, in FY 2020, the Department placed two employees on administrative leave while it conducted internal investigations. The Department charged 1,014 hours of administrative leave ($18,802) to WSFR grants. In FY 2021, the Department charged 128 hours ($2,560) to a WSFR grant while it conducted a misconduct investigation for a third employee. In total, WSFR grants were charged 1142 hours ($21,362) of administrative leave (see Figure 5).

Figure 5: Questioned Costs Related to Improper Accounting of Administrative Leave for Investigations

Grant No.	Grant Title	Questioned Hours	Unallowable Costs ($) (Federal Share)
F19AF01036	Comprehensive Management System	1,014	14,101
F20AF10471	Comprehensive Management System	128	1,920
Total		**1142**	**$16,021**

This occurred because the Department did not ensure that there were policies and procedures to ensure administrative leave due to investigations into employee misconduct were scrutinized for their relation to the grant purposes. Because this money was used for administrative leave, it was accordingly unavailable for conservation, restoration, and management of wildlife and sport fish resources—which were the primary purposes of the grants.

Recommendations

We recommend that the FWS require the Department to:

7. Resolve the Federal share ($16,021) of questioned costs related to unallowable administrative leave costs.

8. Require the Department to implement policies and procedures to ensure administrative leave costs are scrutinized for relation to grant purpose.

Unsupported In-Kind Contributions—Questioned Costs of $21,599 ($16,199 Federal Share)

Federal Regulations state that third-party, in-kind contributions satisfy a cost-sharing or matching requirement if they are verifiable from the records of grantees, among other requirements.[16] Additionally, costs should be adequately documented to be allowable, and services donated to the non-Federal entity should be supported by the same methods used to support the allocability of regular personnel services.[17]

Additionally, the *State of Arizona Accounting Manual* requires agency payroll personnel to review payroll information to ensure it has been properly recorded. It also states that supervisors should review and approve their employees' time records in accordance with the deadlines the agency sets. The *Arizona Game and Fish Department Operating Manual* states that volunteer administrators are responsible for tracking volunteers' time to ensure compliance with Federal grant audit guidelines. Departmental policies regarding the approval of volunteer hours state that a volunteer supervisor must sign the timesheet within 14 days of the activity date, and volunteer hours are ineligible for in-kind match if volunteer activities took place over 14 days from the time the volunteer supervisor signed the form.

Department officials did not ensure that volunteer hours claimed as in-kind contributions for State matching requirements on Grant No. F19AF01036 were adequately documented. Specifically, the Department claimed volunteer in-kind hours without supporting timesheets, with timesheets that volunteers did not sign and approve, with timesheets that were not approved timely (within 14 days of the volunteer event), or with duplicate timesheets. In addition, they added timesheet hours erroneously, which resulted in incorrect amounts being entered into the volunteer in-kind hours database. We sampled 62 volunteer timesheets and question 231.75 hours of volunteer time at a rate of $23.30 for a total value of $5,399.78. Because in-kind contributions are used as match (25 percent), we are questioning the corresponding Federal share of $16,199 (see Figure 6).

Figure 6: Questioned Costs Related to Unsupported Volunteer Hours (Comprehensive Management System)

Issue	State Share ($)(25%)	Questioned Costs ($) Federal Share (75%)
Missing volunteer timesheets	2,330	6,990
Volunteer did not sign/approve timesheets	2,371	7,112
Department approval of volunteer hours beyond 14-day cutoff	186	559
Duplicate timesheets recorded/mathematical errors	513	1,538
Total	**$5,400**	**$16,199**

The Department utilized three different volunteer in-kind timekeeping systems during the audit period, including both paper and electronic timesheets. The issues we identified only involved

[16] 2 C.F.R. § 200.306(b)(1).

[17] 2 C.F.R.§ 200.434(d).

paper timesheets that were primarily utilized during State fiscal year (SFY) 2020 before the Department transitioned to a single electronic system.

The Department did have agency-wide policies regarding the documentation of volunteer time to ensure compliance with Federal regulations and written standard work procedures for recording volunteer time. However, it failed to adhere to those policies when claiming volunteer in-kind hours associated with the issues in Figure 6. Department officials did not catch these issues when reviewing and approving the volunteer timesheets.

Because the Department claimed unsupported volunteer hours as in-kind match, it did not meet its matching requirement. The State received $16,199 in Federal reimbursement based on the claimed unsupported match of $5,400. We question $16,199 (Federal share) as unsupported costs.

Recommendation
We recommend that the FWS require the Department to: 9. Resolve the Federal share ($16,199) of questioned costs related to unsupported in-kind contributions.

Improper Accounting of Leave Costs and Annual Leave Payouts—Questioned Costs of $5,391 ($4,043 Federal Share)

Federal regulations state that costs must be necessary and reasonable for grant performance,[18] must be adequately documented,[19] and are allocable to a grant if the services involved are chargeable to that grant in accordance with the relative benefits received.[20] Federal regulations also state that the costs of fringe benefits, such as annual leave, are allowable if the costs are equitably allocated to all related activities.[21]

The Department improperly allocated annual employee leave payout costs to a grant during the audit period. The Department charged leave payouts to Grant No. F19AF01036, totaling $5,391 ($4,043 Federal share). Due to the Department's methodology, we cannot determine the value of leave earned on any grant, including Grant No. F19AF01036, and the Department is unable to ensure the costs of leave allocated to grants does not exceed the value of leave amounts earned on those specific grants.

The Department stated that it does not track employee leave earned during a pay period by Federal grant number or State function code. Instead, the Department allocates the costs of

[18] 2 C.F.R. § 200.403(a).

[19] 2 C.F.R. § 200.403(g).

[20] 2 C.F.R. § 200.431(b)(2).

[21] 2 C.F.R. § 200.431(b)(2).

employee leave to grants by coding the leave proportionately to each of the funds charged for non-leave hours during the pay period. However, no mechanism is in place to ensure employee leave is allocated to the appropriate activities based on actual leave hours accrued on the grants. The current Department methodology is improper, as it allocates leave costs based only on the activities the employee performs during the current pay period.

Due to the Department's improper allocation methodology, Federal grants may have been charged for leave amounts in excess of the benefits received. Because we cannot verify whether the value of leave associated with these payouts was fully earned on Grant No. F19AF01036, we are questioning the full $5,391 ($4,043 Federal share) as unsupported costs.

Recommendations
We recommend that the FWS require the Department to: 10. Resolve the Federal share ($4,043) of unsupported questioned costs related to the payout of employees' annual leave costs charged to the grant. 11. Implement policies and procedures to ensure that leave paid to employees is properly allocated to a grant code and does not exceed the value of leave earned on that grant.

Control Deficiencies

Unreported Program Income

Federal regulations require State fish and wildlife agencies to report program income if gross income received by the grantee or subgrantee is earned only as a result of the grant during the grant period.[22] Additionally, income earned as a result of grant-supported activities during the grant period must be accounted for and reported in accordance with the elected option for program income disposal.[23]

As part of our audit testing steps, we performed a virtual site visit to a wildlife area. During the audit period, the wildlife area received grant funds from Grant No. F19AF01036 to maintain bison populations and manage the bison herd in support of long-term bison conservation. During our virtual site visit, Department personnel informed us of an event related to National Bison Day.

This event generated $1,460 of net revenue in November 2019 from 40 attendees who paid for bison viewing workshops that the wildlife area provided. We determined the wildlife area

[22] 50 C.F.R.§ 80.120(a).

[23] 2 C.F.R. § 200.307; 50 C.F.R. § 80.123.

manager charged Grant No. F19AF01036 for the hours the manager worked at the event, and the Department did not report the revenue from this event as program income on the grant.

A Department representative told us they were not aware of the existence of the National Bison Day event workshops, so the Department did not determine whether the event fees should be considered program income when calculating reimbursements and filing grant reports. Without evaluating the program income, the Department did not propose the revenue on the grant agreement or report it as program income for this event on the final grant financial report.

During the audit period, the Department elected to apply program income from other sources using the cost sharing method of program income on Grant No. F19AF01036. Under that method, program income may be used to meet the matching requirement of the Federal award.[24] The unreported program income would have been used as matching funds, which would have reduced the amount of matching funds the Department would have needed to expend but would not have resulted in less Federal costs. If the Department had properly applied the Bison Day event income, there would not have been any effect to the Federal financial aspect of the grant; therefore, there are no questioned costs associated with this finding.

The Department stated that it also hosted this event in calendar year 2018 for 40 registrants and plans on holding the event again in the future. Because this is an ongoing event, it becomes all the more important for the Department to prevent these issues in future.

Recommendation
We recommend that the FWS require the Department to: 12. Develop policies and procedures to identify and evaluate potential sources of program income on grants.

Loss of Control Over Real Property

Federal regulations require the State to be responsible for the control of all assets acquired under the grant to ensure that they serve the purpose for which they were acquired throughout their useful life.[25] In addition, Federal regulations describe trespass as using, occupying, or developing the public lands or their resources without a required authorization.[26]

The wildlife area received grant funds from Grant No. F19AF01036 to "administer statewide support activities for the enhancement and management of lands or waters as habitat for sport fish and wildlife populations including development and maintenance of eligible buildings and infrastructure." Furthermore, the acquisition grant for the subject wildlife area lists objectives

[24] 2 C.F.R. § 200.307(e).

[25] 50 C.F.R. § 80.90(f).

[26] 43 C.F.R. § 2888.10.

that include reducing off-road habitat resource damage by developing fencing and "augmenting wildlife habitat through vegetative manipulation."

During our virtual site visit to the wildlife area, the Department informed us that cattle from neighboring livestock operations trespassed onto the Department wildlife area. The Department also stated that the cattle then ate planted cottonwood saplings that are beneficial to the wildlife habitat, which the Department wants to grow in the area. The wildlife area staff detailed additional negative impacts from livestock activity, including trampled vegetation, loss of desirable habitat, loss of plant diversity, reduced water quality from waste production, and increased siltation from livestock activity.

This occurred because low water levels in a lake at the wildlife area have exposed land between the property line and the water's edge that allowed the cattle to access the wildlife area. Although the grant objective listed developing fencing as a way to reduce habitat damage, we determined that the Department did not have sufficient fencing to prevent this issue.

Ultimately, because the Department has not yet developed fencing to contain the real property, damage caused by the trespassing cattle undercuts the grant objective of augmenting the vegetation in the area.

Recommendation
We recommend that the FWS require the Department to: 13. Resolve damage to real property due to trespassing cattle.

Inadequate Subaward Public Reporting

Prime grant recipients who have been awarded a new Federal grant greater than or equal to $30,000 are subject to Federal Funding Accountability and Transparency Act (FFATA) subaward reporting requirements. When the prime recipient awards any subgrant of $30,000 or more, the prime awardee must file an FFATA subaward report by the end of the following month at www.fsrs.gov.[27] This information is then posted to USAspending.gov.[28]

The Department provided us with a list of subawards during our audit period, and we identified 10 subawards with disbursements greater than $30,000. We reviewed the Department's public reporting on USAspending.gov and determined that 2 of the 10 subawards, which went to 2 subrecipients, were not reported as required (see Figure 7).

[27] Guidance for Grants and Agreements, 85 Fed. Reg. 49,506 (Aug. 13, 2020), increased the amount to $30,000 (codified at 2 C.F.R. § 170.220).

[28] USAspending.gov is a Federal website intended to promote Government transparency and is a mandatory reporting requirement.

Figure 7: Subawards Not Publicly Reported

	Subaward Amount ($)		
Subrecipient	**F19AF01036**	**F20AF10471**	**Total**
Subrecipient A	–	113,000	**113,000**
Subrecipient B	161,562	199,614	**361,176**
Total	**$161,562**	**$312,614**	**$474,176**

Despite having procedures for reporting subawards in accordance with the FFATA, the Department still failed to report these subawards. The Department stated that this was an oversight.

Not reporting subawards as required by Federal regulations creates a lack of transparency on how Federal funds are spent. In this case, $474,176 went unreported.

Recommendation

We recommend that the FWS require the Department to:

14. Implement a mechanism to enforce existing policies that ensure compliance, where applicable, with the Federal Funding Accountability and Transparency Act requirements and Federal regulations for the proper reporting of subawards.

Other Matters

Unfunded Pension Liabilities

For a cost to be considered allowable, it must meet various conditions set forth in the Federal regulations and in the award letter from the FWS to the State grant recipient.[29] Unfunded pension liability costs may be allowable if certain criteria are met.[30] These conditions include several factors related to reasonableness, timing, and the nature of the costs.[31] According to 2 C.F.R. § 200.404, "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost." One of the factors in making this determination is whether a cost is "generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award."[32]

[29] 2 C.F.R. § 200.403.

[30] 2 C.F.R. § 200.431(g)(6)(ii).

[31] 2 C.F.R. § 200.403.

[32] 2 C.F.R. § 200.404(a).

The terms set in the grants' Notice of Award letters state, "Only allowable costs resulting from obligations incurred during the performance period may be charged to this award." Because the liabilities accrued before the awards were made, these liabilities may constitute out-of-period costs as anticipated by the award letters.[33]

Furthermore, fringe benefits[34] may be charged directly or indirectly "in accordance with the non-Federal entity's accounting practices."[35] According to 2 C.F.R. § 200.413, "Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy." Indirect costs are costs for a common or joint purpose within the State and that benefit all programs or projects and are usually charged to the Federal awards by the use of an indirect cost rate. We also considered WSFR's authorizing legislation, which limits State central services[36] to 3 percent of the annual apportionment to that State each year.[37]

During SFYs 2020 and 2021, the Department charged $1,963,440 ($1,472,580 Federal share) to WSFR grants to pay down the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) unfunded pension liabilities[38] in addition to charging normal employer costs[39] for the retirement of State employees. The unfunded pension liability costs paid with WSFR grant funds represent 9.08 and 9.57 percent of the State's total payroll expenses charged to WSFR grants for SFYs 2020 and 2021. (see Figure 8).

[33] 2 C.F.R. § 200.403(h).

[34] According to 2 C.F.R. § 200.431(a), "Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick or military), employee insurance, pensions, and unemployment benefit plans."

[35] 2 C.F.R. § 200.431(c).

[36] According to 2 C.F.R. § 200.1, central service costs are the costs of services provided by a State on a centralized basis to its departments and agencies.

[37] 50 C.F.R. § 80.53.

[38] In this report, we use the term "unfunded liabilities" to refer to unfunded pension plan and retiree healthcare costs; unfunded liabilities are also known as "unfunded actuarial accrued liabilities." Further, based on applicable accounting standards, we considered analogous liabilities that describe retirement system liabilities that are greater than assets to be unfunded liabilities. We identify these liabilities subsequently as net other postemployment benefits (OPEB) and net pension liabilities.

[39] "Normal cost for pension" refers to the actuarial present value of projected benefits that is allocated to a period. For example, here, the "normal costs" are the costs contributed to the pension fund by current employees for their retirement and are separate from the unfunded liabilities contributions.

Figure 8: Summary of WSFR Funds Used to Pay Unfunded Pension Liabilities

SFY	Unfunded Pension Liability Charged to WSFR Grants Federal ($)	State ($)	Total ($)	Total WSFR Payroll Expenses ($)	Percentage of Total WSFR Payroll (%)
2020	719,705	239,902	959,607	10,570,350	9.08
2021	752,875	250,958	1,003,833	10,490,043	9.57
Totals	**$1,472,580**	**$490,860**	**$1,963,440**	–	–

The efficiency and effectiveness of Federal grants are potentially reduced when a State directly charges a Federal grant to pay down unfunded liabilities. If States use a greater proportion of WSFR grant funding to pay down unfunded liabilities, less funding would be available to accomplish the grant's agreed-upon objectives. We have identified similar issues in other States that received WSFR funds. As a result, our office issued a management advisory to the FWS on unfunded liabilities for WSFR grants in July 2023.[40]

[40] *Unfunded Liabilities for Wildlife and Sport Fish Restoration Program Grants* (Report No. 2020–ER–058–A), issued July 2023.

Recommendations Summary

We provided a draft of this report to the FWS for review. The FWS concurred with our recommendations and stated it will work with the Department to implement corrective actions. We consider Recommendations 5 and 9 implemented. We consider Recommendations 1 through 4, 6 through 8, and 10 through 14 resolved. Below, we summarize the FWS and Department responses to our recommendations, as well as our comments on their responses. See Appendix 4 for the full text of the FWS and Department responses. Appendix 5 lists the status of each recommendation.

The Department made some general comments concerning the overall content of our report. Specifically, the Department stated that our report introduction "suggests that grant funds and State hunting and fishing license revenue spent, as a whole, during the audit scope were not used for allowable fish and wildlife activities, which is not completely accurate and is a material misstatement." Specifically, the Department stated that only 2.7 percent of the total expenditures under audit were questioned costs, with one acquisition making up the majority of those costs. The Department added that the remaining questioned costs were less than 0.15 percent of the total expenditures and should be deemed immaterial. The Department requested that the statement be removed from the final report because the Department contended the paragraph is misleading and serves no purpose.

Additionally, the Department requested that we remove two findings and four recommendations from the audit report. Specifically, the Department stated that the basis for the findings and associated recommendations related to improper accounting of merit-based incentive pay and improper accounting of leave costs and leave payouts are invalid and are not required by Federal regulations.

Finally, the Department requested that we remove our other matter regarding unfunded pension liabilities charged to WSFR grants because it is not a finding. The Department stated, "There is no current unfunded liability and the [Department's] pension employer contribution rates are very low. This has clearly achieved the objective of this audit inquiry, which is to improve the efficiency and effectiveness of grant program resources. The Department stated that the data evaluation was misleading because the percentages presented in the report reflect both Federal and State shares—not just the portion reimbursed with Federal grants. The Department noted that the State pension system's published rate includes both normal pension costs and the unfunded liability amortization. The Department added that because it uses a single rate, it was unclear how we identified the unfunded portion of the rate.

We do not believe the introduction to our report was inaccurate or materially misstated. We identified multiple instances in which grant funds and State hunting and fishing license revenue were improperly used, which established the foundation for our overarching finding that, collectively, funds were not always used for allowable activities. Furthermore, because we used sampling techniques to analyze grant expenditures, we did not review 100 percent of all costs charged to grants. For example, we reviewed 0.06 percent of payroll costs and 10 percent of other direct costs claimed on grants. Therefore, we are unable to opine on the allowability of costs beyond those which we tested, and we do not project the results of our analyses to the population of grant expenditures. The Department's assertion that only 2.7 percent of the total expenditures under audit were questioned costs mischaracterizes our audit process and associated findings. Therefore, we will not remove the paragraph from the final report.

Additionally, the Department has not provided assurance that the allocation of incentive pay and leave costs charged to grants did not exceed the value of the costs earned on those specific grants; therefore, we will not remove the two findings and the four associated recommendations from the audit report.

Finally, regarding our other matter of unfunded pension liabilities, we considered both Federal and State shares and the portion of pension costs that represent unfunded liability amortization when conducting our analyses. These analyses were factored into the calculations shown in Figure 8.

We recommend that the FWS require the Department to:

1. Resolve the Federal share ($1,497,008) of unallowable questioned costs related to the acquisition of an aircraft.

   FWS Response: The FWS concurred with the recommendation.

   Department Response: The Department did not concur with Recommendation 1 and stated the intent of the aircraft purchase was to support the Department's wildlife comprehensive management system (CMS) grant projects. The Department stated that it has a standard reimbursement process in place to reimburse all non-acquisition funding sources for all Department-owned equipment in perpetuity.

   The Department stated that the total acquisition cost should be solely borne by WSFR funds based on 2 C.F.R. § 200.313(c)1 because it receives annual Wildlife Restoration grant funds through an approved CMS grant to implement wildlife survey and translocation programs as ongoing program activities. This, according to the Department, made the acquisition a reasonable and necessary cost to be borne by the WSFR grant since the aircraft is intended to support WSFR long-term.

   The Department maintained that this use was reasonable and necessary and does not demonstrate an intent to use the aircraft other than in support of Wildlife Restoration program activities. The Department stated that the FWS approved the full cost of the aircraft before the Department acquired it, with the recognition that an equipment use rate would be in effect should there be any ineligible use of the aircraft. The Department stated that the FWS did not indicate that the amount charged to the grant would exceed the benefits the grant received. The Department believed its methodology was reasonable because the long-term benefits of aerial survey and wildlife transport to the Wildlife Restoration program have been well documented.

OIG Comment: We consider Recommendation 1 resolved based on the FWS response. Concerning the Department response, we are not disputing the purchase of the aircraft with WSFR funds. We are stating that the Department should have proportionally allocated the purchase cost of the aircraft to WSFR and non-WSFR projects that would benefit from its use, or the Department should have reallocated the cost of the plane purchase at the end of the grant period once it was apparent that the plane would be substantially used for non-WSFR activities.

Although the Department uses an equipment usage rate to reimburse WSFR grants for the costs associated with non-WSFR use, in this specific scenario, we believe the methodology is not reasonable. This approach burdens a 1-year Federal grant with a large upfront purchase for equipment that has an expected useful life of greater than 1 year and is not appropriate in this scenario because the Department should have anticipated that the aircraft would have material non-WSFR use. Further, once the original funding grant closes, future periods of non-WSFR use would not be credited to the appropriate grant. The Department records engine hours for all its airplanes and has the ability to determine if time charged is used for WSFR or non-WSFR projects. This information could have been used to approximate the allocability of the original purchase costs using reasonable methods.

Based on the history of aircraft use for both WSFR and non-WSFR programs, we maintain our position that the Department should have anticipated that the aircraft would be used to some degree on non-WSFR projects. In fact, our review indicated that approximately half the engine hours logged for the aircraft in question were for non-WSFR activities. We will consider this recommendation implemented when the FWS provides documentation to support that cost allocations related to the aircraft acquisition have been resolved.

2. Implement policies and procedures to ensure the costs of capital assets are properly allocated to WSFR grants based on the proportional benefits the grants receive.

   FWS Response: The FWS concurred with the recommendation.

   Department Response: The Department concurred with Recommendation 2 and stated that its policies and procedures will now require staff to indicate whether the acquisition cost will benefit multiple programs. If the acquisition cost benefits multiple programs, then the cost must be allocated, in reasonable proportion, across the benefiting Federal and State programs.

   OIG Comment: We consider Recommendation 2 resolved based on the FWS and the Department responses. We will consider this recommendation implemented when the FWS provides documentation to support updated policies and procedures.

3. Resolve the Federal share ($33,728) of questioned costs related to unallowable merit-based incentive pay charged to WSFR grants.

   FWS Response: The FWS concurred with the recommendation.

   Department Response: The Department did not concur with Recommendation 3 and stated that it already had a reasonable allocation methodology. The Department stated that it felt it had met the criteria outlined in 2 C.F.R. § 200.405 because its process allocated merit pay proportionally without undue effort or cost and was approximated using reasonable methods. The Department contends that the term, "relative benefits," is not defined as the proportion of performance that is directly correlated to a proportion of hours charged to a grant activity.

   The Department also stated that the following language from the draft report was misleading and only partially accurate:

   > We reviewed all payroll records for employees that received merit pay: 176 employees for fiscal year (FY) 2020 and 168 employees for FY 2021. Of the 344 merit-based incentive payments we reviewed, 342 were allocated 100 percent to the employee's home code. This occurred despite many employees charging significant amounts of time to non-WSFR activities during the year.

   The Department stated that the auditors did not review all payroll records for all employees that received merit pay, only those that charged WSFR grants, 90 percent of which were charged almost exclusively to one grant. The Department added that its current process of allocating merit pay resulted in an almost 97 percent "proportional benefit" to the grants, implying that this accuracy demonstrated that it met the criteria of a reasonable methodology, as outlined in 2 C.F.R. § 200.405.

   OIG Comment: We consider Recommendation 3 resolved based on the FWS response. We questioned these costs because merit-based incentive pay costs can be allocated commensurate with the actual time employees spend working on grant and non-grant activities and can be determined without undue effort or cost.

   We reviewed all payroll records for all employees that received merit pay, including those unrelated to WSFR; however, the questioned costs identified in the report are a result of the analysis that was performed solely on the merit-based incentive pay charged to WSFR grants. Mainly, we are questioning the costs because the accounting controls and manual processes used by the Department to allocate incentive payments are ineffective. The process for allocating incentive payments relies on work unit managers at the Department to submit changes to data supplied to them that show proposed incentive payment allocations. That data uses a single home code per employee and, if left unchanged, would result in the allocation of 100 percent of that employee's incentive payment to the employee's home code. We found that the Department's work unit managers submitted adjustments for only 2 out of the 344 employees where incentive payments would be charged to grant codes during the audit period. While the Department's incentive payment allocation methods may have resulted in a high level of accuracy when compared to the total dollar amount of incentive payments it disbursed, we found that the controls could be improved to more accurately allocate payments with minimal effort or cost. For example, the Department could implement controls that allocate incentive payments across all activities that employees worked throughout the year.

Furthermore, the Department asserts that its process results in an accuracy level of 97 percent. This includes incentive payments charged to non-WSFR grant funds. Our analysis identified allocation errors that resulted in a total of $44,971 ($33,728 Federal share) in improperly allocated incentive payments out of a total of $499,283 in incentive payments charged to WSFR grants. This would result in an accuracy level of 91 percent. Regardless of the level of accuracy, we still deemed the questioned costs amount material to our audit.

We will consider this recommendation implemented when the FWS provides documentation that these questioned costs have been resolved.

4. Implement policies and procedures to ensure merit-based incentive benefits allocated to a grant code do not exceed the value of the benefits earned on that grant.

   FWS Response: The FWS concurred with the recommendation.

   Department Response: The Department did not concur with Recommendation 4 and maintained that it had a reasonable allocation methodology. The Department stated it felt it met the criteria outlined in 2 C.F.R. § 200.405 because its process allocated merit pay proportionally and was "approximated using reasonable methods" "without undue effort or cost." The Department stated that the term "relative benefits" is not defined as the proportion of performance that is directly correlated to a proportion of hours charged to a grant activity. The Department stated that the C.F.R. does not require the Department to track "the value of benefits earned" on a grant.

   OIG Comment: We consider Recommendation 4 resolved based on the FWS response. The Department must establish a mechanism to ensure that costs are properly allocated to grants based on the relative benefits received. We found that the Department fully allocated merit-based incentive payments to employee home codes instead of to accounting codes that pertained to work performed during the year.

   The Department's methodology for charging the entirety of merit-based incentive pay to the home codes is not a reasonable method for allocation. During the audit period, 50 employees out of the 344 that received grant-funded, merit-based incentive payments worked a significant amount of their time (greater than 20 percent of their hours worked) on non-WSFR activities. However, the Department only allocated 2 of those 50 payments between grant and non-grant funding sources. This method does not provide assurance that the portion of merit-based incentive pay charged to grants did not exceed the value of the incentive pay earned on those specific grants.

We will consider this recommendation implemented when the FWS provides documentation that the Department has updated policies and procedures to ensure that merit-based incentive benefits allocated to a grant code do not exceed the value of the benefits earned on that grant.

5. Resolve the Federal share ($16,383) of unsupported questioned costs related to the tuition reimbursements charged to grants.

   FWS Response: The FWS concurred with the recommendation. The FWS also indicated that it reviewed and accepted three financial reports that "document the payback" for Recommendation 5.

   Department Response: The Department did not expressly concur with the Recommendation 5 but stated that, to resolve the questioned costs, it revised and resubmitted the Federal Financial Reports, which the WSFR Region 2 Office subsequently approved.

   OIG Comment: We consider Recommendation 5 implemented based on the FWS and the Department responses. We have reviewed the revised and resubmitted Federal Financial Reports and agree that the intent of the recommendation has been met.

6. Implement policies and procedures to ensure costs of tuition reimbursements receive prior written approval from the FWS.

   FWS Response: The FWS concurred with the recommendation.

   Department Response: The Department did not expressly concur with Recommendation 6 but stated that it is in the process of amending its policy, forms, and procedures related to tuition reimbursement.

   OIG Comment: We consider Recommendation 6 resolved based on the FWS and the Department responses. We will consider this recommendation implemented when the FWS provides the Department's updated policies and procedures that require the Department to receive written FWS approval prior to incurring grant expenses for tuition reimbursements.

7. Resolve the Federal share ($16,021) of questioned costs related to unallowable administrative leave costs.

   FWS Response: The FWS concurred with the recommendation.

   Department Response: The Department did not concur with Recommendation 7and disagreed with our interpretation that administrative leave is not allowable. The

Department stated that the employees were performing CMS grant activities prior to being placed on administrative leave and that its decision to charge the administrative leave to the grant was therefore reasonable and appropriate. The Department stated that there is no precedent for disallowing administrative leave costs; however, it will be reviewing the issue to consider allowability of some categories of leave.

OIG Comment: We consider Recommendation 7 resolved based on the FWS response. The Department placed employees on administrative leave to conduct investigations into alleged employee misconduct. The costs of that leave did not benefit the grants because it did not further the accomplishment of the grants' purposes or objectives. Because the Department used WSFR funds to pay administrative leave costs, those funds were unavailable for conservation, restoration, and management of wildlife and sport fish resources—which were the primary purposes of the grants.

We questioned these costs because we determined they were not necessary or reasonable for the proper and efficient performance of these grants; therefore, they are unallowable costs under Federal awards per 2 C.F.R. § 200.403(a) and 2 C.F.R. § 200.404(a). We also considered 50 C.F.R. § 80.2 and the *U.S. Fish and Wildlife Service's Service Manual on Federal Aid Program Guidance for Comprehensive System Grants* in our analysis.

We will consider this recommendation implemented when the unallowable administrative leave costs have been resolved.

8. Require the Department to implement policies and procedures to ensure administrative leave costs are scrutinized for relation to grant purpose.

   FWS Response: The FWS concurred with the recommendation.

   Department Response: The Department did not expressly concur with Recommendation 8. The Department stated that it has implemented a new policy that is pending FWS concurrence.

   OIG Comment: We consider Recommendation 8 resolved based on the FWS and the Department responses. We will consider this recommendation implemented when the FWS provides updated policies and procedures that require the Department to scrutinize administrative leave costs for relation to grant purpose.

9. Resolve the Federal share ($16,199) of questioned costs related to unsupported in-kind contributions.

   FWS Response: The FWS concurred with the recommendation. The FWS reviewed and accepted the revised and resubmitted financial reports, and it has documented the payback for Recommendation 9.

Department Response: The Department did not expressly concur with the recommendation. It stated that, to resolve questioned costs, it revised and resubmitted the Federal Financial Reports, which the WSFR Region 2 Office subsequently approved.

OIG Comment: We consider Recommendation 9 implemented based on the FWS and the Department responses. We have reviewed the revised and resubmitted Federal Financial Reports and agree that the intent of the recommendation has been met.

10. Resolve the Federal share ($4,043) of unsupported questioned costs related to the payout of employees' annual leave costs charged to the grant.

    FWS Response: The FWS concurred with the recommendation.

    Department Response: The Department did not concur with Recommendation 10 and maintained that it had a reasonable allocation methodology. The Department stated that the payments for unused leave when an employee retires or terminates employment are allowable as grant expenses in the payment year. The Department did not believe that the C.F.R. requires that the amount of leave paid and charged to an award not exceed the amount of leave earned on the award. The Department stated that 2 C.F.R. § 200.405 does not speak specifically to leave or accrual of leave for each funding award. The Department stated that it should not be required to resolve the Federal share of the questioned costs since the regulations do not require the costs of employee leave to be allocated to the appropriate activities based on actual leave hours accrued.

    OIG Comment: We consider Recommendation 10 resolved based on the FWS response. Costs of leave are allowable charges under a Federal award in accordance with the relative benefits that award has received. However, the Department failed to ensure leave costs were properly allocated to the awards that benefited from the labor that generated those leave costs. We questioned these costs because the portion of leave payouts must be properly allocated to grants and be commensurate with the amount of leave earned on specific grants; otherwise, it cannot be verified whether the value of the leave associated with these payouts was fully earned on those specific grants.

    We will consider this recommendation implemented when the FWS provides documentation to support that these questioned costs have been resolved.

11. Implement policies and procedures to ensure that leave paid to employees is properly allocated to a grant code and does not exceed the value of leave earned on that grant.

    FWS Response: The FWS concurred with the recommendation.

    Department Response: The Department did not concur with Recommendation 11 and stated that it therefore did not believe changes to policies and procedures were necessary. The Department did not agree that there needs to be a mechanism in place to ensure employee leave is allocated to the appropriate activities based on actual leave hours accrued on the grants' according to Federal regulations. The Department stated that the annual leave costs charged to the grants within the audit scope were paid in direct proportion to the hours worked on the Federal grant.

In response to Notice of Potential Finding and Recommendation (NPFR) No. 3 that we issued to the Department during our fieldwork, the Department provided an analysis that it contends shows a reasonable approach to ensuring leave is equitably and reasonably allocated to grants. The Department established guidelines that address instances when it is not reasonable or appropriate to charge the leave according to the hours worked solely in the pay period. The Department added that employees, in consultation with their supervisors, should scrutinize the amount of leave against the benefit received and ensure the leave is allocated proportionate to the relative benefit received.

The Department stated that this issue was discussed with both the WSFR regional office and headquarters at the conclusion of the OIG audit of the Arizona Game and Fish Department in January 2020.

OIG Comment: We consider Recommendation 11 resolved based on the FWS response. We reviewed the response and analysis the Department provided in response to NPFR No. 3, along with its response to the draft report. However, these responses did not provide assurance that the Department's processes properly allocated leave costs. It is possible to find issues during an audit that were present in prior audit scopes but not identified during those audits. This does not alleviate the auditee of responsibility for issues that existed during those fiscal years, nor does it preclude Federal entities from pursuing correction of those issues.

The method the Department used to allocate leave costs did not ensure the Department distributed leave costs to all activities in proportion to the relative amount of time spent on each benefiting activity. We believe establishing a mechanism to do so may be reasonably achieved without undue effort or cost.

We will consider Recommendation 11 implemented when the FWS provides documentation to support that the Department has updated policies and procedures to require that leave paid to employees is properly allocated to a grant code and does not exceed the value of leave earned on that grant.

12. Develop policies and procedures to identify and evaluate potential sources of program income on grants.

    FWS Response: The FWS concurred with the recommendation.

    Department Response: The Department concurred with Recommendation 12.

    OIG Comment: We consider Recommendation 12 resolved based on the FWS and Department responses. We will consider this recommendation implemented when the FWS provides documentation to support that the Department has updated policies and procedures to ensure sources of program income on grants will be identified and evaluated.

13. Resolve damage to real property due to trespassing cattle.

    FWS Response: The FWS concurred with the recommendation.

    Department Response: The Department concurred with the finding and stated that it has initiated efforts to resolve the cattle trespass through cattle exclusion fencing; however, the Department requested clarification on whether the recommendation is to resolve the cattle trespass, thereby resolving future wildlife habitat degradation, or whether the recommendation is to resolve the habitat degradation that occurred due to the trespassing cattle. The Department also requested a correction to the finding clarifying that the Concho Lake and Land Property was acquired from the Bureau of Land Management in 1970 and not with WSFR grant funds. The grant funds were used to support operation and maintenance of the property.

    OIG Comment: We consider Recommendation 13 resolved based on the FWS and the Department responses. To clarify, our recommendation was to resolve the cattle trespass, which we believe will resolve any future wildlife habitat degradation. We acknowledge the Department's efforts to prevent further degradation to habitat by erecting cattle exclusion fencing.

    We also acknowledge the distinction that WSFR grant funds were used to support operation and maintenance of the property and were not used to purchase the Concho Lake and Land Property; however, this distinction does not alter our finding and recommendation. We will consider this recommendation implemented when the FWS provides documentation that the Department has mitigated the cattle trespassing.

14. Implement a mechanism to enforce existing policies that ensure compliance, where applicable, with the Federal Funding Accountability and Transparency Act requirements and Federal regulations for the proper reporting of subawards.

    FWS Response: The FWS concurred with the recommendation.

    Department Response: The Department concurred with Recommendation 14.

    OIG Comment: We consider Recommendation 14 resolved based on the FWS and the Department responses. We will consider this recommendation implemented when the FWS provides documentation demonstrating that the Department has implemented a mechanism to enforce existing policies that ensure compliance, where applicable, with the Federal Funding Accountability and Transparency Act requirements and Federal regulations for the proper reporting of subawards.

Appendix 1: Scope and Methodology

Scope

We audited the Arizona Game and Fish Department's (Department's) use of grants awarded by the U.S. Fish and Wildlife Service (FWS) under the Wildlife and Sport Fish Restoration Program (WSFR). We reviewed eight grants, which included Comprehensive Management State (CMS) grants that were open during the State fiscal years (SFYs) that ended June 30, 2020, and June 30, 2021. We also reviewed license revenue during the same period. The audit included claimed expenditures of $77,805,168 and related transactions. In addition, we reviewed historical records for the acquisition, condition, management, and disposal of real property and equipment purchased with either license revenue or WSFR grant funds.

Because of the COVID–19 pandemic, we could not complete our audit onsite. We performed remote visits using video conferencing; performing virtual walkthroughs assessing status of projects, review of inventory, and conducted virtual interviews with personnel. We gathered data remotely and communicated with Department personnel via email, video conferencing, and telephone. As a result, we could not perform normal audit procedures for (1) determining adherence to policies and procedures for license revenues, (2) equipment verification, (3) observing grant projects specific to construction and restoration work, and (4) subawards to subrecipients. Therefore, the audit team relied on alternative evidence provided by Department personnel that was determined to be sufficient and appropriate to support our conclusions.

Methodology

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

We assessed whether internal control was significant to the audit objectives. We determined that the State's control activities and the following related principles were significant to the audit objectives.

- Management should design control activities to achieve objectives and respond to risks.
- Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
- Management should implement control activities through policies.

We tested the operation and reliability of internal control over activities related to our audit objective. Our tests and procedures included:

- Examining the evidence that supports selected expenditures charged to the grants by the Department.
- Reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, in-kind contributions, and program income.
- Interviewing Department employees.
- Inspecting equipment and other property.
- Determining whether the Department used hunting and fishing license revenue for the administration of fish and wildlife program activities.
- Determining whether the State passed required legislation assenting to the provisions of the Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act.
- Evaluating State policies and procedures for assessing risk and monitoring subawards.
- Reviewing sites throughout the State (see Appendix 2 for a list of sites reviewed).

We found deficiencies in internal control resulting in our findings of:

- Improper allocation of aircraft, with questioned costs of $1,996,011 ($1,497,008 Federal share).
- Improper accounting of merit-based incentive pay, with questioned costs of $44,971 ($33,728 Federal share).
- Unauthorized tuition reimbursements, with questioned costs of $21,844 ($16,383 Federal share).
- Improper accounting of administrative leave for employee investigations, with questioned costs of $21,362 ($16,021 Federal share).
- Unsupported in-kind contributions, with questioned costs of $21,599 ($16,199 Federal share).
- Improper accounting of leave costs and annual leave paid out, with questioned costs of $5,391 ($4,043 Federal share).
- Unreported program income.

- Loss of control of real property due to livestock trespassing.
- Inadequate subaward public reporting.
- Unreasonable unfunded pension liabilities.

Based on the results of our initial assessments, we assigned a level of risk and selected a judgmental sample of transactions for testing. We used auditor judgment and considered risk levels relative to other audit work performed to determine the degree of testing performed in each area. Our sample selections were not generated using statistical sampling, and therefore we did not project the results of our tests to the total population of transactions.

This audit supplements, but does not replace, the audits required by the Single Audit Act Amendments of 1996. Single audit reports address controls over Statewide financial reporting, with emphasis on major programs. Our report focuses on the administration of the Arizona Game and Fish Department, and that agency's management of WSFR resources and license revenue.

The Department provided computer-generated data from its official accounting system and from informal management information and reporting systems. We tested the data by sampling expenditures and verifying them against WSFR reports and source documents such as purchase orders, invoices, and payroll documentation. While we assessed the accuracy of the transactions, we did not assess the reliability of the accounting system as a whole.

Prior Audit Coverage

OIG Audit Reports

We reviewed our last two audits of costs the Department claimed on WSFR grants.[41] We followed up on the 20 recommendations from the 2018 report and the 11 recommendations from the 2011 report and found that the U.S. Department of the Interior's Office of Policy, Management and Budget considered all recommendations resolved and implemented.

State Audit Reports

We reviewed the single audit report for SFY 2020 to identify control deficiencies or other reportable conditions that affect WSFR. In that report, the Schedule of Expenditures of Federal Awards indicated $28.4 million in Federal expenditures related to WSFR but did not include any findings directly related to WSFR, which was not deemed a major program for Statewide audit purposes.

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[41] *U.S. Fish and Wildlife Services Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Arizona, Arizona Department of Game and Fish, From July 1, 2013, through June 30, 2015* (2016–EXT–001), issued August 2018.

U.S. Fish and Wildlife Services Federal Assistance Program Grants Awarded to the State of Arizona, Arizona Department of Game and Fish, From July 1, 2008, through June 30, 2010 (R–GR–FWS–0003–2011), issued July 2011.

We also reviewed the 2020 and 2021 financial statement audits from an independent certified public accountant (CPA) firm that did not find any significant findings or material misstatements. These audits identified no deficiencies in internal control, and the CPA firm did not have any knowledge of fraud, suspected fraud, or any allegations of fraud affecting the Arizona Game and Fish Department and involving management, employees with significant roles in internal control, or others where the fraud could have a material effect on the financial statements. The CPA firm also had no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

Appendix 2: Sites Reviewed

Fish Hatcheries	Page Springs Hatchery
Wildlife Management Areas	Concho Lake Game Management Unit 18a Robbins Butte Wildlife Area Raymond Wildlife Area
Shooting Ranges	Ben Avery Shooting Facility Three Points Shooting Range

Appendix 3: Monetary Impact

We reviewed eight grants that were open during the State fiscal years that ended June 30, 2020, and June 30, 2021. The audit included expenditures of $77,805,168 and related transactions. We questioned $2,062,343 ($1,546,757 Federal share) as unallowable and $48,834 ($36,625 Federal share) as unsupported.

Monetary Impact: Questioned Costs

			Questioned Costs ($) (Federal Share)	
Grant No.	**Grant Title**	**Cost Category**	**Unallowable**	**Unsupported**
F19AF01034	Boating Access Facilities Administration, Operation and Maintenance	Payroll	586	–
F19AF01036	Wildlife Restoration	Other Direct Costs, Payroll, In-kind Contributions	1,529,795	31,280
F20AF10471	Wildlife Restoration	Payroll, Other Direct Costs	16,080	5,345
F20AF10529	Boating Access Facilities Administration, Operation and Maintenance	Payroll	296	–
Total			**$1,546,757**	**$36,625**

Appendix 4: Responses to Draft Report

The U.S. Fish and Wildlife Service's response to our draft report follows on page 35. The Arizona Game and Fish Department's response to our draft report follows on page 36.

United States Department of the Interior

FISH AND WILDLIFE SERVICE
P.O. Box 1306
Albuquerque, New Mexico 87103

In Reply Refer To:
FWS/R2/RD-WSFR

December 12, 2023

Memorandum

To: Bryan Brazil
Director, Western Region Audit Division

From: Cliff Schleusner
Regional Manager, Wildlife and Sport Fish Restoration Program

Subject: Draft Audit Report Comments - U.S. Fish and Wildlife Service, Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Arizona, Arizona Game and Fish Department, from July 1, 2019, through June 30, 2021
Report No. 2022-WR-003

Attached are the Arizona Game and Fish Department's (Department) comments to the Office of Inspector General's Draft Audit Report No. 2022-WR-003. The Department also included updated policies/procedures, identified in the comments. Also, attached are three Federal Financial reports reviewed and accepted by the Service. These reports document the payback for recommendations 5 and 9. The Service concurs with the auditor's draft findings and recommendations and has reviewed the Department's response.

We will work closely with the Department's staff in developing and implementing a corrective action plan that will resolve the findings and recommendations.

If additional information is required, please contact Cheryl Rodriguez, Grants Fiscal Officer, at [redacted]

Attachments

November 30, 2023

Mr. Cliff Schleusner, Regional Manager
Wildlife and Sport Fish Restoration Program
U.S. Fish and Wildlife Service
P.O. Box 1306
Albuquerque, NM 87103

Dear: Mr Schleusner,

The Arizona Game and Fish Department (Department) appreciates the opportunity to review and provide comments on Draft Report No.: 2022–WR–003 U.S. Fish and Wildlife Service Grants Awarded to the State of Arizona, Game and Fish Department, From July 1, 2019, Through June 30, 2021, Under the Wildlife and Sport Fish Restoration Program.

As an agency committed to serving the public with excellence, we recognize audits as a tool to evaluate and improve Department processes. The auditors maintained a professional rapport over the course of the very comprehensive audit. We have reviewed the draft findings and associated recommendations and provide our comments below for your consideration and inclusion in your response to the Office of Inspector General.

We are proud of the Department's management and performance specific to use of WSFR grant funds and our consistent work to ensure benefits to Arizona and all who contribute to WSFR through excise taxes. While the Department does not concur with all of the findings described in the draft audit report, the Department does appreciate that the audit identified opportunities for improvement. In the attached response, the Department provides comments specific to each main finding and topics within the findings identified in the draft audit report.

We look forward to working with you and your staff over the coming months as we collaboratively develop a Corrective Action Plan.

Sincerely,

Ty E. Gray
Director

azgfd.gov | 602.942.3000

5000 W. CAREFREE HIGHWAY, PHOENIX AZ 85086

GOVERNOR: KATIE HOBBS **COMMISSIONERS:** CHAIRMAN TODD G. GEILER, PRESCOTT | CLAY HERNANDEZ, TUCSON | MARSHA PETRIE SUE, SCOTTSDALE JEFF BUCHANAN, PATAGONIA | JAMES E. GOUGHNOUR, PAYSON **DIRECTOR:** TY E. GRAY **DEPUTY DIRECTOR:** TOM P. FINLEY

Below are the Department's comments regarding the Office of Inspector General's draft audit report:

General Comments:
We understand that the audit report is intended to identify areas of questioned costs and control deficiencies in a clear and concise manner; however, the tone of the opening does not provide a representative or accurate summary of the results of the audit (see Results of Audit, paragraph 1). This paragraph, as written, suggests that grant funds and state hunting and fishing license revenue spent, as a whole, during the audit scope were not used for allowable fish and wildlife activities, which is not completely accurate and is a material misstatement. The audit scope included claimed expenditures of $77,085,168 and of these expenditures $2,111,177 were questioned (2.7% of total expenditures); of the questioned costs $1,996,011 was related to acquisition of one equipment item. The remaining questioned costs were $115,166 and equates to <0.15% of total expenditures and should be deemed immaterial. It is our contention that this paragraph is misleading, and serves no purpose, and we request it be removed from the final report.

Multiple findings and recommendations rely on OIG's interpretation that leave costs cannot exceed leave hours accrued on the grants. The Department does not concur that this is a requirement that must be adhered to since § 200.405 does not speak specifically to leave or accrual of leave for each funding award. Leave is not required to be earned and tracked by a specific federal or non federal project, rather, as outlined in § 200.431(b)(2) it is required to be equitably allocated and expensed to all related activities including federal awards during the period the leave is charged. There is no cap in the amount of leave that can be charged to a grant, however it must be distributed equitably and in accordance with the benefits received.

For the Department, the period the leave is charged is a pay period and is bi-weekly and there are policies, procedures, FAQ's and compliance checks in place to ensure expenses are equitably allocated. Given that the basis for the findings below is invalid (not required in CFR) the Department requests the following three (3) findings and associated recommendations be removed.

The following findings and recommendations are based on OIG's assertion that leave charged to a grant must not exceed actual leave earned:

Finding: Improper Accounting of Leave Costs and Annual Leave Payouts—Questioned Costs of $5,391 ($4,043 Federal Share) '...no mechanism is in place to ensure employee leave is allocated to the appropriate activities based on actual leave hours accrued on the grants.'

Finding: Improper Accounting of Merit-Based Incentive Pay—Questioned Costs of $44,971 ($33,728 Federal Share)

Recommendation 3. Resolve the Federal share of questioned costs related to unallowable merit-based incentive pay charged to WSFR grants totaling $44,971.

Recommendation 4. Implement policies and procedures to ensure merit-based incentive benefits allocated to a grant code does not exceed the value of the benefits earned on that grant. -

recommendation is inconsistent with the finding which does not speak to the requirement for merit-based incentive benefits allocated and a requirement that the benefit not exceed the value of benefits earned on the grant.

Finding: Improper Accounting of Leave Costs and Annual Leave Payouts—Questioned Costs of $5,391 ($4,043 Federal Share).

Recommendation 10. Resolve the Federal share of unsupported questioned costs related to the payout of employees' annual leave costs to the grant totaling $4,043.

Recommendation 11. Implement policies and procedures to ensure that leave paid to employees is properly allocated to a grant code and does not exceed the value of leave earned on that grant.

Comments regarding specific recommendations follow:

Recommendation 1. Resolve the Federal share of unallowable questioned costs related to the acquisition of an aircraft totaling $1,996,011.

The Department respectfully maintains that the intent of the purchase of the Quest Kodiak aircraft (A6906) was for the purpose of supporting the Department's comprehensive management of wildlife CMS grant projects. Furthermore, there is a standard reimbursement process in place to reimburse any and all non-acquisition funding source activity for all Department owned equipment into perpetuity. The onset of the COVID-19 pandemic immediately following the purchase and upfit of the aircraft disrupted Department processes and procedures as it did for every agency and business country-wide. The COVID-19 pandemic significantly impacted management operations and the Department suspended non-essential flights including a number of planned grant survey and wildlife translocation activities. We would like to reiterate that only 8.1 hours were logged prior to March 2020, when COVID-19 officially was documented as disrupting routine operations. Of these 8.1 hours, 3.1 hours were for training and 5 hours were patrol. Both of these uses were to allow the pilots to be checked out on the aircraft and gain familiarity with the aircraft prior to use in support of Wildlife Restoration Program activities whereby other Department employees would be transported in the aircraft. This amount of use is very small in comparison to the use of the other 4 aircraft during that same time - of the 939 engine hours logged across the 5 aircraft cited in the draft report, only 8.1 hrs were attributed to the aircraft in question (A6906) and equates to 0.86% of aircraft usage during the time specified. We maintain that this use was reasonable and necessary and does not demonstrate an intent to use the aircraft other than in support of Wildlife Restoration Program activities.

From the Fight Log:

F6906	10/29/2019	1.9 hrs Training
	11/02/2019	5 hrs Patrol
	1/02/2020	0.5 hrs Training
	2/05/2020	0.7 hrs Training

4/18/2020 5.5 hrs First Program flight - Water Catchment (charged to state code, but eligible for PR WL)

The use of other Department aircraft has no bearing on the use of the aircraft in question. All of the aircraft have different configurations making them more or less suitable for certain flight activities. F6906 was acquired because it has a different configuration than the other aircraft in the fleet. Specifically, the high wing and large cargo area were selected because they better support wildlife survey and wildlife transport. In addition at the time of acquisition the Department determined that should there be unforeseen use of the aircraft on non Wildlife Restoration program activities, an equipment use rate would be in effect (as demonstrated) and would reimburse the grant for the cost of non-eligible use.

The full cost of the aircraft was approved by WSFR prior to acquisition with the recognition that an equipment use rate would be in effect should there be any ineligible use of the aircraft. As noted in the Draft Audit report: ‘Federal regulations state that equipment must be used by the non-Federal entity in the program or project for which it was acquired as long as needed, whether or not the program or project continues to be supported by the Federal awarding agency’ (2 C.F.R. § 200.313(c)1). We agree, and have demonstrated that the Department has received Wildlife Restoration grant funds through an approved CMS grant year over year and annually implements wildlife survey and translocation programs as an ongoing program activity making the acquisition cost a reasonable and necessary cost to be borne by the grant since the aircraft in question is intended to support the Wildlife Restoration program long term. At no time did WSFR indicate that the amount charged to the grant would exceed the benefits received by the grant; furthermore, we maintain the methodology is reasonable since the long term benefits of aerial survey and wildlife transport to the Wildlife Restoration program are well documented.

Recommendation 2. Implement policies and procedures to ensure the costs of capital assets are properly allocated to WSFR grants based on the proportional benefits the grants receive.

The Department has updated G1.3 Department Procurement and E2.1 Equipment and Other Capital Expenditures to provide guidance that the costs of capital assets are properly allocated to WSFR grants based on the proportional benefits the grants receive. The updated policies were provided to WSFR for review and we have further updated the policies to incorporate comments provided by WSFR. The policies are awaiting final State approval but the Department has already implemented the updated procedures in order to satisfy this recommendation.

In addition, when developing the grant applications, we now require the program staff to indicate whether the acquisition cost, which means the cost of the asset including the cost to ready the asset for its intended use, will benefit multiple programs. If yes, the cost must be allocated, in reasonable proportion, across the benefitting federal and/or state funding awards/projects. This change was implemented for FY24 grant applications - equipment purchase list and also is included in the mid-grant equipment purchase request template.

We have implemented the WSFR approved procedures recommended and consider the finding to be resolved.

Included with this response is the following documentation:

E 2.1 Revised.pdf

G 1.3 Revised.pdf

State of Arizona Mail - RE_ [EXTERNAL] Equipment allocation of cost policies Recommendation #2 WSFR APPROVAL OF POLICY UPDATES E2.1 & G1.3.pdf

CMS Grant Equipment Purchase Request - Template & Example UPDATED 8-24-2023.pdf

CMS AZ FW-100-P-31 Final Budget Narrative REVISED 6-28-2023.pdf

Recommendation 3. Resolve the Federal share of questioned costs related to unallowable merit-based incentive pay charged to WSFR grants totaling $44,971.

The Department does not concur with this finding or a payback and respectfully maintains that it did have a reasonable allocation methodology. That methodology, utilized, allocated and based upon known costs half way through the grant period, was 97% accurate based on the auditors own analysis methodology which was used after the close of the grant.

The Department feels the criteria outlined in § 200.405 is met and its current allocation process of merit pay resulted in almost 97% of a "proportional benefit" "without undue effort or cost" and was "approximated using reasonable methods" at the time the decision was made to incur the cost, and remained so after the grant closed. Notwithstanding that proportion of performance may not always be directly correlated to a proportion of hours charged nor is "relative benefits" defined as such.

The Department also finds the following finding language misleading and only partially accurate:

"We reviewed all payroll records for employees that received merit pay: 176 employees for fiscal year (FY) 2020 and 168 employees for FY 2021. Of the 344 merit-based incentive payments we reviewed, 342 were allocated 100 percent to the employee's home code. This occurred despite many employees charging significant amounts of time to non-WSFR activities during the year."

The auditors did not review <u>all</u> payroll records for all employees that received merit pay, only those that charged the grant; 90% of which charged the grant almost exclusively and are thus "home coded" as such. Over the two year audit period, in total there were 951 merit-based incentive payments so 607 were charged to non-federal funding sources exclusively.

Recommendation 4. Implement policies and procedures to ensure merit-based incentive benefits allocated to a grant code does not exceed the value of the benefits earned on that grant.

Please see Recommendation 3 as much of that response is applicable to Recommendation 4 as well. The Department feels the criteria outlined in § 200.405 is met and its current allocation process of merit pay resulted in almost 97% of a “proportional benefit” “without undue effort or cost” and was “approximated using reasonable methods” at the time the decision was made to incur the cost, and remained so after the grant closed. Notwithstanding that proportion of performance may not always be directly correlated to a proportion of hours charged nor is “relative benefits” defined as such. The CFR does not require tracking of “the value of benefits earned” on a grant.

Recommendation 5. Resolve the Federal share of unsupported questioned costs related to the tuition reimbursements to grants totaling $21,844.

Final Financial Reports (FFR’s) were revised, resubmitted and subsequently approved by the WSFR Region 2 Office to resolve questioned costs.

Description	FAIN	FY	MAJORPRG_PROG	CFDA	State Share	Federal Share	CA#	Remarks:
Tuition Reimbursement	F19AF01036	2020	660000_17 PRSEC10	15.626	$ 4,009.00	$ 3,006.75		Revised FFR 9/20/23. Reduced overmatch $3,701 and returning $236.50 out of F22AF02266
Tuition Reimbursement	F19AF01036	2020	660000_17 PRSEC10	15.626	$ 1,241.00	$ 930.75		Revised FFR 9/20/23. Reduced overmatch $3,701 and returning $236.50 out of F22AF02267
Tuition Reimbursement	F19AF01036	2020	67000017 PRWILDLIFE	15.611	$ 4,734.00	$ 3,550.50		Revised FFR 9/20/23. Reduced overmatch
Tuition Reimbursement	F19AF01036	2020	67000017 PRWILDLIFE	15.611	$ 4,734.00	$ 3,550.50		Revised FFR 9/20/23. Reduced overmatch
2020 Total					**$ 14,718.00**	**$ 11,038.50**		
Tuition Reimbursement	F20AF10471	2021	67000017 PRWILDLIFE	15.611	$ 3,859.56	2894.67		Revised FFR 9/20/23. Reduced overmatch
Tuition Reimbursement	F20AF10471	2021	67000017 PRWILDLIFE	15.611	$ 2,750.00	2062.5		Revised FFR 9/20/23. Reduced overmatch
Tuition Reimbursement	F20AF10471	2021	67000017 PRWILDLIFE	15.611	$ 516.00	387		Revised FFR 9/20/23. Reduced overmatch
2021 Total					**$ 7,125.56**	**$ 5,344.17**		
Total Tuition Reimbursement					**$ 21,843.56**	**$ 16,382.67**	**5**	

Recommendation 6. Implement policies and procedures to ensure costs of tuition reimbursements receive prior written approval from the FWS.

Department Policy C5.9 Tuition Reimbursement Program is in the process of being amended to add language that preapproval from the authorizing federal awarding agency must be obtained if federal funds will be used for the reimbursement.

The Tuition Reimbursement Agreement (Form 9023) is in the process of being updated to reflect that the approval made by the Branch Chief or Regional Supervisor to reimburse with federal funds will include pre approval by the federal agency.

The instructions that go to CMS project leads every year and associated worksheet will include the identification of tuition reimbursement utilizing federal awards. How the courses will support the grant and what Objectives it will be linked to will be part of the award submission to WSFR for review and approval.

Recommendation 7. Resolve the Federal share of questioned costs related to unallowable administrative leave costs totaling $16,021.

The Department disagrees with OIG's interpretation that administrative leave is not allowable. There has been no guidance from WSFR or precedent to date whereby payroll costs for an employee placed on administrative leave have been disallowed. 2 CFR 200 does not call out administrative leave being an unallowable cost. In fact, it speaks directly to administrative leave costs being allowable per § 200.431(b) if:

1. *They are provided under established written leave policies;*
2. *The costs are equitably allocated to all related activities, including Federal awards; and,*
3. *The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the non-Federal entity or specified grouping of employees.*
   (i) When a non-Federal entity uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment.

We believe the Department meets all three of these requirements.

Administrative Leave costs are generally recognized as an ordinary and necessary expense for the Department in accordance with § 200.404(a). Placing the employee on administrative leave until an investigation is completed protects the WSFR program and the award and supports efficient performance of the Federal award.

We also submit that per § 200.405(a)(3), administrative leave is allocable to the Federal grant because the cost is necessary to the overall operation of the Department. The Department follows a consistent methodology for all employees that charge administrative leave, ensuring the costs are allocated to the federal awards and non-federal programs for which the employee worked actual hours. The Department did not deviate from its established practices when approving the administrative leave costs to be charged to the federal grants for the employees in question (§ 200.404(e)).

OIG asserts that there was no scrutiny of the employee misconduct as it relates to grant purposes. However, the three employees that are referenced in this finding were all [redacted] and prior to the investigation, these employees charged exclusively to the benefiting CMS grant. We contest the assumption that inadequate scrutiny was undertaken in the decision to have the employee administrative leave costs charged to the grant under which their activities were performed. The purported actions that led to the employees being placed on administrative leave pending investigation, would have occurred while the employees were implementing CMS grant activities, therefore the decision to have them charge administrative leave to the grant is reasonable and appropriate since it had not yet been determined whether the reported actions/behaviors violated regulations, policy and/or laws, nor that the behaviors detracted from the award's proper and efficient performance.

OIG's review of the administrative leave appears to only rely on 2 C.F.R. § 200.403(a) and 2 C.F.R. § 200.404(a) and does not appear to consider 50 CFR 80.2 and the U.S. Fish and Wildlife Service's Service Manual on Federal Aid Program Guidance for Comprehensive System Grants (Citation: 522 FW 4) which allows for a CMS State's method of operations that links programs, financial systems (including budget), human resources, goals, products, and services together into one interconnected system. A CMS grant is different from a traditional project grant; performance of the grant is evaluated annually to determine how well the CMS meets intended objectives approved in the Project Narrative and strategic plan. Failure to implement activities that are substantive in nature are detected through monitoring and evaluation during the award performance period and are reported to WSFR and are identified as a deviation in the final performance report. There was no failure to implement the objectives of the grant (see final performance reports for F19AF01036 and F20AF10471) nor any specific deviation that could be attributable to the employees in question being placed on administrative leave.

The issue of administrative leave as an allowable cost was elevated to the Joint Task Force and a sub team is being assembled to consider allowability of some categories of leave. Given that there is no precedent for disallowing administrative leave costs, we contend that the Department should not be required to resolve the Federal share of the questioned costs cited in this finding.

Recommendation 8. Require the Department to implement policies and procedures to ensure administrative leave costs are scrutinized for relation to grant purpose.

The Department implemented a new policy as of 7/15/2022 that directs employees and supervisors to scrutinize leave costs in relation to grant purpose (see attached: C3.3 Time Record Coding for Work Performed Under a Federal Grant and/or Contract - Clause B and associated Procedure B Leave Time Coding). Pending WSFR's concurrence, we consider this recommendation resolved.

Recommendation 9. Resolve the Federal share of questioned costs related to unsupported in-kind contributions totaling $16,199.

Final Financial Reports (FFR's) were revised, resubmitted and subsequently approved by the WSFR Region 2 Office to resolve questioned costs.

Description	FAIN	FY	MAJORPRG_PROG	CFDA	State Share	Federal Share	CA#	Remarks:
In-Kind Contributions	F19AF01036	2020	Land Owner Relations, Wildlife		$ 2,330.00	$ 6,990.00		Revised FFR 9/20/23. Reduced overmatch
In-Kind Contributions	F19AF01036	2020	Land Owner Relations, Wildlife		$ 2,370.78	$ 7,112.33		Revised FFR 9/20/23. Reduced overmatch
In-Kind Contributions	F19AF01036	2020	Land Owner Relations, Wildlife		$ 93.20	$ 279.60		Revised FFR 9/20/23. Reduced overmatch
In-Kind Contributions	F19AF01036	2020	Land Owner Relations, Wildlife		$ 93.20	$ 279.60		Revised FFR 9/20/23. Reduced overmatch
In-Kind Contributions	F19AF01036	2020	Land Owner Relations, Wildlife		$ 512.60	$ 1,537.80		Revised FFR 9/20/23. Reduced overmatch
Total In-Kind Contributions					**$ 5,399.78**	**$ 16,199.33**	**9**	

Recommendation 10. Resolve the Federal share of unsupported questioned costs related to the payout of employees' annual leave costs to the grant totaling $4,043.

The Department does not concur with this finding or a payback and respectfully maintains that it does have a proper allocation methodology which was approved by WSFR and OIG during the previous and most recent audit. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment as stated in § 200.431(b)(3)(i). The CFR does not require that the amount of leave paid should not exceed that earned on the award to which the leave payment is charged.

The draft audit report finding states *'Because we cannot verify whether the value of leave associated with these payouts was fully earned on Grant No. F19AF01036, we are questioning the full $5,391 ($4,043 Federal share) as unsupported costs.'*

The Code of Federal Regulations does not require leave to be earned or accrued by a specific federal or non-federal project so it appears costs are being questioned due to a specific verification that is not required.

The audit finding further states that *'no mechanism is in place to ensure employee leave is allocated to the appropriate activities based on actual leave hours accrued on the grants.'* The Department does not concur that this is a requirement that must be adhered to since § 200.405 does not speak specifically to leave or accrual of leave for each funding award. Leave is not required to be earned and tracked by a specific federal or non federal project, rather, as outlined in 200.431(b)(2), it is equitably allocated and expensed to all related activities including federal awards during the period the leave is charged (which is bi-weekly). There is no cap in the amount of leave that can be charged to a grant, however it must be distributed equitably and in accordance with the benefits received. The leave payout costs in question are related to two employees who were [redacted] employees whose job functions and duties exclusively benefitted the Federal Award and their time was allocated accordingly.

The Department should not be required to resolve the Federal share of the questioned costs ($4,043 Grant No. F19AF01036) since regulations do not require employee leave to be allocated to the appropriate activities based on actual leave hours accrued on the grants.

Recommendation 11. Implement policies and procedures to ensure that leave paid to employees is properly allocated to a grant code and does not exceed the value of leave earned on that grant.

The Department does not concur with amending existing policy and procedure to incorporate actions that are not consistent with regulation. The audit finding states that 'no mechanism is in place to ensure employee leave is allocated to the appropriate activities based on actual leave hours accrued on the grants.' The Department does not concur that this is a requirement that must be adhered to since § 200.405 does not speak specifically to leave or accrual of leave for each funding award. Leave is not required to be earned and tracked by a specific federal or non federal project, rather, as outlined in § 200.431(b)(2), it is equitably allocated and expensed to all related activities including federal awards during the period the leave is charged (which is bi-weekly). There is no cap in the amount of leave that can be charged to a grant, however it must be distributed equitably and in accordance with the benefits received.

The annual leave costs charged to the grants within the audit scope were paid in direct proportion to the hours worked on the Federal grant utilizing the forward facing approach outlined in Policy, Standard Work, FAQ’s and verified via compliance spot checks, indicating that current policies and procedures are effective in ensuring compliance with regulation. In addition we completed an analysis (submitted in the Department's response to NPFR No. 3) that supports that the current policies, procedures and internal controls are an effective and reasonable approach to ensuring that leave is equitably and reasonably allocated to all related activities including the grant sub-account level for CFDA’s included in the audit scope.

Furthermore, the audit report states that the *‘current Department methodology is improper, as it allocates leave costs based only on the activities employee performs during the current pay period’.* We provided additional information in NPFR response #3 clarifying that the Department doesn’t solely allocate leave costs for the current pay period. We provided policy, procedure (see 3. Leave Time Coding 1(b)) and associated FAQ (bullet #3) that specifically addresses instances when it is not reasonable/appropriate to charge the leave according to the hours worked solely in the pay period and that the employee in consultation with their supervisor should scrutinize the amount of leave against the benefit received and ensure the leave is allocated proportionate to the relative benefit received.

We would like to reiterate that this approach was approved by WSFR R2 and WSFR HQ at the conclusion of the last WSFR OIG audit in January of 2020. However final CAP approval was not provided until October of 2020, well into FY21 and overlapping the scope of the current audit (see Attachment: 3.0 Time Charging to Federal Grants - Strategy for Future Implementation.pdf).

Recommendation 12. Develop policies and procedures to identify and evaluate potential sources of program income on grants.

The Department has no additional information to provide and agrees with the recommendation.

Recommendation 13. Resolve damage to real property due to trespassing cattle.

The Department concurs with the finding however we noted that the recommendation outlined in the Draft Audit Report changed from that outlined in the NPFR. The revised recommendation states that the FWS requires the Department to resolve damage to real property due to trespassing cattle. We are requesting clarification and correction of the finding which cites *‘the acquisition grant for the subject wildlife area lists objectives that include…’* (page 14, paragraph 2) as the Concho Lake and Land Property (CLLP), currently consisting of approximately 200.1 acres of Arizona Game and Fish Commission deeded lands, was not acquired with grant funds, it was acquired from the Bureau of Land Management (BLM) in 1970 through the Recreation and Public Purposes Act of 1926 (R&PP) patent. The acquisition was funded with State Game and Fish Funds, at $2.50 per acre, or $522.00. During the audit scope, grant funds were used to support operation and maintenance of the property.

The Department has initiated efforts to resolve the cattle trespass through cattle exclusion fencing however the recommendation is to resolve damage to real property due to trespassing cattle. We request clarification on whether the recommendation is to resolve the cattle trespass thereby resolving future wildlife habitat degradation or the recommendation is to resolve the habitat degradation.

Recommendation 14. Implement a mechanism to enforce existing policies that ensure compliance, where applicable, with the Federal Funding Accountability and Transparency Act requirements and Federal regulations for the proper reporting of subawards.

The Department has no additional information to provide and agrees with the recommendation.

Other Matters: Unfunded Pension Liabilities

As this issue was not a finding, we request it be removed from the final audit report. The state pension plan(s) assets, liabilities and contribution rates are actuarially sound and State agencies are bound by statute to pay the calculated rates and it is charged to all employers regardless of federal or non-federal fund sources. The State believes that it has clearly and effectively resolved any issue or question of unfunded pension liability payments and unfunded liability concerns identified by OIG during the audit scope. The State manages its pension plans consistent with actuarially sound practices. The costs incurred are reasonable given the applicable circumstances and environment. The pension participation is part of a compensation package that is reasonable to attract and retain qualified staff to perform the duties related to government programs and services, including Federal programs. These programs have received benefits consistent with these costs. Further, it has effectively managed its funded status. There is no current unfunded liability and the Game & Fish pension employer contribution rates are very low. This has clearly achieved the objective of this audit inquiry, which is to improve the efficiency and effectiveness of grant program resources.

We do, however, wish to draw your attention to the data evaluation that was presented. The draft audit report states: '*The unfunded pension liability costs paid with WSFR grant funds represent 9.08 and 9.57 percent of the State's total payroll expenses charged to WSFR grants for SFYs 2020 and 2021*' and associated Figure 8. The evaluation is misleading because the percentages used are reflecting both the Federal and state share, not just the portion that was reimbursed with federal grant funds. The Arizona State Retirement System (ASRS) pension system in Arizona publishes a rate that includes both normal pension costs as well as the unfunded liability amortization. This is built into a single rate and not split between the two areas. It is unclear how the auditors identified the unfunded portion of the ASRS rate in their evaluation.

Appendix 5: Status of Recommendations

Recommendation	Status	Action Required
2022-WR-003-01 Resolve the Federal share ($1,497,008) of unallowable questioned costs related to the acquisition of an aircraft. **2022-WR-003-02** Implement policies and procedures to ensure the costs of capital assets are properly allocated to WSFR grants based on the proportional benefits the grants receive. **2022-WR-003-03** Resolve the Federal share ($33,728) of questioned costs related to unallowable merit-based incentive pay charged to WSFR grants. **2022-WR-003-04** Implement policies and procedures to ensure merit-based incentive benefits allocated to a grant code do not exceed the value of the benefits earned on that grant.	**Resolved:** U.S. Fish and Wildlife Service (FWS) regional officials concurred with the recommendations and will work with staff from the Arizona Game and Fish Department to develop and implement a corrective action plan (CAP).	Complete a CAP that includes information on actions taken or planned to address the recommendations, target dates and titles of the officials responsible for implementation, and verification that FWS headquarters officials reviewed and approved the actions the State has taken or planned.
2022-WR-003-05 Resolve the Federal share ($16,383) of unsupported questioned costs related to the tuition reimbursements charged to grants.	**Implemented**	No action is required.
2022-WR-003-06 Implement policies and procedures to ensure costs of tuition reimbursements receive prior written approval from the FWS. **2022-WR-003-07** Resolve the Federal share ($16,021) of questioned costs related to unallowable administrative leave costs.	**Resolved:** FWS regional officials concurred with the recommendations and will work with staff from the Arizona Game and Fish Department to develop and implement a CAP.	Complete a CAP that includes information on actions taken or planned to address the recommendations, target dates and titles of the officials responsible for implementation, and verification that FWS headquarters officials reviewed and approved

Recommendation	Status	Action Required
2022-WR-003-08 Require the Department to implement policies and procedures to ensure administrative leave costs are scrutinized for relation to grant purpose.		the actions the State has taken or planned.
2022-WR-003-09 Resolve the Federal share ($16,199) of questioned costs related to unsupported in-kind contributions totaling $16,199.	**Implemented**	No action is required.
2022-WR-003-10 Resolve the Federal share ($4,043) of unsupported questioned costs related to the payout of employees' annual leave costs charged to the grant. **2022-WR-003-11** Implement policies and procedures to ensure that leave paid to employees is properly allocated to a grant code and does not exceed the value of leave earned on that grant. **2022-WR-003-12** Develop policies and procedures to identify and evaluate potential sources of program income on grants. **2022-WR-003-13** Resolve damage to real property due to trespassing cattle. **2022-WR-003-14** Implement a mechanism to enforce existing policies that ensure compliance, where applicable, with the Federal Funding Accountability and Transparency Act requirements and Federal regulations for the proper reporting of subawards.	**Resolved:** FWS regional officials concurred with the recommendations and will work with staff from the Arizona Game and Fish Department to develop and implement a CAP.	Complete a CAP that includes information on actions taken or planned to address the recommendations, target dates and titles of the officials responsible for implementation, and verification that FWS headquarters officials reviewed and approved the actions the State has taken or planned.

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