



Office of Inspector General U.S. Department of the Interior

ADVISORY REPORT

**COSTS CLAIMED BY THE STATE
OF NEW MEXICO, DEPARTMENT
OF GAME AND FISH, UNDER
FEDERAL AID GRANTS FROM
THE U.S. FISH AND WILDLIFE
SERVICE FROM JULY 1, 1996 TO
JUNE 30, 1998**

AUGUST 2002

Report No. 2002-E-0006



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL


Washington, D.C. 20240

August 1, 2002

ADVISORY REPORT

Memorandum

To: Director
U. S. Fish and Wildlife Service

From: Roger La Rouché 
Assistant Inspector General for Audits

Subject: Final Advisory Report on Costs Claimed by the State of New Mexico, Department of Game and Fish, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1996 to June 30, 1998 (No. 2002-E-0006)

Introduction

This report presents the results of our performance of procedures to review another audit agency's work related to costs claimed by the State of New Mexico Department of Game and Fish (Department) under Federal Aid grants from the U.S. Fish and Wildlife Service (FWS) for the period July 1, 1996 to June 30, 1998.

Background and Scope

The Federal Aid in Wildlife Restoration Act, as amended (16 U.S.C. 669) and the Federal Aid in Sport Fish Restoration Act, as amended (16 U.S.C. 777), (the Acts), authorize the FWS to provide Federal assistance grants to the states to enhance their sport fish and wildlife programs. The Acts provide for the FWS to reimburse the states up to 75 percent of all eligible costs incurred under the grants. Additionally, the Acts specify that state hunting and fishing license revenues cannot be used for any purpose other than the administration of the state's fish and game agencies.

In March 2001, another audit agency prepared a draft report entitled "Audit of New Mexico Federal Aid Program Grants Awarded by the U.S. Fish and Wildlife Service, Division of Federal Aid, Fiscal Years 1997 and 1998." The scope of its audit work, as stated in the announcement letter to the Department, was to evaluate (1) the adequacy of

the Department's accounting system and related internal controls; (2) the accuracy and eligibility of the direct and indirect costs claimed by the Department under the Federal Aid grant agreements with the FWS; (3) the adequacy and reliability of the Department's hunting and fishing license fees collection and disbursement process; and (4) the adequacy of the Department's purchasing system and related internal controls. The audit was also to include an analysis of other issues considered to be sensitive and/or significant to the FWS. The audit work at the Department covered claims totaling \$17.7 million on FWS grants that were open during the Department's fiscal years ending June 30, 1997 and 1998 (see Appendix 1). The audit agency's agreement with FWS expired before issuance of its final report to the State of New Mexico. However, the State was provided an unsigned copy of the draft report in March 2001.

From 1996 through September 2001, the audit agency conducted audits of Federal Aid grants under a reimbursable agreement with the FWS. The FWS did not renew or extend its agreement with the other audit agency. At the time of expiration, final audit reports on several uncompleted audits had not been issued and the audits were in various stages of the audit and reporting processes. The other audit agency indicated in a September 28, 2001 memorandum that its supervisors had not completed their review of the New Mexico working papers to ensure that (1) sufficient, competent and relevant evidence was obtained, (2) evidential matter contained in the working papers adequately supported the audit findings in the report, and (3) sound auditing techniques and judgment were used throughout the audit.

On September 20, 2001, the FWS and the Department of the Interior (DOI) Office of Inspector General (OIG) entered into an Intra-Departmental Agreement under which FWS requested the OIG to (1) review the work performed by the audit agency including its working papers, summaries, and draft reports for these audits and (2) issue reports on the findings that were supported by the working papers. Accordingly, our review was limited to performing the procedures set forth in the Agreement and our conclusions presented in the report are limited to findings substantiated by the working papers. We did not perform any additional audit work of the Department's records, and the limited work performed under these procedures does not constitute an audit by the OIG in accordance with Generally Accepted Government Auditing Standards.

Significant findings impacting New Mexico's administration of the Federal Aid program are presented in the body of this report and other management issues are presented in Appendix 2. In addition, we have provided in Appendix 3 a list of all findings included in the March 2001 draft report, along with the results of our corresponding analysis.

Results of Review

The working papers disclosed the following:

- The Department did not report program income totaling \$37,132.
- The Department did not have sufficient internal controls over assets acquired with Federal Aid funds.

A. Program Income

The working papers demonstrated that the Department received program income totaling \$37,132 (Federal share \$27,850) that was not disposed of in accordance with 43 CFR 12.65. The regulation defines program income as “gross income received by the grantee or sub-grantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period,” and requires that “Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs.” However, the Department’s system and related controls for accumulating, reporting, and distributing restricted fish and wildlife revenues was not adequate to ensure that program income was properly recorded to the applicable grant. Specifically, the Department did not credit Grant W-99-D-37 and 38 for income from the sale of hay from the Bernardo Waterfowl Area. The hay was grown on property that was purchased with Federal Aid funds and managed under Grants W-99-D-37 and 38. The Department did not deduct the program income from the costs claimed under applicable grant segments.

The audit agency’s draft report recommended that the Department reimburse the FWS for the Federal share (\$27,850) of program income and report all future program income on the applicable financial status reports.

Department’s Response

The Department concurred with the finding and stated that when notified of the issues it made the necessary corrections and developed and implemented procedures to ensure that such program income is credited and recorded to appropriate grants.

Office of Inspector General Comments

We consider the Department’s proposed corrective actions sufficient to resolve the recommendations.

Recommendations

We recommend that the FWS:

1. Ensure that the Department has reimbursed the FWS for the program income (Federal share \$27,850).
2. Ensure that the Department has implemented adequate controls for the recording and reporting of program income.

B. Asset Management System

The working papers showed that the Department's asset management system and related controls were not sufficient to ensure that assets purchased with Federal Aid funds or restricted license revenues were properly controlled or disposed of.

The working papers disclosed that the Department's inventory database listing "All Fixed Assets Greater Than \$500 as of March 1999," included items that are not typically listed as fixed assets such as "furnace installation," "architectural," and "appraisal services," thus resulting in an overstatement of inventory value. In addition, the listing had incorrect locations or did not identify the location for a significant number of fixed assets. Finally, the official transfer form indicating that the location of the asset had changed was often not prepared and the inventory database was not updated. Identifying the location of fixed assets is critical in safeguarding these assets. The working papers also indicated that the Department did not perform physical inventories to ensure that fixed assets were independently verified to determine their existence, condition, and location and that an appropriate property tag was affixed. It was determined during site visits that very few assets had Department property tags affixed.

Department's Response

The Department agreed with these findings, but did not agree that knowing the location of fixed assets is essential in safeguarding the assets to prevent loss, damage, or theft, given the overall small size of the Department. In addition, the Department stated that it is currently implementing a bar code inventory tracking system, all existing fixed assets have been re-tagged with new bar code tags, and all new fixed assets are assigned a bar code tag upon purchase. The Department also said that a physical inventory will be completed every other year as well as an annual inventory by mail that will require positive written confirmation of fixed asset assignments from each employee or division chief as appropriate.

Office of Inspector General Comments

The actions identified in the Department's response appear sufficient to correct the asset management deficiencies.

Recommendation

We recommend that FWS ensure the Department has implemented sufficient controls to ensure that the asset deficiencies have been corrected.

In accordance with the Departmental Manual (360 DM 5.3), please provide us with your written comments by November 4, 2002, regarding the issues discussed in this report. If you have any questions regarding this report, please contact Mr. Gary Dail, Federal Assistance Audit Coordinator, at (703) 487-8011.

This advisory report is intended solely for the use of grant officials of the U.S. Fish and Wildlife Service, and is not intended for, and should not be used by anyone who is not cognizant of the procedures that were applied to the review of another audit agency's work.

cc: Regional Director, Region 2
U.S. Fish and Wildlife Service

APPENDIX 1**NEW MEXICO DEPARTMENT OF GAME AND FISH
SCHEDULE OF GRANT COSTS AND UNREPORTED
PROGRAM INCOME FOR FISCAL YEARS 1997 AND 1998**

Grant Agreement	Grant Budget	Amount Claimed	Unreported Program Income
FY 1997			
F-60-M-4	\$3,007,801	\$2,626,355	
W-93-R-38	2,245,490	2,151,151	
FW-14-C-55	1,088,420	772,107	
FW-24-TG-11	886,200	310,136	
FW-26-DL-5	761,000	395,089	
W-99-D-37	577,000	540,239	\$17,466
W-120-S-26	563,983	654,239	
W-131-R-5	424,000	365,508	
W-104-R-37	409,000	270,275	
FW-14-C-56	285,000	200,110	
FW-17-RD-24	280,000	303,137	
FY 1998			
F-60-M-5	3,422,669	3,836,718	
W-93-R-39	2,200,530	1,809,040	
FW-26-DL-6	959,866	701,050	
FW-30-DL-1	763,200	438,887	
FW-24-TG-12	694,650	575,606	
W-99-D-38	509,500	699,714	19,666
F-57-E-9	474,667	315,088	
FW-17-RD-25	361,000	388,677	
FW-14-C-57	320,000	152,640	
W-104-R-38	282,000	202,958	
Total	\$20,515,976	\$17,708,724	\$37,132

MANAGEMENT ISSUES

The working papers indicated that the Department's accounting system and related internal controls in effect during fiscal years 1997 and 1998 were generally adequate for the accumulation and reporting of costs under Federal Aid grants and that the Department's other systems for labor reporting, purchasing, billing and license certification were generally adequate for Federal Aid participation. However, the working papers identified a management issue that the New Mexico Department of Game and Fish and the Fish and Wildlife Service should address.

Monitoring and Reporting Sub-recipient Performance

The Department needs to improve its monitoring procedures over grants administered by the State Parks and Recreation Division (SPRD) to ensure that work performed and costs charged under the grants are appropriate. The Code of Federal Regulations, 43 CFR 12.80 (a), states that "Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved." A Joint Powers Agreement between the Department and the SPRD allows the SPRD to perform work on boat facilities under grant F-55-DL. The following issues were identified:

- The work described on the Department's performance report for segment 12 of the grant had not been completed as described and some of the work that was described as being completed was not included in the grant agreement work statement.
- Some of the performance reports did not contain sufficient or accurate information. For example, the report for segment 11 stated that several boating access sites were leveled but did not identify the sites, and the report for segment 12 did not identify which access roads and campsites had been renovated. Also, the performance report for segment 12 stated that lakeside access roads and associated campsites were renovated, but no campsites were found during the site visits. Furthermore, campsites are unallowable facilities under this segment of the grant.
- Lumber and other materials were found at the site although labor or materials for campsites are not allowable charges to segments 11 - 13 of the grant. Because the SPRD invoices did not specify what materials were used at the site (Lake Heron), the auditors could not determine if the grant was mischarged.

In its response to the report, the Department concurred with the need to improve its monitoring procedures over SPRD and stated that it had revised the Joint Powers

Agreement to address the reported issues. The Department also said that grant leaders would conduct project site visits prior to reporting on project completion. However, the Department disagreed that work described in the segment 12 performance report was not completed as described and stated that the only discrepancy was a reporting error since work on campsites was not an approved activity under segments 11 or 12. In addition, the Department stated that the lumber and other materials, although stored at the site for security reasons, were not purchased with grant funds. The FWS needs to ensure that the Department has taken sufficient actions to improve its monitoring and reporting of grant activities.

APPENDIX 3

**NEW MEXICO DEPARTMENT OF GAME AND FISH
DISPOSITION OF THE FINDINGS IN THE AUDIT AGENCY'S
DRAFT REPORT FOR FISCAL YEARS 1997 AND 1998**

Findings Contained in the March 2001 Draft Report	Results of OIG Review
QUANTIFIABLE ISSUES	
1. Project Level Accounting	Excluded in this report because the cumulative transfers among grant projects did not exceed 10 percent of the total grant budget.
2. Program Income	Included in this report as Finding A, "Program Income"
COMPLIANCE ISSUES	
1. Accounting System	Noted in the Management Issues section of the report as a positive finding.
2. Labor Reporting System	Noted in the Management Issues section of the report as a positive finding.
3. Source and Use of Funds	Excluded in this report because the finding was not supported by the working papers.
4. Asset Management System	Included in this report as Finding B, "Asset Management System"
5. Purchasing System	Noted in the Management Issues section of the report as a positive finding.
6. Billing System	Noted in the Management Issues section of the report as a positive finding.
7. License Certification	Noted in the Management Issues section of the report as a positive finding.
OTHER MATTERS	
1. Sub-recipient Monitoring	Included as a management issue in Appendix 2

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