

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



## **ADVISORY REPORT**

**COSTS CLAIMED BY THE STATE  
OF MINNESOTA DEPARTMENT  
OF NATURAL RESOURCES,  
UNDER FEDERAL AID GRANTS  
FROM THE U.S. FISH AND  
WILDLIFE SERVICE FROM  
JULY 1, 1997 THROUGH  
JUNE 30, 1999**

**NOVEMBER 2002**

**Report No. 2003-E-0004**



# United States Department of the Interior


OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

November 12, 2002

## ADVISORY REPORT

### Memorandum

To: Director  
U.S. Fish and Wildlife Service

From: Roger La Rouché   
Assistant Inspector General for Audits

Subject: Advisory Report on Costs Claimed by the State of Minnesota, Department of Natural Resources, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1997 through June 30, 1999 (No. 2003-E-0004)

### 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 Minnesota Department of Natural Resources (Department) under Federal Aid grants from the U.S. Fish and Wildlife Service (FWS) for the period July 1, 1997 through June 30, 1999.

### 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 FWS to provide Federal assistance grants to the states to enhance their sport fish and wildlife programs. The Acts provide for FWS to reimburse the states up to 75 percent of all eligible costs incurred under the grants. Additionally, the Acts specify that state license revenues cannot be used for any purpose other than the administration of the state's fish and game agencies. FWS also provides grants to the states under the Clean Vessel Act and the Endangered Species Act.

Prior to September 2001, another audit agency prepared an undated draft audit report on its audit of Federal Aid grants awarded by the FWS to the State of Minnesota for fiscal years ended June 30, 1998 and 1999. 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 to determine if the system can be relied upon to accurately accumulate

and report the actual costs charged to the grants, (2) the accuracy and eligibility of the direct and indirect costs claimed by the Department under the Federal Aid grant agreements with 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 FWS. The audit work at the Department covered claims totaling approximately \$43.6 million on FWS grants that were open during the Department's fiscal years 1998 and 1999 (see Appendix 1). However, the audit agency's agreement with the FWS expired before the audit agency issued its draft report.

From 1996 through September 2001, the audit agency conducted audits of Federal Aid grants under a reimbursable agreement with FWS. The FWS did not renew or extend its agreement with the audit agency, which expired September 30, 2001. 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 audit agency indicated in a September 27, 2001 memorandum that its supervisors had not reviewed the Minnesota 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, 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 audit 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 the findings substantiated in 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.

Findings impacting Minnesota's administration of the Federal Aid program are presented in the body of the report and other management issues are presented in Appendix 2.

## **Results of Review**

The results of our review of the working papers disclosed that:

- The Department's assent legislation was not adequate to prevent the diversion of license revenues.
- The Department did not have a complete and accurate list of lands acquired with license revenues or Federal Aid funds.

## **A. Assent Legislation**

The Department's assent legislation did not ensure against diversion of license revenues. The Code of Federal Regulations (50 CFR 80.3 and 80.4) allows a state to participate in the benefits of the Federal Aid Acts only after it has passed legislation which assents to the provisions of the Acts, including a prohibition against the diversion of license fees paid by hunters and sport fishermen to purposes other than administration of the fish and wildlife agency. Although the Minnesota Legislation Chapters 97A (Game & Fish) and 97B (Hunting) specify purposes for which the Game & Fish Fund can be used they, do not specifically prohibit such diversions.

The working papers also noted that the State Game and Fish Code 97A.065(b), "Dedication of certain receipts" contains a provision that could result in the diversion of license revenue. The statute requires that "The commissioner must reimburse a county, from the game and fish fund, for the cost of keeping prisoners prosecuted for violations under this section if the county board, by resolution, directs: (1) the county treasurer to submit all fines and forfeited bail to the commissioner: and (2) the county auditor to certify and submit monthly itemized statements to the commissioner." The violations referenced in this section of the code include those for unlawful snowmobile, recreational motor vehicle, and all-terrain vehicle activity. Payments from the game and fish fund to the county for any one of those listed purposes would represent a diversion of hunting and fishing license revenues. The Department explained that, prior to 1993, fines and forfeited bails for those purposes were deposited to the Game and Fish fund, so at the time, it was appropriate to use those funds to reimburse counties for jailing violators. However, snowmobile, recreational motor vehicle, and all-terrain vehicles now have their own separate funds from which county reimbursements should be made. The working papers indicated that according to Departmental records, no payments for such purposes have been made from the Game and Fish Fund since 1993.

## **Recommendations**

We recommend that the FWS:

1. Require the Department to obtain an amendment to Minnesota Legislation Chapters 79A and 79B that includes the required prohibition against the diversion of license fees paid by hunters and sport fishermen to purposes other than administration of the fish and wildlife agency.
2. Require the Department to obtain an amendment to the state legislation that would eliminate the provision Code 97A.065(b) which requires "The commissioner must reimburse a county, from the game and fish fund, for the cost of keeping prisoners prosecuted for violations under this section if the county board, by resolution, directs: (1) the county treasurer to submit all fines and forfeited bail to the commissioner: and (2) the county auditor to certify and submit monthly itemized statements to the commissioner."

## **Department and U.S. Fish and Wildlife Responses**

The Department stated that the 2002 session of the legislature passed and the Governor signed a bill (Senate File 2738) that changed Minnesota's "assent language." The Department stated that these changes became effective August 1, 2002. Regarding the language in State Game and Fish Code 97A.065(b), the Department stated that they have not and will not use Game and Fish funds to reimburse counties for the cost of keeping prisoners prosecuted for illegal snowmobile, all-terrain vehicle or recreation motor vehicle activities. Nevertheless, the Department stated that, "It will propose that the legislature change the wording of MS 97A.065 subd.2(b) to eliminate the provision that could allow diversion of Game and Fish funds." The Department added that the next session begins in January and will end in May of 2003 and that the Department will continue to work with legislators until the language is changed.

The FWS agreed with the action(s) taken by the Department.

## **Office of Inspector General Comments**

The responses are adequate to consider both recommendations resolved. The FWS needs to ensure that the Department obtains the legislative change to the wording of MS 97A.065 subd.2 (b).

## **B. Asset Management - Land**

The Department's Land and Minerals Division is responsible for maintaining a comprehensive land management database for all properties acquired by the Department. However, the Division was unable to provide listings of lands acquired with Federal Aid funds or license revenues because the database did not include funding source information. Although the former Fish and Wildlife Division (now separate divisions) began developing its own inventory of Federal Aid lands several years ago, this effort has not been completed. Complete and accurate listing of lands acquired with license revenues or Federal Aid funds is essential to managing these lands to ensure that land use and disposition is consistent with the original land acquisition purposes and that income generated from the use or sale of these lands is handled in accordance with FWS regulations.

## **Recommendation**

We recommend that the FWS ensure that the Department develops and maintains an accurate and complete listing of lands acquired with license revenues and Federal Aid funds.

## **Department and U.S. Fish and Wildlife Responses**

The Department stated that in 2002, the state completed development of electronic databases that contain information about all the land acquired through Sport Fish Restoration and Wildlife Restoration Act grants. The Department further stated that their staff regularly use these databases to track program income and ensure that use and disposition of land acquired

through Sport Fish and Wildlife Restoration Acts grants is consistent with the terms of the grant and other Federal requirements. The Department stated that they feel that this issue had been resolved for the purposes of this review.

The FWS agreed with the action taken by the Department to resolve this recommendation.

### **Office of Inspector General Comments**

The responses are adequate to resolve and implement the recommendation.

In accordance with the Departmental Manual (360 DM 5.3), please provide us with your written comments regarding Recommendation 2 in Finding A by February 14, 2002.

This advisory report is intended solely for the use of grant officials of the U.S. Fish and Wildlife Service, is not intended for, and should not be used by, anyone who is not cognizant of the procedures that were applied and who agreed to the sufficiency of those procedures.

If you have any questions regarding this report, please contact Mr. Gary Dail, Federal Assistance Audit Coordinator, at (703) 487-8011.

cc: Regional Director, Region 3  
U.S. Fish and Wildlife Service

**MINNESOTA DEPARTMENT OF NATURAL RESOURCES  
SCHEDULE OF GRANTS AND QUESTIONED COSTS**

**FOR FISCAL YEARS 1998-1999**

GRANT AGREEMENT	COST CLAIMED	FEDERAL SHARE
F-02-L-56	\$363,167	\$272,375
F-02-R-30	812,441	609,331
F-26-R-31	533,333	400,000
F-29-R-17	3,785,567	2,839,175
F-29-R-18	5,561,059	4,170,794
F-29-R-19	4,348,779	3,261,584
F-32-D-12	1,578,100	1,183,575
F-32-D-13	2,666,667	2,000,000
F-34-D-13	228,071	171,053
F-34-D-11	850,840	638,130
F-34-D-12	333,333	250,000
F-34-D-13	266,667	200,000
F-35-D-12	400,000	300,000
F-35-D-13	637,333	478,000
F-36-D-10	28,333	21,250
F-37-E-8	266,667	200,000
F-37-E-9	293,333	220,000
F-38-D-7	267,360	200,520
F-38-D-8	266,667	200,000
FW-3-L-52	1,059,959	794,969
FW-3-L-53	520,880	390,660
FW-4-D-63	400,000	300,000
FW-4-D-64	920,049	690,037
FW-4-D-65	454,251	340,688
FW-10-P-11	160,000	120,000
FW-11-C-11	39,835	29,876
FW-11-C-12	37,833	28,375
FW-13-T-8	1,125,000	843,750

GRANT AGREEMENT	COST CLAIMED	FEDERAL SHARE
FW-13-T-9	985,045	738,750
FW-6-S-15	136,894	102,671
FW-6-S-16	33,133	24,850
W-27-L-114	481,780	361,335
W-61-D-4	2,293,333	1,720,000
W-62-D-4	643,000	482,250
W-63-D-4	551,136	413,352
W-64-D-4	1,243,333	932,500
W-65-D-1	3,995,533	2,996,650
W-65-D-2	371,441	278,581
W-66-M-1	1,074,333	805,750
W-67-T-1	1,166,667	875,000
W-67-T-2	549,509	412,132
W-68-D-1	889,817	667,363
W-68-D-2	546,667	410,000
W-69-S-1	233,333	175,000
W-69-S-2	173,333	130,000
Total	\$43,573,811	\$32,680,326



## MANAGEMENT ISSUES

The audit agency's working papers and draft report indicated that the Department's cost accounting, purchasing, labor recording, and cash management systems and related internal controls, and its indirect cost structure and license certification process, were adequate for Federal Aid participation. The working papers also identified three management issues that the Minnesota Department of Natural Resources and the Fish and Wildlife Service should address, as follows:

### **A. Advanced Payments**

The Department made advanced payments to a sub grantee several months before the funds were needed. The regulations (43 CFR 12.61 (c)) state that: "Grantees and sub grantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and their disbursement by the grantee or sub grantee." On November 12, 1998, the Department paid \$50,000 to the Itasca County Soil and Water Conservation District (sub grantee) for costs sharing, on a shoreline stabilization project on Sand Lake. The Federal share (\$37,000) was drawn down by the Department soon after the payment was made. The letter from the sub grantee requesting payment indicated that the funds would be encumbered by the spring of 1999. Unwarranted advanced payments results in lost interest to the Federal Government.

### **B. Billing System/Electronic Funds Transfer Drawdowns**

The Department's billing system and electronic fund transfer system for drawdowns were generally adequate for the reimbursement under Federal Aid grants. The Department typically submitted biweekly requests for reimbursement of expenditures. However, the Department did not adjust the billings until year-end to account for program income credits. This resulted in over billings throughout the year and ultimately, a loss of Federal interest earned on FWS Federal Aid funds. The working papers indicated the foregone Federal interest was not material in the audit period, although it could be in the future if program income increases.

### **C. Asset Management - Equipment**

The Department's equipment management system was generally adequate to ensure that assets purchased with Federal Aid funds or restricted license revenue were properly utilized or disposed of. However, the working papers identified minor deficiencies at 3 of 20 locations visited, indicating that 2 sites did not conduct inventories, 2 transferred items (a fish tank and an all terrain vehicle) were not on the inventory of the receiving site, and one computer had 2 property numbers assigned.

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