



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

ADVISORY REPORT

**COSTS CLAIMED BY THE STATE
OF MAINE DEPARTMENT OF
INLAND FISHERIES AND
WILDLIFE, UNDER FEDERAL AID
GRANTS FROM THE U.S. FISH
AND WILDLIFE SERVICE FROM
JULY 1, 1996 THROUGH
JUNE 30, 1998**

JANUARY 2003

Report No. 2003-E-0009



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

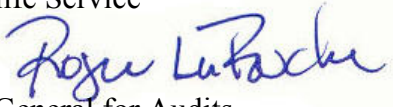
Washington, D.C. 20240

January 14, 2003

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 Maine Department of Inland Fisheries and Wildlife under Federal Aid Grants from the U. S. Fish and Wildlife Service from July 1, 1996 through June 30, 1998
(No.2003-E-0009)

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 Maine Department of Inland Fisheries and Wildlife (Department) under Federal Aid grants from the U.S. Fish and Wildlife Service (FWS) for the period July 1, 1996 through 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 FWS to provide Federal assistance grants to 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 hunting and fishing license revenues cannot be used for any purpose other than the administration of the State's fish and game agencies. In addition, FWS provides grants to the states under the Clean Vessel Act and the Endangered Species Act.

In May 2000, another audit agency prepared a draft report on the results of its review of the Federal Aid program grants and payments awarded by the FWS to the State of Maine for state fiscal years 1997 and 1998. The scope of the work to be performed by the audit agency, as stated in its draft report, 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 grant agreements; (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 approximately \$17.6 million on FWS grants that were open during fiscal years ended June 30, 1997 and 1998 (Appendix 1).

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 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 audit agency indicated in a September 26, 2001 memorandum that its supervisors had not reviewed the working papers for the Maine audit 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) the auditors used sound auditing techniques and judgment 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 findings substantiated by the working papers. We did not perform any additional audit work of the grantee'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.

The findings impacting Maine'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 the following:

- Hunting and Fishing license revenues estimated to be \$1,245,839 were diverted to activities not related to management of the State's fish and wildlife resources.
- Interest totaling \$151,244, applicable to the estimated diverted license revenues, was foregone.

- Interest of \$271,598 earned on license revenues that were deposited into the general fund from July 1, 1996 to June 30, 1998 were not credited to the support of State fish and wildlife activities.

A. Estimated Diversion of License Revenues - \$1,245,839

The working papers show that the Department deposited hunting and fishing license revenues (restricted funds) into the general fund along with revenues collected from registering snowmobiles, boats, and all terrain vehicles (unrestricted funds). Revenues in this account were used to fund “Warden Services” which included both fish and wildlife related activities and non-fish and wildlife activities such as search and rescue, management of snowmobiles and all terrain vehicles, and accident investigations. However, there were no controls to ensure that the restricted license revenues were used solely for fish and game related activities. Since restricted and unrestricted funds were commingled in the general fund, it was not possible to reconcile the funding to specific types of expenses. The Code of Federal Regulations (50 CFR 80.4) states, “Revenues from license fees paid by hunters and fisherman shall not be diverted to purposes other than the administration of the State fish and wildlife agency.” Part 80.4 (b) states that the administration of a state agency “includes only those functions required to manage the fish and wildlife-oriented resources of the State...”

To determine whether license revenues funded non-fish and wildlife (ineligible) activities, the working papers included and analysis of the time charges by the wardens and deposits of revenue for fiscal years 1997 and 1998. Specifically, the working papers show that warden time sheets were reviewed to compute annual percentages of time charged to ineligible activities. Next, the working papers show the percentage that was applied to total warden expenses for each year to calculate the amount of funds annually expended on ineligible activities. Finally, the working papers show that the funds used for ineligible activities were compared to the amount of unrestricted revenues deposited into the account. This calculation identified total expenditures of license revenues on ineligible activities in excess of unrestricted deposits of \$1,245,839 for fiscal year 1997 as follow:

	1997	1998
A. Total Warden Expenses	\$11,116,884	\$10,993,187
B. Ineligible Activity (Percentage)	30.58 %	33.22 %
C. Total ineligible costs (AxB)	3,399,543	3,651,937
D. Unrestricted Revenue	2,153,704	3,772,684
E. Diverted License Revenue (C-D)	\$1,245,839	(\$120,747)

Since there were sufficient unrestricted revenues during fiscal year 1998 to offset the ineligible warden services costs, the working papers only identified the \$1,245,839 for fiscal year 1997 as a diversion.

Recommendations

We recommend that the FWS:

1. Resolve the estimated diverted license revenues of \$1,245,839.
2. Require that the Department establish a separate account for recording receipts and expenditures of revenues.

Department and U. S. Fish and Wildlife Responses

Departmental officials stated that, “It is difficult to know exactly how the information used to determine the estimated diverted license revenues was derived. The officials added that they used the “Department’s annual financial report for FY [fiscal year] 1997 and concluded that no diversion occurred.” The officials stated that they believe that certain expenditures that were identified as ineligible by the auditors should have been eligible.

The Department determined that the ineligible percentage should have been 21.25 percent instead of the 30.58 percent used by the auditors. The officials added that the percentage used by the Department was determined by removing time spent on dog leash law enforcement, environmental law enforcement, and a prorated portion of public relations and training from the list of ineligible activity used by the auditors. The Department added that (1) the enforcement of the state’s dog leash law is only carried out when wildlife is being threatened by free ranging dogs, (2) enforcement of environmental laws is the primary way of protecting fish and wildlife habitat from degradation, (3) public relations are an important part of fish and wildlife conservation, and (4) training is an important part of the Warden Service fish and wildlife enforcement work. Departmental officials concluded that all of these activities should be considered an eligible activity. The Department concluded that by using the 21.25 percent ineligible rate resulted in sufficient unrestricted funds during fiscal year 1997.

The FWS stated that the Department’s calculation of 21.25 percent seems more appropriate and that no diversion occurred.

Office of Inspector General Comments

The supporting documentation for the information included in the Department’s response was not provided and we could not determine the accuracy of the information. Therefore, we believe that FWS needs to review the documentation before resolving this issue. In addition, neither the Department nor the FWS addressed Recommendation 2. Both recommendations should be addressed as part of the corrective action plan.

B. Foregone Interest - \$151,244

The working papers show that the State earned interest on all fund balances in the general fund. The working papers included a calculation of the interest earned based on the yearly rates received by the State of Maine Treasurers Office on excess funds. The lost interest for the diverted license fees for fiscal year 1997 totaled \$151,244 based on simple interest of approximately 6 percent per year over the two-year period, or 12.14 percent times the \$1,245,839 in license fee revenues that were diverted to ineligible activities.

Recommendation

We recommend that the FWS resolve the \$151,244 in interest associated with the diverted license fees for fiscal year 1997.

Department and U.S. Fish and Wildlife Service Responses

The Department and the FWS responded that they do not believe there is any foregone interest.

Office of Inspector General Comments

The amount, if any, of interest will depend upon the results of the FWS review of the Department's documentation regarding the potential diversion of license revenues.

C. Carrying Account - \$271,598

In July 1990 the Department converted from an independent agency with a dedicated account to an agency within the general fund. When the conversion took place, there was a balance of hunting and fishing license revenues of \$4,138,941 in a carrying account that was transferred into the general fund and a dedicated account was not established.

License revenues transferred to the general fund have been invested in short-term Treasury notes. However, interest has not been credited to the license revenue carrying account balance, even though the State earned interest on these funds. The working papers included a calculation of the amount of interest applicable to the license revenues using simple interest based on Treasury rates that the general fund earned. These rates were applied in 6-month intervals during the audit period from July 1, 1996 through December 31, 1998 and resulted in total interest of \$271,598 as shown below.

Time Interval	Carrying Account Balance	Interest Rate	Interest Due
7/1/96 – 12/31/96	\$2,510,514	2.980%	\$74,813
1/1/97 – 6/30/97	2,253,943	3.080%	69,421
7/1/97 – 12/31/97	1,997,371	3.080%	61,519
1/1/98 – 6/30/98	2,198,508	2.995%	65,845
Total			<u>\$271,598</u>

This report only includes interest calculated for the two-year audit period, but it should be noted that interest was earned from the conversion in July 1990 until June 30, 1996 and continues to be earned by the State on carrying account funds that have not been credited to the license fund.

While the Department concurred with the carrying account balances and interest calculation, it did not agree that the license fund was due additional monies. The Department maintains that the amount of general funds used to support fish and wildlife activities exceeded the interest of \$251,598. Support for the Department's position was not requested or reviewed by the original audit agency.

Recommendation

We recommend that the FWS resolve the \$271,598 in lost interest from the excess funds deposited in the carrying account but not credited to the Department's accounts. In resolving this issue, FWS should obtain and review grantee support for general fund expenditures in support of fish and wildlife activities to determine whether they exceed the lost interest.

Department and U.S. Fish and Wildlife Service Responses

Departmental officials responded that they disagree with the finding. The officials stated that in 1996, the State Budget Office established a procedure to calculate interest on fish and wildlife revenues. The Department added that, "Specifically, the Department and Budget Office agreed that interest should be calculated on IF&W [Inland Fisheries and Wildlife] revenues utilizing a monthly cash flow analysis which tracks revenues and expenditures on an actual basis and that the balance forward should be the ending balance of the prior year's cash flow analysis based on actual revenues and expenditures, not appropriations." Departmental officials added that given this process, there was no interest earned in fiscal years 1997 or 1998 and in fact there were losses in both years. The Department also attached the interest analysis conducted by its staff.

The FWS responded that the procedures used by the Department seemed appropriate and that there were no interest earned during this period.

Office of Inspector General Comments

The Department did not provide supporting documentation for interest the analysis conducted by its staff, and therefore we could not verify the information provided in the Department's response. We recommend that the FWS review the supporting documentation as part of the corrective action plan.

In accordance with the Departmental Manual (360 DM 5.3), please provide us with your written comments regarding your analysis of the data submitted by the Department to resolve the recommendations by April 18, 2003.

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.

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 5
U.S. Fish and Wildlife Service

APPENDIX 1

**MAINE DEPARTMENT OF INLAND FISHERIES
AND WILDLIFE SCHEDULE OF GRANT COSTS CLAIMED
JULY 1, 1996 THROUGH JUNE 30, 1998**

GRANT NUMBER*	AMOUNT CLAIMED	FEDERAL SHARE
W-79	\$799,763	\$582,201
W-81-D	3,784,090	2,752,853
W-82-R	2,960,226	2,155,850
W-83-C	929,831	680,004
FWA-W	342,489	256,867
FWA-F	71,217	51,016
FWA-A	14,542	10,907
E-1	154,818	122,175
F-28-P	5,437,314	3,966,615
W-84-L	1,064,527	798,352
F-38-D	85,001	63,750
F-30-L	258,457	193,843
F-31-D	747,695	561,678
F-37-L	240,000	180,000
C-L-1	668,359	158,000
TOTAL	<u>\$17,558,329</u>	<u>\$12,534,111</u>

*Grant number segments active during the audit period were consolidated for reporting purposes.

MANAGEMENT ISSUES

The audit agency's working papers concluded that the Department's purchasing system and related internal controls were adequate for Federal Aid participation. The working papers also identified two management issues that the Maine Inland Fisheries and Wildlife Department and the U.S. Fish and Wildlife Service should evaluate as follows:

A. Accounting System

The system used by the Department to account for Federal Aid grant costs was not efficient. While the system is capable of tracking costs by grant and specific cost element, the working papers indicated that the Department stated that it would be too cumbersome for the accounting personnel to enter the additional data necessary to track these costs by grant when processing expense documentation. In addition, the Department's accounting personnel have not been trained on the uses of the system. Consequently, the Department spent a significant amount of time reconciling monthly cost accumulation sheets to specific grants to determine costs incurred by element on each grant.

B. Vacation and Holiday Pay

The Code of Federal Regulations (43 CFR, Part 12.62) states that allowable costs for state and local governments will be determined in accordance with Office of Management and Budget Circular A-87. Part 11 d (2) of Attachment B to Circular A-87 states that fringe benefits are allowable if "the costs are equitably allocated to all related activities, including Federal awards." The working papers indicated that the Department allocates vacation and holiday pay to grants based on the pay cycle that leave is taken. This could result in a disproportionate amount of vacation and holiday pay being charged to Federal Aid grants.

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