



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

ADVISORY REPORT

**COSTS CLAIMED BY THE
STATE OF ARIZONA,
DEPARTMENT OF GAME AND
FISH, UNDER FEDERAL AID
GRANTS FROM THE U.S. FISH
AND WILDLIFE SERVICE FROM
JULY 1, 1998 THROUGH
JUNE 30, 2000**

JANUARY 2003

Report No. 2003-E-0014



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

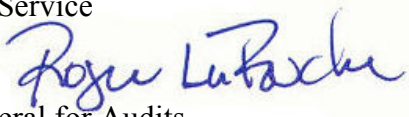
Washington, D.C. 20240

January 23, 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 Arizona, Department of Game and Fish, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1998 through June 30, 2000 (No. 2003-E-0014)

Introduction

This report presents the results of our performance of procedures to review of another audit agency's work related to costs claimed by the State of Arizona Department of Game and Fish (Department) under Federal Aid grants from the U.S. Fish and Wildlife Service (FWS) for the period July 1, 1998 through June 30, 2000.

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 to be used for any purpose other than the administration of the state's fish and game agencies. In addition, FWS also provides grants to the states under the Clean Vessel Act and the Endangered Species Act.

In December 2000, another audit agency began an audit of Federal Aid grants awarded to the Department for fiscal years 1999 and 2000. The scope of the work to be performed by the audit agency, as stated in its announcement letter to the Department, was to evaluate (1) the adequacy of the Department's purchasing system as it pertains to the FWS Federal Aid grant agreements; (2) the adequacy and reliability of the Department's license fees collection and

disbursement system; (3) the adequacy of the Department's accounting system as it relates to the accumulation and reporting of costs charged to grants; and (4) the accuracy and eligibility of the direct costs claimed by the Department under the Federal Aid grant agreements. The audit was also to include an analysis of other issues or systems considered to be sensitive and/or significant to FWS. The audit work covered claims totaling \$29.5 million on FWS grants that were open during the Department's fiscal years ending June 30, 1999 and 2000 (see Appendix 1). The audit agency's files contained a copy of an undated draft report. However, the audit agency's agreement with FWS expired before a draft report was issued to the State of Arizona.

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 the agreement when it expired on September 30, 2001. At the time of expiration, final reports had not been issued on several uncompleted audits that were in various stages of the audit and reporting processes. The audit agency indicated in a September 28, 2001 memorandum in the working paper files that the Arizona audit assignment was incomplete because its supervisors had not reviewed the 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 Office of Inspector General (OIG) entered into an Intra-Departmental Agreement under which FWS requested 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 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 Arizona'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:

- The eligibility for reimbursement of salary costs of \$60,426 (Federal share - \$45,319) for two administrative secretaries was questioned.
- The Department used license fee revenues of \$130,395 for ineligible activities, including law enforcement assistance to other State agencies (\$34,644), expansion and remodeling of facilities that housed non-fish and game personnel (\$65,722), and supervision costs related to non-fish and game activities (\$30,029).

- The Department's asset management system contained deficiencies related to compliance with State policies and procedures, valuation of donated land, accounting for land acquired through patents, accuracy of fixed asset reports, and written policies for the sale of real property.
- The Department was not adequately accounting for revenues collected from students in the Hunter Education Program.

A. Questioned Costs

The Department's Education and Information Branch employed two secretaries who provided support to all Branch personnel. The funding source for these two positions was identified as Federal Aid Grants W-93-S and FW-22-O. However, these employees support staff performing duties related to the Watercraft Registration and Safety, Off Highway Vehicle, and Heritage programs as well as Fish and Game programs. Office of Management and Budget (OMB) Circular A-87, Attachment A, paragraph C. (3)(a) specifies that, "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received." Therefore, charging the entire costs for these two employees to these Federal Aid grants is not appropriate. The working papers identified questioned costs of \$60,426 for salaries and fringe benefits (Federal share \$45,319) charged by the two secretaries, as follows:

Fiscal Year	Project Number	Questioned Costs	Federal Share of Questioned Costs
2000	FW-22-O-4	\$22,439	\$16,829
2000	W-93-S-29	16,068	12,051
1999	W-93-S-28	21,919	16,439
Total		<u>\$60,426</u>	<u>\$45,319</u>

Recommendation

We recommend that the FWS resolve the questioned salary costs related to the two administrative secretaries.

Department and U.S. Fish and Wildlife Service Responses

Department officials stated that they concurred with the finding and deducted the Federal share of the questioned costs (\$45,319) from a reimbursement request on November 15, 2002.

The FWS did not provide a response to this recommendation.

Office of Inspector General Comments

The corrective actions taken by the Department are sufficient for FWS to consider the recommendation resolved and implemented.

B. Use of Hunting and Fishing License Revenues

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.” According to Part 80.4 (b), the administration of a State fish and wildlife agency “includes only those functions required to manage the fish and wildlife oriented resources of the State...” The working papers showed, however, that the Department used license fee revenues of \$130,395 for ineligible activities, including law enforcement assistance to other State agencies (\$34,644), expansion and remodeling of facilities that housed non-fish and game personnel (\$65,722), and supervision of non-fish and game activities (\$30,029).

1. Law Enforcement. The working papers indicated that license revenues of \$34,644 were used to fund the cost of assistance provided by Department law enforcement employees to other State agencies. This assistance was charged to PCA codes 07157, 07176, 07192, 07210, 07229, and 07246 for each region.

The Department provided documentation at the closeout conference indicating that its game wardens are required to assist other state agencies when the need arises. While we agree that state policy allows for law enforcement assistance to other agencies, Federal requirements for the use of restricted license revenues do not. The Code (50 CFR 80.4) requires that license fees be spent only in support of the administration of the state fish and wildlife agency.

2. Regional Office Expansion/Remodeling. The Code (50 CFR 80.15 (c)) states, “Projects or facilities designed to include purposes other than those eligible under the pertinent Act shall provide for the allocation of costs among the various purposes. The method used to allocate costs shall produce an equitable distribution of costs based on the relative uses or benefits provided.” The draft report questioned the use of license revenues of \$65,722 for the expansion/remodeling of the portions of the Mesa and Tucson Regional Offices that house the State’s Watercraft Registration and Safety Program. Since this program is not related to the management of the fish and wildlife-oriented resources of the State, it should not be supported with license fee revenues.

Mesa Regional Office – The working papers indicated that the Department’s records showed that license fee revenues of \$251,343 were used for the expansion of the Mesa Regional Office in fiscal year 2000, and that 83 percent of the occupancy of the Office related to the fish and wildlife program and 17 percent of the occupancy related to the Watercraft Program. Consequently, \$42,728 ($\$251,343 \times 17$ percent) was identified as a diversion of license revenues.

The Department provided documentation at the closeout conference indicating that the space occupied by the Watercraft Program should have been 5.28 percent instead of 17 percent

as identified in the working papers. However, we were unable to verify the Department's calculation or reconcile it with the information in the working papers because (1) the Department's computation was performed on August 8, 2002, not at the time of the audit and (2) the areas used by the Department to calculate the occupancy percentage were based on the names of the individuals who occupied the space while the floor plan used by the auditors identifies which program occupies the space. FWS should work with the Department to determine an appropriate cost adjustment to the grant, considering the past, current, and anticipated future use of the new space.

Tucson Regional Office – The working papers indicated that the office was remodeled in fiscal year 2000 at a cost of \$277,036, which was funded entirely with license revenues. Documents provided by the Department showed that 8.3 percent of the remodeled space was for the Watercraft Program. Accordingly, \$22,994 (\$277,036 x 8.3 percent) was identified as a diversion of license revenues.

3. Supervision. The working papers identified two individuals (the Wildlife Management Branch Supervisor Education Branch Chief and the Finance and Accounting Branch Fiscal Unit Supervisor Accounts/Fiscal Manager) whose salaries were funded primarily by the Fish and Game Fund although the employees they supervised also performed work related to the Watercraft Registration and Safety Program (which is funded by the Watercraft Fund). The working papers showed that the amount of license revenues used for ineligible purposes was computed by determining the percentage of effort associated with Watercraft Program activities each year and applying these percentages to the supervisors' salaries, as follows:

Wildlife Management Branch Supervisor Education Branch Chief			
Fiscal Year	Amount	Water Craft Percentage	Ineligible
1999	\$59,414	22%	\$13,071
2000	53,199	11%	5,852
	<u>\$112,613</u>		<u>\$18,923</u>
Fiscal Unit Supervisor Accounts/Fiscal Manager			
Fiscal Year	Amount	Water Craft Percentage	Ineligible
1999	\$34,008	17%	\$5,781
2000	38,036	14%	5,325
	<u>\$72,044</u>		<u>\$11,106</u>
		TOTAL	<u><u>\$30,029</u></u>

Recommendation

We recommend that the FWS resolve the \$130,395 of license revenues used for ineligible purposes.

Department and U.S. Fish and Wildlife Service Responses

Department officials stated that they concur with Finding B.1 (Law Enforcement); however, they added that the Department receives reciprocal services from other Arizona State Public Safety agencies. The Department attached a letter from the Governor of the State of Arizona that stated, "I see no positive public purpose served in changing the way the Department or other law enforcement jurisdictions in Arizona direct law enforcement activities by their officers, or in trying to rectify the matter by seeking other funding avenues." The Governor further stated that, "As such, I support the Department's continued assistance of other law enforcement jurisdictions within the state. Further, I support your efforts to gain the U.S. Fish and Wildlife Service's acceptance of the expectations of the State Legislature and my office in the resolution of this audit finding, without reducing the Department's current law enforcement authority, and without the need for new funding sources."

Regarding Finding B.2 (Regional Office Expansion/Remodeling), Department officials stated that the 17 percent occupancy of the Mesa Regional Office by the Watercraft Program is incorrect. The officials further stated that they were not provided with the opportunity to respond to this issue until several years after the original information had been collected by the other audit agency. The officials added that the space utilization by various program areas has not changed since the original expansion. The officials further stated that they stand by the 5.28 percent utilization by the Watercraft Program.

Department officials concurred with Finding B.3 (Supervision) and provided documentation that shows that \$30,029 was transferred to the Game and Fish Licensing Fund on November 14, 2002.

The FWS did not provide a response to this recommendation.

Office of Inspector General Comments

The corrective actions taken by the Department are sufficient for FWS to consider Finding B.3 resolved and implemented. However, the two remaining issues are unresolved.

Regarding Finding B.1, despite the benefits of reciprocal program with other law enforcement agencies, the use of license revenues for non-fish and wildlife activities is not allowable under the Code of Federal Regulations (50 CFR 80.4). Furthermore, the response did not include specific information regarding the nature or value of the reciprocal services which are necessary to determine whether the services help the Department's fish and wildlife program.

Regarding Finding B.2, Department officials stated that they stand by their claim that the Watercraft Program only occupied 5.28 percent of the new space instead of 17 percent that was

supported by the working papers. As stated earlier, we were not able to verify the information provided by the Department at the exit conference. The Department's response did not address the portion of the finding related to the remodeling of the Tucson Office. FWS should obtain clarifying information and make a final determination regarding the use of license revenue for law enforcement (\$34,644), the office expansion (\$42,728), and office remodeling (\$22,994).

C. Asset Management System

The working papers identified deficiencies in the Department's asset management system related to (1) compliance with State policies and procedures, (2) valuation of donated land, (3) accounting for land patents, (4) accuracy of land records, and (5) written policies for the sale of real property.

Compliance with State Policies and Procedures. The Code of Federal Regulations (43 CFR 12.72(b)) requires the State to use, manage, and dispose of equipment in accordance with State laws and procedures. The working papers disclosed that the Department's fixed asset policies and procedures differed from those of the State in the following areas:

- The State requires that the funding source and date of acquisition/disposition of an asset be recorded in the agency's fixed asset listing. The Department's policies and procedures do not include this requirement.
- The State requires that a physical inventory of assets be taken between April 30 and June 30 and that a reconciliation of additions and deletions between the time of the inventory and June 30 be performed. The Department's policies and procedures do not include the reconciliation requirement.
- The State requires agencies to perform periodic comparisons of its fixed assets to the fixed asset listing and states that the comparison should not be assigned to personnel who are responsible for stewardship of those assets. The Department allows the steward responsible for the asset to perform the comparison.

Valuation of Donated Land. Donated land is valued at \$0 in the Department's property records. The State's Accounting Manual requires donated assets to be recorded at fair market value at the date of acquisition.

Accounting for Land Patents. The State's Fixed Asset Cost Report did not include all parcels of land acquired via patent from the Federal Government, as required by the State of Arizona Accounting Manual. A patent requires the land to be used for a specific purpose, and provides that the land reverts to the Federal Government if the use of the land changes. The working papers identified five parcels that were not included in the Report.

Land Records. The working papers identified inaccurate or questionable information in the Department's Asset Management System land records for property purchased with Federal Aid funds. This included (1) one parcel that was incorrectly identified as being purchased with Federal Aid funds, (2) two parcels where documentation was not available to show that the land

was purchased with Federal Aid funds, (3) two parcels where the accuracy of the reported land value was questionable, and (4) one parcel that may have reverted to Federal ownership and is no longer owned by the Department.

Policies and Procedures. While the Department's practices related to the sale of real property appeared to be adequate, the Department does not have written policies and procedures for property sales in its Operating Manual.

Recommendation

We recommend that the FWS ensure that the Department corrects the deficiencies in its asset management system.

Department and U.S. Fish and Wildlife Service Responses

Department officials stated that the Department Operating Manual Policy E2.10 (Fixed Assets-Personal Inventory) has been modified to require the Finance and Accounting Branch to maintain a fixed asset listing on the internal accounting system. The officials further stated that the listing will include the property identification number, description of the asset, method of acquisition, funding source, date of acquisition/disposal, purchase document number, and cost for all Department fixed assets. In addition, the Manual has been modified to require a physical inventory no earlier than April 30, and completed no later than June 30, of the same year.

Department officials stated that donated lands valued at \$0 were donated between 20 and 40 years ago when determining the fair market value was not required. The officials stated that, "To go back and determine the fair market value at the date of acquisition would require significant research by an appraiser and may be difficult to determine."

Department officials stated that three parcels were incorrectly identified as being purchased with Federal Aid funds and the records were adjusted in fiscal year 2001. The officials also stated that the Department stands by the dollar amounts indicated on the property values and the property identified as possibly not being owned by the Department was added to the Fixed Asset Database per the State Auditor's General staff recommendation. Finally, the officials stated that the Manual was modified to include disposition of money resulting from the sale or disposal of capitalized assets.

The FWS did not provide a response to this finding.

Office of Inspector General Comments

The response from the Department was adequate for FWS to consider the recommendation resolved and implemented.

D. Program Income

The Code of Federal Regulations (43 CFR 12.65 (b)) states:

Definition of program income. Program income means gross income received by the grantee or subgrantee directly generated by a grant-supported activity, or earned only as a result of the grant agreement during the grant period. “During the grant period” is the time between the effective date of the award and the ending date of the award reflected in the final financial report.

The Department allows instructors to collect fees of up to \$7 from each student in its Hunter Education Program classes that are to be used for costs that are not reimbursed by the Department. The Code (43 CFR 12.65 (g)(1)) states, “Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs.” However, the Department did not require its instructors to account for the receipt or expenditure of these fees. Therefore, it could not be determined whether the fees collected were used for the Hunter Education program. The Department should require Hunter Education instructors to account for all collected fees and related expenditures associated with the Hunter Education program to ensure compliance with the program income regulations.

Recommendation

We recommend that the FWS ensure that the Department accounts for student fees in accordance with the regulations.

Department and U.S. Fish and Wildlife Responses

Department officials stated that while they concur with the description of the issue raised, they do not agree with the recommendation. The officials stated that Arizona, like many other states, allows the volunteer instructors to collect a voluntary supplemental fee to enhance the Hunter Education class. The officials added that these fees have been historically established in agreement with the Region 2 Hunter Education staff and FWS has never indicated that they should account for these monies. The Department added that requiring instructors too formally account for the minimal voluntary fees, as formal income, could potentially move their status from volunteer to contractor, which would cause even greater concern. The Department concluded that the current process has worked “for well over 50 years and instructor teams provide more than adequate checks and balances over tracking and use of voluntary fees.”

The FWS did not respond to this finding.

Office of Inspector General Comments

The response did not provide sufficient information to consider the recommendation resolved. Although the Department’s response stated that there were adequate checks and balances in place over the tracking and use training fees, the response did not include a

description of those procedures. Furthermore, as noted in the report, the auditors could not determine how much was collected and what the money was used for. Therefore, we request that the FWS address this issue as part of the corrective action plan.

In accordance with the Departmental Manual (360 DM 5.3), please provide us with your written comments by April 25, 2003 regarding the questioned costs and the other 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 and who agreed to the sufficiency of those procedures.

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

ARIZONA DEPARTMENT OF GAME AND FISH
SCHEDULE OF GRANT COSTS AND QUESTIONED COSTS
FOR FISCAL YEAR 1999¹

GRANT AGREEMENT	GRANT BUDGET	AMOUNT CLAIMED	QUESTIONED COSTS ²
FW-100-P6:			
F-7-M-41	\$2,131,673	\$2,150,506	
F-14-R-33	361,600	354,457	
F-20-E-13	243,800	214,939	
F-21-TG-10	4,000	1,952	
F-22-M-7	1,534,243	1,473,667	
F-23-R-5	20,000	20,000	
FW-11-TG-31-DJ	1,015,625	1,004,463	
FW-15-58-DJ	246,300	227,876	
FW-20-D-24-DJ	951,428	817,501	
FW-21-D-3-DJ	404,100	269,400	
FW-22-O-3-DJ	67,400	65,210	
W-53-M-49	1,804,300	1,984,381	
W-78-R-43	974,501	982,984	
W-85-M-39	451,640	478,698	
W-93-S-28	307,100	335,280	\$16,439
W-95-M-15	112,000	111,406	
W-98-S-3	456,900	636,012	
FW-11-TG-31-PR	1,015,625	883,993	
FW-15-58-PR	246,300	202,224	
FW-20-D-24-PR	997,139	997,138	
FW-21-D-3-PR	269,400	269,400	
FW-22-O-3-PR	67,400	59,679	
F-19-D-14	764,360	523,464	
Totals for FY 1999	\$14,446,834	\$14,064,631	\$16,439

¹ The grant budget and amount claimed in this schedule are based on an uncompleted worksheet generated by the other audit agency and other documents in the working papers. We have not verified the accuracy or completeness of this information.

² Federal share

**ARIZONA DEPARTMENT OF GAME AND FISH
SCHEDULE OF GRANT COSTS AND QUESTIONED COSTS
FOR FISCAL YEAR 2000**

GRANT AGREEMENT	GRANT BUDGET	AMOUNT CLAIMED	QUESTIONED COSTS
FW-100-P7:			
F-7-M-42	\$2,001,100	\$1,988,750	
F-14-R-34	489,100	452,376	
F-20-E-14	266,166	206,582	
F-21-TG-11	4,000	2,634	
F-22-M-8	1,802,052	1,847,649	
F-23-R-6	20,000	20,000	
FW-11-TG-32-DJ	889,342	978,807	
FW-15-59-DJ	232,455	232,568	
FW-20-D-25-DJ	755,787	817,831	
FW-21-D-4-DJ	211, 575	201,184	
FW-22-O-4-DJ	66,155	75,824	
W-53-M-50	1,492,622	1,880,781	
W-78-R-44	897,963	929,906	
W-85-M-40	441,237	293,073	
W-93-S-29	288,827	324,317	\$12,051
W-95-M-16	110,775	132,970	
W-98-S-4	527,717	721,787	
FW-11-TG-32-PR	889,342	846,759	
FW-15-59-PR	268,215	204,424	
FW-20-D-25-PR	1,060,323	1,060,323	
FW-21-D-4-PR	211,575	201,184	
FW-22-O-4-PR	66,155	68,379	16,829
F-19-D-15	1,969,189	1,985,019	
Totals for FY 2000	\$14,961,672	\$15,473,128	\$28,880
Grand Totals	\$29,408,506	\$29,537,759	\$45,319

MANAGEMENT ISSUES

The working papers indicated that the Department's accounting system and related internal controls in effect during fiscal years 1999 and 2000 were generally adequate for the accumulation and reporting of costs under Federal Aid grants, and that the Department's other systems for labor, license certification, license fee collection and disbursement, billing and drawdowns, indirect costs, and purchasing, and its assent legislation were generally adequate for Federal Aid participation. However, the working papers identified several management issues that the Arizona Department of Game and Fish and the Fish and Wildlife Service need to address, as follows:

A. Accounting System

The working papers indicated that the Department's accounting system and related internal controls are adequate for the accumulation, reconciliation, and reporting of costs on Federal Aid grants. However, improvements in implementing the system are needed, as follows:

- The State Information Services Division (ISD, which operates the State's computer system) does not have a formal plan for processing critical jobs in the event of a disaster (this issue was identified by the Arizona State Auditor as part of the A-133 Single Audit for FY 1999). The Department needs to prepare a formal plan for processing critical jobs in the event of a major hardware, software, or telecommunications failure until such time as ISD implements a Statewide plan.
- The Department does not have internal controls in place to ensure that a proper budget control indicator is entered into the Arizona Financial Information System (AFIS) when the budget is established. A budget control indicator should be loaded at budget setup to block requisitions when sufficient funds are not available.
- Although the current process for monitoring budgets was considered adequate, the Department does not have written policies and procedures for this process.
- Department employees generally charged costs associated with general meetings and training that benefit the organization as a whole to specific Federal Aid grant agreements. (The working papers indicated that the amount of ineligible costs associated with this practice was considered immaterial.) However, in accordance with OMB Circular A-87, these costs should be charged to the Department's indirect cost pool and recovered through its approved indirect cost rates.

- The Department does not have written policies and procedures for labor adjusting entries requiring the preparation of journal entries, and the current practices lack adequate internal controls. Specifically, adjustments of labor costs from one program to another do not require the concurrence of the receiving program, program costs may be transferred to other programs administered by the same manager, and adequate documentation is not always retained to explain why an adjustment is made. In addition, there is no established level of authority for approving labor adjusting entries.
- The Department's accounting system is not capable of generating a report identifying recorded labor adjusting entries. This results in the potential loss of an audit trail should the journal entry forms be lost.

B. Advance Payments to Sub-Recipients

The Department had two sub-recipient projects in fiscal years 1999 and 2000, both with the U.S. Forest Service (USFS) under Grant F-19-D-15. The Department's practice is to provide funding to sub-recipients at the time the sub-recipient agreement is signed and prior to expenditures being incurred by the sub-recipient. The Department entered into an agreement with the USFS for the Willow Springs Project on June 5, 2000, for \$53,700 and transferred this amount to the project on June 20, 2000. The Department entered into an agreement with the project for the Bartlett Lake project on June 19, 2000, for \$206,275, which was transferred to the project on July 6, 2000. However, as of February 21, 2001, no costs had been incurred on the Willow Springs project and only salary costs had been incurred on the Bartlett project.

The Code of Federal Regulations (43 CFR 12.61 (c)) contains the following provision on advanced payments: "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." In these two cases, the sub-recipient received full funding approximately eight months prior to the audit agency's review but there had been little or no work on the projects at that time. Unwarranted advanced payments results in lost interest to the Federal Government.

C. Performance Reports

The regulations (43 CFR 12.80 (c)) state that percentage-of-completion data in contracting performance reports "...are relied on heavily by Federal agencies to monitor progress under grants and sub-grants." Section (d) of this regulation requires the grantee to inform the Federal agency as soon as problems, delays, or adverse conditions become known. Also, Part 522.10.8 (A) of the Federal Aid Manual states that the performance report must contain the following information: "A description of the progress made through the end of the grant agreement period toward accomplishment of the stated objective for the project. Explain any deviations, which may impact on accomplishment of the stated objective." The working papers indicated that the Department provided inaccurate or incomplete information to FWS in performance reports for two grants, as follows:

- The fiscal year 2000 performance report for Grant F-19-D-15 indicated that all three projects had been completed although, as discussed in “Advance Payments to Sub-Recipients,” work had not begun on two of the projects (Willow Springs and Bartlett Lake).
- The performance report for Grant FW-100-P-6 (Projects FW-21-D-3 for fiscal year 1999 and FW-21-D-4 for fiscal year 2000) indicated that a warehouse and boat storage area were added to the Mesa Regional Office site, even though the structures had not been completed.

D. Labor Reporting System

The Department’s labor reporting system was considered adequate for the accumulation and reporting of costs associated with FWS grant agreements. However, the Department’s timekeeping procedures did not require employees to record time charges to Time and Travel Reports or diaries on a daily basis or to complete timesheets in ink. In addition, the procedures did not include instructions on how to make corrections to timesheets.

E. License Fees Collection and Disbursement System

The working papers concluded that the Department’s license revenue collection and disbursement system was adequate to ensure that license revenues were collected timely, recorded in the proper restricted funds, and used for authorized purposes. However, although the Customer Service Unit’s practices in handling license revenues were adequate, the Sales Accounting Manual and desk procedures used by the Unit need to be updated to reflect these practices.

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1849 C Street, NW
Washington, DC 20240

Phone: 24-Hour Toll Free 800-424-5081
Washington Metro Area 202-208-5300
Hearing Impaired (TTY) 202-208-2420
Fax 202-208-6081
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Northern Pacific Region 671-647-6051

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