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

ADVISORY REPORT

Costs Claimed by the State of Nevada, Department of Conservation and Natural Resources, Division of Wildlife, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1996 through June 30, 1998

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OFFICE OF INSPECTOR GENERAL
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ADVISORY REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Roger La Rouche
Assistant Inspector General for Audits

Subject: Final Advisory Report on Costs Claimed by the State of Nevada, Department of Conservation and Natural Resources, Division of Wildlife, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1996 through June 30, 1998 (No. 2003-E-0018)

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 Nevada Department of Conservation and Natural Resources, Division of Wildlife (Division), under Federal Aid grants from the U.S. Fish and Wildlife Service (FWS) from 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 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 August 2001, another audit agency drafted a report on its audit of FWS Federal Aid program grants awarded to the State of Nevada for fiscal years 1997 and 1998. The scope of the work to be performed by the audit agency, as stated in its announcement letter to the Division, was to evaluate (1) the adequacy of the State's purchasing system and related internal controls, (2) the adequacy and reliability of the State's license fees collection and disbursement system, (3) the adequacy of the State's accounting system as it relates to the accumulation and reporting of costs charged to grants, and (4) the accuracy and eligibility of direct costs claimed on grants. 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 Division covered claims totaling approximately $28.3 million on FWS grants that were open during the Division's fiscal years ending June 30, 1997 and 1998 (see Appendix 1). However, the audit agency's agreement with FWS expired before completion of the draft report and no report was provided to the Division or FWS.

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. 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 28, 2001 memorandum that its supervisors had not reviewed the working papers for the Nevada 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) 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. We did not perform any additional audit work of the Division'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 Nevada'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 identified the following:

- The Division had not yet used for program purposes revenues totaling $590,000 (plus accrued interest) received in 1994 from the sale of land ($380,000) and water rights ($210,000) initially acquired with Federal Aid assistance. The grant agreements identified specific priorities for the use of these revenues.

- The Division had not reported program income of $17,956 that should have been used to reduce program costs.

- Costs totaling $1,009,890 were questioned relative to excessive cumulative transfers of funds among projects in consolidated grants, including transfers to projects not included in the grant agreements ($517,808); claims against closed grants ($359,611); indirect cost charges for in-kind match ($106,836) and for computer purchases ($1,891); and costs incurred outside the grant period ($23,744).

- The Division did not recover interest applicable to an erroneous Division drawdown of Federal Aid funds made for the Division of State Parks. Although Parks repaid the principal to the Division which was subsequently repaid the U.S. Treasury, Parks still owed the Division and the U.S. Treasury about $3,765 for the related interest.

- The Division contrary to requirements relinquished administrative control over real property acquired with Federal Aid funds.

- The Division's time keeping practices did not ensure that labor costs charged to Federal Aid grants were proper and did not provide sufficient detail on labor cost charges of law enforcement staff to ensure that license revenues were not used for ineligible activities.

- The grant proposals and agreements had not adequately disclosed the Division's intent to use in-kind contributions to meet its grant matching requirements, and the basis for the valuation of some in-kind contributions was not sufficiently documented.

- The Division's accounting system did not provide necessary budgetary and accounting detail at the grant project level and did not ensure that accounting adjustments impacting Federal Aid grants were adequately documented and justified.

A. Sale of Real Property

The working papers indicated that the Division had not yet used a total of $590,000 received from the sale of land and well water rights at the Scripps Wildlife Management Area (WMA). In April 1994, the Division sold 260 acres for $380,000 to the Nevada Division of State Parks for inclusion in a state park because of encroachment of development and increased use of non-wildlife recreational activities in the wildlife management area. At the same time, the Division sold the rights for 700 acre feet of well water for $210,000 to the Nevada Department of Transportation for use as a mitigation wetland project. According to the grant agreements, the Division was required to use these funds "in the following priority: (1) purchase of replacement wetlands or water rights for the P/R (Pittman Robinson Wildlife Restoration) W-55 Program, (2) utilization in the annual P/R W-55 Program budget, or (3) utilization within any program of the P/R Act." In addition, the Code of Federal Regulations (50 CFR 80.14(b)(1)) requires the Division to replace property that passes from the Division's control with property of equal value at current market prices within 3 years of the FWS regional director's notification to do so "before becoming ineligible." However, as of June 30, 1999, the Division had not used the proceeds from the sales and had not accrued interest on the unused revenue.

Recommendation

We recommend that FWS ensure the Division uses the Federal share of the real property sales proceeds and related interest for program purposes as provided for in the grant agreements or reimburse the funds to the FWS.

Division and U.S. Fish and Wildlife Service Responses

Division officials stated that they have obtained FWS approval to expend the Federal share of these monies, along with the associated interest, for program purposes on wildlife management areas. Division officials further stated that detailed documentation was provided to show that these monies were expended by June 30, 2002 on Grant FW-4-D.

FWS officials concurred with the Division's actions and stated that, "The State has provided documentation ensuring that the Federal share of the real [property] sales proceeds and related interest has been used for program purposes only."

Office of Inspector General Comments

The responses are sufficient to consider the recommendation resolved and implemented.

B. Program Income and Other Receipts

The working papers identified unreported program income and other receipts totaling $17,956, as summarized below:

Grant Number	Amount
FW-4-D-3 (grazing fees)	$5,677
FW-4-D-3 (equipment usage charges)	7,496
F-32-D-6	3,212
F-32-D-7	1,571
Total	$17,956

1. Grant FW-4-D-3 ($13,173).

(a) Grazing Fees. The Code of Federal Regulations (43 CFR 12.65(b)) defines program income as "gross income received by the grantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period." Part 12.65 (g)(1) further provides that "Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs." The working papers identified program income of $5,677 from fees generated from a grazing lease at the Humbolt WMA, which was one of several management areas funded under this grant.

(b) Equipment Usage Charges. In fiscal year 1997, the Department received a grant from the Federal Emergency Management Agency (FEMA) for flood recovery work at the Mason Valley WMA. The working papers indicated that the Division received reimbursement of $97,518, of which $7,496 was for usage charges for equipment that had been purchased with Federal Aid funds. The Code of Federal Regulations (43 CFR 12.72) allows grantees to use equipment acquired under a grant for other projects and programs and provides for user fees if considered appropriate. In addition, Part 12.65 of the regulation includes fees from the use of equipment as program income to be deducted from program outlays.

2. Grant F-32-D-6 ($3,212).

The working papers identified miscellaneous income of $3,212 recorded from July 1996 through June 1997 under "revenue account code" 9913 which was labeled in the working papers as "Project Income F-32". The working papers did not clearly identify the composition of the income sources but the amount appears to include an electric company credit of $1,116 that should have been used to offset grant costs.

3. Grant F-32-D-7 ($1,571).

The working papers identified miscellaneous income of $1,571 recorded under the same revenue account code 9913. This amount also appears to be a credit from an electric company under this grant number, which should have been used to offset grant costs.

Recommendation

We recommend that FWS resolve the $17,956 of unreported program income and other receipts.

Division and U.S. Fish and Wildlife Service Responses

Division officials stated that program income is one of the areas in which the Division has improved on its reporting. The officials stated that they verified the claim that program income was under reported and found that total unreported income was $16,999, which is $957 less than the amount shown in the report. Nevertheless, Division officials stated that they will work with FWS to resolve this finding.

FWS officials stated that they concur with the finding and recommendation.

Office of Inspector General Comments

We compared the working papers with the analysis of program income included in the Division's response. The Division identified program income not included in the working papers and made two minor adjustments, with which we concurred. However, the Division also applied certain unreported program income to grants different than the grants that the audit agency had applied the income to, as discussed below:

Regarding Grant FW-4-D-3, the working papers identified unreported program income totaling $13,173, while the Division's response indicated that the actual amount was $15,490 (recorded revenues of $25,886 less the $10,396 reported on the Financial Status Report.) We agree with the Division's analysis, with one possible exception: while the Division's recorded revenues included $2,096 for "Rent/Utilities," the working papers indicated that this amount was related to Grant F-32-D-6. The FWS needs to determine whether the Division's analysis is correct or whether the $2,096 relates to the other grant, which would reduce the unreported program income for Grant FW-4-D-3 to $13,394 ($15,490 less $2,096).

Regarding Grant F-32-D-6, the working papers identified unreported income and other receipts totaling $3,212, while the Division's response indicated that the underreported amount was only $1,593 (recorded revenues of $11,043 less the $9,450 reported on the Financial Status Report). We agree with the Division's analysis, with one possible exception: as discussed above, the working papers identified revenues of $2,096 for "Rent/Utilities" related to this grant, while the Division's analysis indicated that these revenues related to Grant FW-4-D-3. The FWS needs to determine whether the Division's analysis is correct or whether the $2,096 relates to this grant, which would increase the unreported program income for Grant F-32-D-6 to $3,689 ($1,593 plus $2,096).

Regarding Grant F-32-D-7, the working papers identified unreported receipts of $1,571, while the Division's response indicated that program income was over-reported by $85 ($11,856 reported on the Financial Status Report less recorded income of $11,771). We agree with the Division's analysis, with one possible exception: the working papers identified program income of $2,281 applicable to this grant, while the documentation provided by the Division indicated that this amount was applicable to Grant FW-4-D-4. The FWS needs to determine whether the Division's analysis is correct or whether the income is related to this grant, which would result in unreported income of $2,196 for Grant F-32-D-7 ($2,281 less $85).

We consider the recommendation unresolved. FWS needs to identify what action will be taken to resolve the unreported program income in its Corrective Action Plan.

C. Questioned Costs

The working papers identified questioned costs of $1,009,890 (Federal share $757,422) related to excessive cumulative transfers of funds among projects in consolidated grants, including transfers to projects not included in the grant agreements ($517,808); claims against closed grants ($359,611); indirect costs for in-kind match ($106,836) and for computer purchases ($1,891); and costs incurred outside the grant period ($23,744).

1. Project Level Accounting. Consolidated grants provide funds for multiple projects under a single grant with each project having a separate budget. The Code of Federal Regulations (43 CFR 12.70 (a)) requires that "unless waived by an awarding agency, certain types of post award changes in budgets and projects shall require the prior written approval of the awarding agency." Part 12.70(c)(ii) of the regulation requires such approval if "cumulative transfers among . . . separately budgeted…projects . . . exceed or are expected to exceed ten percent of the current total approved budget, whenever the awarding agency's share exceeds

$100,000." Based on our review of the working papers, we identified two grants where the cumulative transfers exceeded the 10 percent threshold and the Division did not have prior written approval from FWS. The cumulative transfers totaled $517,808 (Federal share $388,357), as follows:

		Cumulative Transfers	
Grant Number	Grant Amount	Questioned Costs	Federal Share
F-20-32	$1,629,100	$209,206	$156,905
F-20-33	1,424,334	308,602	231,452
Total	$3,053,434	$517,808	$388,357

The questioned amount includes $195,770 charged to Grants F-20-32 ($117,190) and F-20-33 ($78,580) for activities that were not specifically provided for in the grant agreements. These costs were charged to projects that did not correspond to the approved projects listed in the grant agreements.

2. Claims Against Closed Grants. Costs totaling $359,611 (Federal share $269,709) were questioned because the Division claimed additional costs on Grants W-58-D-8 ($290,781) and W-48-R-27 ($68,830) more than 90 days after filing the final Financial Status Reports for these grants. The Code of Federal Regulations (43 CFR12.81 (b)(4)) requires the Division to submit a final Financial Status Report within 90 days after the expiration of the grant. The regulations (43 CFR 12.90) also state "The Federal agency will, within 90 days after receipt of reports (including the Financial Status Report) in paragraph (b) of this section, make upward or downward adjustments to the allowable costs." In addition, while Part 12.91 of the regulation states "The closeout of a grant does not affect (a) The Federal agency's right to disallow costs and recover funds on the basis of a later audit or other review," it does not provide for the grantee to submit additional claims after the 90-day period.

The Division had filed the required final Financial Status Reports for both grants in January 1998 (the report for Grant W-58-D-8 was 4 months late and the report for Grant W-48-R-27 was 16 months late). However, in May 1999, 16 months after the January 1998 filing, the Division filed revised reports claiming additional grant costs of $359,611. The working papers indicated that the Division had obtained FWS approval prior to reopening the grants and noted that one reason for reopening the grants may have been that costs for some projects had not been included in the previous drawdowns.

3. Ineligible Indirect Costs. The working papers identified ineligible indirect costs totaling $108,727 related to in-kind contributions ($106,836) and computer equipment purchases ($1,891).

(a) In-Kind Costs. Costs totaling $106,836 (Federal share $80,129) were questioned because the Division improperly claimed indirect costs on some of the in-kind contributions reported in its final Financial Status Reports for nine grants. Office of

Management and Budget (OMB) Circular A-87 Attachment E, Parts B and C indicate that the base used to allocate indirect costs must be consistent with the base selected for developing the indirect cost rate. The working papers noted the Division did not include in-kind contributions in the direct cost base used to calculate the indirect cost rates for fiscal years 1997 and 1998 and therefore, should not have claimed indirect costs on these contributions. The questioned costs are summarized as follows:

Grant Agreement	Questioned Costs	Federal Share
F-20-32	$10,562	$7,922
F-20-33	9,670	7,253
F-30-AE-8	13,992	10,494
F-30-AE-9	22,737	17,053
W-48-R-29	979	734
W-51-HS-26	14,274	10,706
W-51-HS-27	29,289	21,967
W-58-D-8	239	179
FW-4-D-4	5,094	3,821
Total	$106,836	$80,129

(b) Computer Equipment. Costs totaling $1,891 (Federal share $1,419) were questioned because the Division allocated indirect costs to three computer equipment purchases totaling $9,746. Charging indirect costs on these purchases was improper because all equipment costs were excluded in the base used to calculate the indirect cost rates for fiscal years 1997 and 1998. These charges occurred because the Division included computer equipment in the information services cost category (No. 26) rather than in the equipment category (No. 5) and applied the indirect cost rate to all costs recorded in the information services category. The questioned amount was based on a sample of 72 tested transactions and calculated by applying the 19.4 percent indirect cost rate to the misclassified charges. The auditors concluded, however, that additional work to identify the total improper charges was not necessary because the total cost in the information services category for the two years was only $51,469 and only a portion of that amount was for computer equipment. The questioned costs are summarized as follows:

Grant Agreement	Questioned Costs	Federal Share
F-20-32	$961	$721
W-48-R-28	930	698
Total	$1,891	$1,419

4. Out-of-Period Costs. Costs totaling $23,744 (Federal share $17,808) were questioned because the costs were incurred prior to the time period covered by the grant agreement segment to which the costs were charged. The Code of Federal Regulations (43 CFR 12.63(a)) states that a grantee may charge to the award only costs resulting from obligations of the funding period. During fiscal year 1998, the Division charged Grant F-20-33 (which began on July 1, 1997) for two invoices ($18,293 and $5,451) received from the University of Nevada, Reno for contractual work performed from April 1 through June 30, 1997 under Grant F-20-32. The fiscal year 1997 contract with the University was not renewed for fiscal year 1998 and there was no evidence that FWS had authorized the Division to charge these costs to the 1998 grant.

Recommendations

We recommend that FWS:

1. Resolve the $517,808 of questioned costs related to project level accounting

2. Resolve the $359,611 of questioned costs related to closed grants.

3. Resolve the $108,727 of questioned costs related to inappropriate indirect cost charges.

4. Resolve the $23,744 of questioned costs related to out-of-period charges.

Division and U.S. Fish and Wildlife Service Responses

Division officials responded to each of the recommendations as follows:

1. **Project Level Accounting.** The officials stated that "Shifting costs among approved projects was allowed by the USFWS at the time as they waived the 10% rule. This practice was corroborated by USFWS officials during conference calls regarding the audit report."

FWS stated that they have the authority to waive requirements with post award changes in project budgets and as such, did not concur with the finding and recommendation.

2. **Claims Against Closed Grants.** Division officials stated that they obtained FWS approval prior to reopening the grants. They added that, "It is not uncommon, based on the entities contracted with, for the agency to receive stale claim billings for services after the grant was closed."

FWS indicated in its response that it does not agree with the finding, and stated, "The State had provided documentation that verifies that the Service approved this activity."

3. **Ineligible Indirect Costs.** Division officials stated that they could not provide a response to the amounts shown as ineligible indirect costs relating to in-kind costs and that the claim for indirect costs for computer equipment was an "inadvertent oversight" that will be avoided in the future.

FWS concurred with the finding and recommendation regarding indirect costs.

4. **Out-of-Period Costs.** Division officials stated that, "Because the expenditure, received as a stale claim from the University System, was received by the agency after the close of grant for 1997 the FWS allowed this to be charged to the 1998 grant."

The FWS agreed with the State's position and stated, "The State has provided documentation that verifies that the Service approved this activity."

Office of Inspector General Comments

The responses from FWS and the Division were not sufficient to consider the recommendations resolved. Our comments follow.

1. **Project Level Accounting.** Although FWS stated it "has the authority to waive requirements with post award changes in project budgets," neither the auditor's working papers nor the responses from the Division or FWS provided documentation that FWS had provided a written waiver of the requirement. With regard to the finding that the Division charged $195,770 for activities that were not specifically provided for in the grant agreements, the Division provided extensive documentation to support the eligibility of these costs. The FWS response did not indicate whether FWS had reviewed this documentation and found it to be adequate.

2. **Claims Against Closed Grants.** Although FWS disagreed with the finding, the response did not identify (a) the basis for allowing the Division to reopen these grants, (b) whether FWS had determined that the additional costs claimed were allowable and applicable to the grant, or (c) the source of funds used to reimburse these additional costs (since the grants had already been closed out).

3. **Ineligible Indirect Costs.** Regarding the Division's comment on the development of the indirect cost rates, those rates were approved in February 1999 and, according to the indirect cost rate agreement, were applicable to the fiscal years covered by the audit. Although FWS concurred with the recommendation, its response did not identify a course of action to recover the questioned costs.

4. **Out-of-Period Costs.** Although the FWS response stated, "The State has provided documentation that verifies that the Service approved this activity," the Division's response did not include documentation showing that FWS had approved the charging of these costs to the subsequent grant. As part of the Corrective Action Plan, we suggest that FWS request the Division to establish controls to ensure that all grant-related costs have been identified before submitting final Financial Status Reports.

D. Interest on Advance Drawdown

Under a cooperative agreement with the Division, the Nevada Division of State Parks (Parks) was responsible for managing the boat access project under Grant F-27-B-5. The Division incorrectly transferred funds of $111,563 to Parks based on an invoice submitted prior to the startup of the project. This amount was included in the monthly cost accounting report that was used as the basis for the June 16, 1997 drawdown of Federal Aid funds. The Division discovered this error and, on December 19, 1997, reimbursed the U.S. Treasury for the full amount, excluding interest. The Code of Federal Regulations (31 CFR 205.12(a)) provides "A State will incur an interest liability to the Federal Government if Federal funds are in a State account prior to the day the State pays out funds for program purposes." According to the working papers, the U.S. Treasury rate at the time was 6.75 percent. Therefore, according to the working papers, the Division owed the Sport Fish Restoration Program approximately $3,765. The working papers also noted that the Division was attempting to recover this amount from Parks.

Recommendation

We recommend that FWS ensure that the Department reimburses the Sport Fish Restoration Program for interest applicable to the advanced payment.

Division and U.S. Fish and Wildlife Service Responses

Division officials stated that, "We are currently investigating this matter with State Parks Division." FWS officials agreed with the finding.

Office of Inspector General Comments

Since the Division is still in the process of investigating the finding, we consider the recommendation unresolved.

E. Control Over Real Property

The working papers concluded that the Division had allowed control over real property acquired with Federal Aid funds to pass to Parks. The Code of Federal Regulations (50 CFR 80.14(b)(1)) states that when property acquired with Federal Aid funds "passes from management control" of the (local) fish and wildlife agency, the control must be restored or "the real property must be replaced using non-Federal Aid funds." When the audit agency staff visited the property, now Cave Lake State Park, they discovered it was under the control of Parks.

In 1968, FWS awarded Grant F-22-L-2 to the Division to acquire three tracts of land at a total cost of $304,000, with $104,000 relating to the Cave Lake property. The grant agreement indicated that the cost of the Cave Lake property was to be shared by FWS ($78,000) and the State ($26,000) with the balance of $200,000 for the other tracts coming from local funds and contributions. In July 1973, the Division entered into a cooperative agreement with Parks, amended in June 1990, which gave Parks effective operational control over the property. Although the amended agreement generally provides that Parks would manage, operate, and maintain the property, it also provides for annual meetings between the Division and Parks to discuss the management of the property. According to the working papers, however, a Division official stated that these meetings were informal and no records of the meetings were provided. During their visit to the property, the agency auditors discovered that the property was publicly designated as the Cave Lake State Park and had been extensively developed with campgrounds, picnic areas, restroom, and boat launching facilities, a dump station, two residences for state park employees, and a park office used to collect fees and sell souvenirs. The working papers indicated that the auditors did not compute a questioned cost amount because they could not obtain any information about the current fair market value of the property.

Recommendation

We recommend that FWS determine if the Cave Lake property is still serving the purpose for which it was acquired and whether the Division's control over the property can be effectively restored. If not, then FWS should determine whether the Division should sell the property to Parks and use the revenue to replace the property.

Division and U.S. Fish and Wildlife Service Responses

Division officials stated that the Cave Lake property is still serving the purpose for which it was acquired and that the Division "still effectively maintains control over the property" as detailed in the draft Scope of Cooperative Action between the Division and the Nevada State Division of Parks. This draft document spells out the management responsibilities of both divisions as well as mutual responsibilities. Division officials further stated that, "Management of the site, as the records clearly show, is an ongoing working relationship between the representatives of both agencies (Wildlife and Parks) and the Wildlife Division has not 'de facto' relinquished either short-term or long-term control of the property."

FWS concurred with the finding and stated that, "The Service recommends the Nevada Division of Wildlife execute the Scope of Cooperative Agreement with the Division of Parks to satisfy this finding."

Office of Inspector General Comments

The responses were sufficient to consider the recommendation resolved but not implemented.

F. Labor Reporting System

The working papers identified deficiencies in the Division's labor reporting system, timekeeping practices, and related internal controls for the accumulation and reporting of labor costs under Federal Aid grants. The working papers also concluded that the system did not distribute law enforcement labor costs in sufficient detail to separately identify the costs eligible for payment from license revenue from those costs that were ineligible.

The working papers included interviews with 27 Division employees in five program areas that identified the following issues:

- Office of Management and Budget (OMB) Circular A-87, Attachment B, 11.h. (4) requires employees who work on multiple activities to maintain personnel activity reports to support the distribution of their salaries or wages and Section 11.h. (5) requires that reports reflect an after-the-fact distribution of the actual activity of the employee. The working papers indicated that (1) two employees charged or had been directed to charge time to a different grant than the one which they had been working on and (2) at least 11 employees charged time to grants while performing ineligible activities such as establishing, publishing or distributing state regulations; performing law enforcement activities; or removing nuisance animals. The employee interviews also indicated that 15 of the employees were unaware of or could not identify the tasks that were ineligible for Federal Aid funding. The working papers stated that the auditors did not attempt to quantify the extent of this issue because of the extensive audit effort that would have been required.

- Section C.1.f. of Attachment A of Circular A-87 states that, "A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost." The working papers indicated that some employees stated that they charged time associated with general meetings and general training to grants while others said they charged their time for these activities to a code that was used in the indirect cost rate calculations. The working papers also stated that the auditors did not attempt to quantify the extent of the issue because of the time that would have been required.

- Twenty-one employees said that they were unaware of written instructions relating to timekeeping practices.

The working papers also concluded that the labor system did not provide information on the labor costs incurred by Law Enforcement Branch staff on various activities. Although the accounting system was capable of collecting this data, the needed information was not coded on the employee attendance reports or input into the accounting system. Therefore, the Division did not have the information needed to identify any potential use of license revenues for ineligible activities.

Recommendation

We recommend that FWS ensure that the Division corrects the deficiencies in its labor reporting system.

Division and U.S. Fish and Wildlife Service Responses

Division officials stated that they have provided training at least annually on timekeeping practices that include the appropriate method for completing and coding timesheets. The response further stated that Division employees have been instructed on the basic overall theory of how indirect cost rates are formulated and that there is no such thing as "account codes which are specifically used in the indirect rate calculations." Division officials also stated that direct cost centers for administrative time and expense were established for each bureau in 2000 and have been utilized since.

FWS concurred with the audit finding and recommendation. FWS stated that, "The State has provided documentation that specifically addresses this finding. No further action is necessary."

Office of Inspector General Comments

The responses were sufficient to consider the recommendation resolved and implemented.

G. In-Kind Contributions

The working papers indicated that the Division had not fully complied with the Code of Federal Regulations (43 CFR 12.64) or its own policies and procedures pertaining to documentation requirements and the valuation of in-kind contributions used to meet the State matching requirements for the grants. Specifically:

- The Division's grant proposals and grant agreements for fiscal years 1997 and 1998 did not consistently identify the type and expected value of in-kind contributions as required on the "Application for Federal Assistance" form. Except for the hunter education and aquatic education grants, the grant documents in the working papers included only statements that some in-kind match may be provided as part of the state's match.

- The regulations (43 CFR 12.64 (c)(1)) state that unpaid services provided by individuals will be valued at rates consistent with those ordinarily paid for similar work in the grantee's organization. The working papers indicated that volunteer hours were valued at various rates, ranging from $12.69 to $35.55 per hour, none of which were specified in the Division's policies and procedures. In addition, the Division had not adequately documented how the rates were developed. However, the working papers did not include an analysis or other calculation of the potential monetary impact on the Federal Aid grants.

- The documentation supporting in-kind contributions did not include volunteers' signatures for the hours contributed. The regulations (43 CFR 12.64 (b)(6)) state that, to the extent feasible, grantees should use the same methods as their own organization uses to support regular personnel costs. The Division's methods require employees to sign their time reports.

- The Division did not have adequate documentation to support in-kind contributions provided by a subgrantee (the University of Nevada, Reno) and had not performed any reviews of the validity of the University's reported in-kind contributions. The regulations (43 CFR 12.64 (b)(6)) require that in-kind contributions counting toward satisfying a matching requirement must be verifiable from the records of subgrantees and that the records must show how the values were derived. The Division awarded a contract to the University for $77,500 for Mountain Quail Research and reported $25,800 as an in-kind contribution on its Financial Status Report for Grant W-48-R-29. However, the Division had no explanation or document in its files supporting the validity and valuation of the in-kind contribution. In response to the auditors' request for documentation, the University provided a letter stating that the $30,000 contribution consisted of the non-federal salary of a University graduate advisor who supervised the individual who performed the fieldwork on this project. The letter also noted that University quail-holding facilities, office space, and other resources were also provided and the University's contribution substantially exceeded the $30,000. No other documentation was provided showing the hours worked and the rates used. However, the working papers did not identify any questioned costs.

Recommendation

We recommend that FWS ensure that the Division complies with the regulations and its own policies and procedures regarding the documentation and valuation requirements for in-kind contributions.

Division and U.S. Fish and Wildlife Service Responses

The Division stated that a staff member was assigned as a "volunteer coordinator" in 1999. The duties included not only recruiting volunteers, but also increasing the number of projects benefiting the state's wildlife resources. Division officials further stated that the coordinator developed an initial database, contracts for volunteers to sign, and a Policy and Procedures Manual. In addition, Division officials stated that the "new program" will continue to evolve based on lessons learned and new requirements and needs of the Division.

FWS concurred with the finding and recommendation and stated, "The State has provided documentation that specifically addresses this finding. No further action is necessary."

Office of Inspector General Comments

The response from the Division was sufficient to consider the recommendation resolved and implemented.

H. Accounting System

The working papers identified deficiencies in the Division's accounting system and related internal controls for accumulating, reconciling, and reporting of costs on Federal Aid grants. Specifically, (1) the Division's cost accounting system did not provide necessary budgetary and accounting detail at the grant project level and (2) accounting adjustments impacting grants were inadequately documented and justified.

1. Cost Accounting System. The Division's cost accounting system (CAS) did not permit adequate budgetary monitoring and accounting of Federal Aid grants at the project or task level without requiring the staff to make significant manual calculations. In addition, when such calculations were made, the information that the staff produced was not always provided to individuals monitoring the projects. The regulations (43 CFR 12.60(a)(2)) state that fiscal controls and accounting procedures of the State must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

According to the working papers, although CAS had the ability to account for costs at the project level, the system needed to be restructured to incorporate more specific account descriptors in order for it to be flexible enough to conform to all Federal Aid grant budget and cost element levels, for it to still summarize total costs, and for users to be able to compare actual costs to budgetary limitations by project and grant. The inability of CAS to make these comparisons, according to the working papers, resulted in the following:

- The Division had to use manual calculations to obtain the information needed to adequately monitor and report on grant revenues and expenditures and then provide this information to individuals responsible for monitoring the grant projects. However, it appears the information was not provided in a timely manner to grant staff. The working papers concluded that the primary reason the Division reopened the grants noted in Finding C.2. "Claims Against Closed Grants" may have been because the Division noted after the fact that not all eligible costs had been claimed against the two grants.

- The auditors could not determine whether license revenues were used only for fish and wildlife activities because the Division's disbursement system did not identify the funding source used for individual expenses. The regulations (50 CFR 80.4) state that revenues from hunting and fishing license fees are to be used only for the administration of the state fish and wildlife agency. The Division collected revenues from various sources including license fees, fines, and penalties, Coast Guard funds and boating registration, among others, which were deposited into the same account. Furthermore, the Division did not track expenditures from the account to the various revenue sources. We were unable to determine from the working papers whether license revenues were used inappropriately. The auditors indicated, however, that they did not believe license revenues were used for ineligible activities because of the amount of unrestricted funds received by the Division.

2. Accounting Adjustments. The working papers indicated that the Division did not adequately document and justify accounting adjustments that impacted Federal Aid grants. According to the working papers, the Division prepares a monthly report listing all adjusting entries made during each month but does not have a year-end report summarizing these entries. In addition, adjusting entry justifications were not included on the monthly report and often were not identified on the adjusting entry form. Based on OMB Circular A-87, Attachment A and on 43 CFR 12.60 (as noted above), the Division should adequately document and justify the reason for and amount of adjustments impacting Federal grants to help avoid misuse of Federal funds and to permit effective internal and external monitoring.

Recommendation

We recommend that FWS ensure that the Division corrects the deficiencies in its accounting system.

Division and U.S. Fish and Wildlife Service Responses

The Division's response identified several actions that have been taken to improve its cost accounting system. Division officials stated that beginning in 2001, the Division updated the Cost Accounting System account codes to include a funding source designation for each project. The Division's response also stated, "Projects are planned in advance during the budget process, coordinated and submitted by Bureau Chiefs, and if applicable, …approved by the Administrator. All projects are identified by funding source and documented on (1) the agency's Delegation of Expenditure Authority …and (2) the Cost Accounting System."

Regarding the accounting adjustments, Division officials stated that adjustments in the Cost Accounting System are normally made only for keypunch errors found upon reconciliation to the State Accounting System. Division officials added that occasionally, a purchase order is coded inaccurately at which time a journal entry is prepared. The officials stated that, "A directive was issued to staff on [September 2, 2002] to include a reason on all journal entries, to obtain approval, and to include supporting documentation."

FWS concurred with the finding and recommendation stating, "The State provided documentation that specifically addresses the finding. No further action is necessary."

Office of Inspector General Comments

The Department's responses adequately addressed the deficiencies in the accounting system with one exception. The response did not include sufficient information for us to determine whether the changes in the system and the new account codes will ensure that license revenues and related expenditures are used only for eligible purposes. Therefore we consider the recommendation unresolved.

In accordance with the Departmental Manual (360 DM 5.3), please provide us with written comments May 30, 2003 regarding the status of the Corrective Action Plan. If you have any questions regarding this report, please contact Mr. Gary Dail, Federal Assistance Audit Coordinator, as (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 or who agreed to the sufficiency of those procedures.

cc: Regional Director, Region 1
U.S. Fish and Wildlife Service

STATE OF NEVADA DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES, DIVISION OF WILDLIFE, FINANCIAL SCHEDULE OF REVIEW COVERAGE FISCAL YEARS ENDING JUNE 30, 1997 AND 1998

Grant Number	Grant Amount	Amount Claimed	Questioned Costs	Federal Share	Notes
FW-3-T-15	$518,389	$382,850			
FW-3-T-16	727,897	587,021			
FW-3-T-17	713,422	757,276			
FW-4-D-2	948,640	827,479			
FW-4-D-3	1,343,135	1,010,483			
FW-4-D-4	1,003,361	1,098,312	$5,094	$3,821	C-3a
FW-5-P-1	16,000	86,866			
FW-6-P-1	278,400	305,475			
FW-7-P-1	42,400	49,796			
FW-19-L-1	820,000	822,090			
W-48-R-27	1,808,952	1,675,884	68,830	51,623	C-2
W-48-R-28	1,801,682	1,771,220	930	698	C-3b
W-48-R-29	1,915,500	1,929,746	979	734	C-3a
W-51-HS-25	421,627	334,474			
W-51-HS-26	421,200	347,051	14,274	10,706	C-3a
W-51-HS-27	420,700	527,870	29,289	21,967	C-3a
W-54-C-21	102,041	73,587			
W-54-C-22	106,226	112,641			
W-54-C-23	130,000	141,534			
W-58-D-7	432,946	481,694			
W-58-D-8	646,408	590,006	290,781	218,086	C-2
Same	-	-	239	179	C-3a
W-58-D-9	450,000	475,249			
W-60-D-1	375,000	374,999			
W-61-D-1	102,792	102,331			
W-61-HSD-5	61,762	61,761			
F-20-31	1,342,364	1,447,047			
F-20-32	1,629,100	1,441,376	209,206	156,905	C-1
Same	-	-	10,562	7,922	C-3a
Same	-	-	961	721	C-3b
F-20-33	1,640,334	1,334,941	308,602	231,452	C-1
Same	-	-	9,670	7,253	C-3a
Same	-	-	23,744	17,808	C-4
F-27-B-1	432,657	432,657			
F-27-B-5	885,000	158,299			

STATE OF NEVADA DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES, DIVISION OF WILDLIFE, FINANCIAL SCHEDULE OF REVIEW COVERAGE FISCAL YEARS ENDING JUNE 30, 1997 AND 1998

Grant Number	Grant Amount	Amount Claimed	Questioned Costs	Federal Share	Notes
F-27-B-7	100,000	65,829			
F-27-B-8	75,000	15,578			
F-27-B-9	90,000	83,851			
F-27-B-18	43,000	60,241			
F-27-B-19	1,555,000	1,077,013			
F-27-B-20	130,000	33,956			
F-27-B-22	54,675	36,262			
F-27-B-23	60,000	58,245			
F-27-B-24	90,000	25,554			
F-27-B-25	50,000	29,967			
F-27-B-26	40,000	28,422			
F-27-B-27	150,000	214,396			
F-27-B-28	127,000	210,805			
F-27-B-29	34,220	14,745			
F-30-AE-7	285,206	331,085			
F-30-AE-8	403,734	358,651	13,992	10,494	C-3a
F-30-AE-9	376,912	423,615	22,737	17,053	C-3a
F-32-D-5	1,436,551	1,444,862			
F-32-D-6	1,603,784	1,552,381			
F-32-D-7	1,585,290	1,626,932			
F-33-R-2	20,000	20,000			
F-33-R-3	20,000	20,000			
F-33-R-4	20,000	20,000			
E-1-10	105,680	105,680			
E-1-11	130,000	86,460			
E-1-12	130,000	145,411			
E-1-13	170,833	182,066			
EW-2-4	48,500	82,879			
EW-2-6	138,500	107,422			
EW-2-7	11,000	11,080			
P1D1	7,500	15,000			
P1D2	13,025	14,641			
V-1-1	16,000	16,000			
Total	$30,659,345	$28,261,044	$1,009,890	$757,422	

STATE OF NEVADA DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES, DIVISION OF WILDLIFE FINANCIAL SCHEDULE OF REVIEW COVERAGE FISCAL YEARS ENDING JUNE 30, 1997 AND 1998

Explanatory Notes:

C-1. Costs of $517,808 were questioned because the Division had made cumulative transfers totaling in excess of 10 percent of the grant amount among grant projects without first obtaining FWS approval. Included within the $517,808 was $195,770 claimed for unbudgeted/unapproved projects (see Questioned Costs, C.1).

C-2. Costs of $359,611 were questioned because the grants were closed for additional Division claims (see Questioned Costs, C.2).

C-3a. Costs of $106,836 were questioned because the Division claimed indirect costs for in-kind match contributions (see Questioned Costs, C.3a).

C-3b. Costs of $1,891 were questioned because the Division claimed indirect costs on computer equipment purchases (see Questioned Costs, C.3b).

C-4. Costs of $23,744 were questioned because the costs were incurred prior to the grant period (see Questioned Costs, C.4).

APPENDIX 2

MANAGEMENT ISSUES

The audit agency's working papers indicated that the Division's assent legislation and its purchasing and licensing certification systems and related internal controls in effect during fiscal years 1997 and 1998 were adequate for Federal Aid participation. However, the working papers also identified the following management issues that the Nevada Department of Conservation and Natural Resources, Division of Wildlife, and the Fish and Wildlife Service need to address.

A. Asset Management

The working papers identified the following deficiencies in the data recorded in the Division's asset management systems for real property and equipment.

Real Property. The Code of Federal Regulations (43 CFR 12.71) requires that real property acquired with Federal funds be used for the originally authorized purpose as long as it is needed and that the awarding agency is compensated if the land is sold or converted to other uses. Accordingly, accurate real property records are essential for complying with these requirements. The working papers concluded that the Division's system was adequate for tracking real property, but identified errors and incomplete information for eight of the properties reviewed. For example, five properties were identified as being owned by the Division but without identifying the funding source. The entry under "funding source" was either "none" or "non identified". For two other properties, the Division was entered as the funding source, but the "funding ratio" was blank so the specific source(s) of the funding (license revenue, partial Federal funds, and/or state appropriations) could not be readily determined.

Equipment. The "State of Nevada Accounting Policies and Procedures, Subject: Fixed Assets" required that the Division identify the source of funding, including Federal grants, for all equipment. The working papers indicated that the Division's Fixed Asset Inventory Report identified the funding source as either state or Federal Aid, but that in some cases, the designation was incorrect. For example, the working papers indicated that four vehicles identified as funded with Federal Aid were acquired with state funds and one vehicle identified as state funded was acquired with Federal Aid funds. Also, the inventory report did not include a description or cost of the property.

B. Grant Compliance.

The working papers identified the following deficiencies in the Division's compliance with grant requirements.

- Although the Division identified and reported program income associated with grants W-48-R-28, F-32-D-6, and FW-4-D-3, the working papers noted that the Division had not included in its grant proposals an estimated amount of program income. The

Federal Aid Manual, Part 522.1.4C requires the Division to identify estimated program income in its grant proposals and related grant agreements. This information allows FWS to ensure that revenue-generating activities are proper uses of Federal Aid lands, the estimated revenues are considered in determining the amount of the grant, and program income is reported on the Financial Status Report.

- The Division did not ensure that the Nevada Division of State Parks complied with provisions in a Memorandum of Understanding to identify and use the portion of fees charged at state parks related to Federal Aid sponsored projects (boating access ramps primarily) to offset operation and maintenance costs at those facilities. According to the working papers, Parks did not separately identify fees related to Federal Aid projects and used all revenue generated for operation and maintenance of all state parks. Therefore, the auditors could not identify the amount of fees collected that related to specific Federal Aid projects but estimated the total possible impact was negligible. Therefore, no costs were questioned.

- Interviews with Division employees responsible for grant monitoring indicated that some employees may not be effectively monitoring project performance because they did not have access to current accounting reports or any accounting reports and/or could not understand the accounting reports they received. The Code of Federal Regulations (43 CFR 12.80(a)) requires grantees to "monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved."

- The Division submitted the majority of its FY 1997 final Financial Status Reports more than 1 month later than the FWS-approved extension of time to file. According to the regulations (43 CFR 12.81(b)(4)), the final reports are to be submitted 90 days after the expiration or termination of grant support, in this case by September 28. However the Division requested a time extension to December 15, 1997, but did not submit the reports until January 28, 1998.

- The Division had not developed formal written guidance for the use of employees responsible for preparing applications for Federal Aid grants.

C. Drawdowns

The Division made interim draws against Federal Aid grants using the value of in-kind contributions to meet matching requirements before receiving adequate documentation supporting the in-kind values. According to the Code of Federal Regulations (43 CFR 12.64(b)(6)), the value of such contributions must be verifiable from the grantee's records and are subject to the same documentation requirements used to support the allocability of regular personnel costs. For example, the Division historically used in-kind voluntary contributions to meet 100 percent of the matching requirements for the hunter and aquatic education programs and made monthly draws assuming the contributions had occurred. However, the Division did not obtain detailed support for the voluntary in-kind contributions for these education programs until the end of the fiscal year. If the full amount of the expected in-kind contributions had not occurred, this practice could result in the Division receiving inappropriate advance payments resulting in lost interest to the Federal government. The working papers indicated that a Department administrator said the in-kind match calculation procedures had been revised to correct this issue.

Division Response and Office of Inspector General Comments

The Division's response identified several actions that had been taken to address these management issues. The FWS should ensure that these actions are sufficient to address these issues.

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