



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

ADVISORY REPORT

**COSTS CLAIMED BY THE
COMMONWEALTH OF
KENTUCKY, DEPARTMENT OF
FISH AND WILDLIFE
RESOURCES, UNDER FEDERAL
AID GRANTS FROM THE
U.S. FISH AND WILDLIFE
SERVICE FROM JULY 1, 1996
THROUGH JUNE 30, 1998**

MARCH 2003

Report No. 2003-E-0020



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

March 4, 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 Commonwealth of Kentucky,
Department of Fish and Wildlife Resources, Under Federal Aid Grants from the
U.S. Fish and Wildlife Service from July 1, 1996 through June 30, 1998
(No. 2003-E-0020)

Introduction

This report presents the results of our performance of procedures to review another audit agency's work related to costs claimed by the Commonwealth of Kentucky, Department of Fish and Wildlife Resources (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. 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 2000, another audit agency prepared a draft audit report on its audit of the Commonwealth of Kentucky Federal Aid Program grants that were active in fiscal years 1997 and 1998. The scope of its audit work, as stated in the announcement letter to the Department, was to evaluate (1) the adequacy of the Department's accounting system as it relates to the accumulation and reporting of costs charged to grants; (2) the adequacy and eligibility of the

direct costs claimed by the Department under the Federal Aid grant agreements with FWS; (3) the adequacy and reliability of the Department's hunting and fishing license fees collection and disbursement process; and (4) the adequacy of the Department's purchasing system and related internal controls. The audit was also to include an analysis of other issues considered to be sensitive and/or significant to FWS. The audit work at the Department covered claims totaling approximately \$17 million on FWS grants that were open during the Department's fiscal years ending June 30, 1997 and 1998 (see the Appendix). The audit agency's agreement with FWS expired before a draft report was issued to the Commonwealth of Kentucky.

From 1996 through September 2001, the audit agency conducted audits of Federal Aid grants under a reimbursable agreement with FWS. FWS did not renew or extend its agreement with the audit agency, which expired on September 30, 2001. At the time of expiration, final audit reports on several uncompleted audits had not been issued and the audits were in various stages of the audit and reporting processes. The audit agency indicated in a September 28, 2001 memorandum to the file that its supervisors had not reviewed the working papers for the Kentucky 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 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.

Results of Review

The working papers disclosed the following:

- Costs of \$95,968 (Federal share) were questioned because they were incurred outside of the grant period (\$9,000), claimed in excess of the Federal share (\$10,198), non-Federal Aid costs (\$33,283), inadequately supported (\$33,674), unauthorized (\$3,292), and claimed for non-reimbursable expenses (\$6,521).
- The Department did not comply with its procedures for managing personal property acquired with Federal Aid funds.
- The Commonwealth's assent legislation allows for the transfer of license revenues to the general fund.

A. Questioned Costs

The working papers identified questioned costs of \$95,968 (Federal share) as follows:

1. Out-of-Period Costs. Costs of \$9,000 charged to Grant W-45-28 (Federal share) were questioned because they were incurred in February 1996, prior to the time period covered by the grant agreement (July 1, 1996 to June 30, 1997.) Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Attachment A states, “Any cost allocable to a particular Federal award or cost objective... may not be charged to other Federal awards.” The project had a specified time period for the performance of work and there was no evidence that FWS had authorized any deviations.

Recommendation

We recommend that FWS resolve the \$9,000 (Federal share) in out-of-period costs.

Department and U.S. Fish and Wildlife Service Responses

The Department stated that the costs were in fact out-of-period for the grant segment to which they were posted. The Department further stated there were excess expenditures that were reported on the Financial Status Report but were not drawn by the Department. Therefore, the reported finding (\$9,000) minus eligible expenditures reported (\$8,878) leaves a net of \$122 that will be returned to FWS.

The FWS agreed with the finding and the Department’s proposed actions to resolve the questioned costs. FWS stated, “The Service policy is to allow audited overmatch to offset questioned costs as long as they are specific to the grant period and performance.”

Office of Inspector General Comments

The Department’s Financial Status Report shows that the Department did have \$8,878 in additional Federal-eligible outlays that would partially offset the questioned costs. However, FWS needs to verify that the remaining questioned costs (\$122) have been credited back to FWS.

2. Excess Drawdowns. Federal Aid reimbursements of \$10,198 were questioned in the working papers because they were in excess of the Federal share indicated in the grant agreements. The Code of Federal Regulations (50 CFR 80.12) states, “Federal participation is limited to 75 percent of eligible costs incurred in the completion of approved work or the Federal share specified in the project agreement, whichever is less.” The Department was reimbursed 100 percent of the costs of four university studies. As a result, the 25 percent in excess of the allowable amount was questioned. The questioned costs are summarized as follows:

Grant	Questioned Costs	Sub-grantee
E-2-10	\$1,702	Purdue University
E-2-11	1,996	Tennessee Technological University
E-2-11	2,750	University of Kentucky
E-2-11	3,750	East Kentucky University
Total	<u>\$10,198</u>	

Recommendation

We recommend that the FWS resolve the \$10,198 in questioned costs.

Department and U.S. Fish and Wildlife Service Responses

The Department stated that, prior to closing the grant segment, appropriate manual adjustments were made to split the costs to ensure that the amount claimed did not exceed the approved Federal share. The Department provided copies of its general ledgers and the Financial Status Report that indicate that the adjustments had been made in the Department's accounting records.

The FWS stated that it concurred with the documentation provided by the State that showed that the State was reimbursed for only 75 percent of the cost of the studies.

Office of Inspector General Comments

The documentation provided by the Department indicates that appropriate adjustments were made before the Financial Status Report was submitted. Based on the responses, we consider the recommendation resolved and implemented.

3. Non-Federal Aid Grant Costs. Costs totaling \$33,283 (Federal share) were questioned in the working papers because they were not applicable to Federal Aid grants. The Code of Federal Regulations (50 CFR 80.12) states, "Federal participation is limited to 75 percent of eligible costs incurred in the completion of approved work." The questioned costs include:

- \$7,440 used to renovate a clubhouse bathroom for which the U.S. Department of Energy funds were available (Grant No. W-45-28).
- \$18,623 for a Corps of Engineers project (Grant No. F-49-12).
- \$7,220 for maps for the Peabody Wildlife Management Area, which did not participate in Federal Aid funding (Grant No. FW-6-1).

Recommendation

We recommend that the FWS resolve the \$33,283 in questioned costs.

Department and U.S. Fish and Wildlife Service Responses

a. The Department stated that the invoice for the clubhouse bathroom “was miscoded to W45-28,” and that the Federal portion of the questioned costs would be refunded to FWS.

The FWS stated that it concurs that the \$7,440 related to Grant W-45-28 are unallowable.

b. The Department stated that the questioned costs for this activity also resulted from a miscoding, the questioned costs were refunded to FWS through an amendment to Grant F-49-14, and the grant amendment as well as the Financial Status Report shows that the questioned costs (\$18,623) were reduced from the Federal share of the project.

The FWS stated that it concurs with the finding and that it accepts the adjustment made by the State.

c. The Department stated that the Project Statement for Grant FW-6-1 (copy provided) indicated that the expected results or benefits of the project were to “...produce accurate maps of the managed properties.” The Department concluded that since the wildlife management area was managed by the Department, the cost of maps were eligible for the grant segment.

The FWS stated that it “reviewed the activities approved for Grant FW-6-1 and concurs with the State that this [production of maps] is an eligible activity for this grant.”

Office of Inspector General Comments

The responses and the additional information provided by the Department were sufficient to consider items (b) and (c) resolved and implemented and item (a) resolved but not implemented.

4. Inadequate Support Documentation. Federal Aid reimbursements of \$33,674 for fish food purchases were questioned in the working papers because the auditors could not determine whether all of the purchases were for Federal Aid projects. Specifically, several purchase requisitions, purchase orders, or invoices were initially marked “NFA” (for non-Federal Aid) but were later charged to Grant F-50-19. In addition, the auditors visited several fish hatcheries and found that fish food purchased for Federal Aid grants was not segregated from that purchased for private farm ponds. The Code of Federal Regulations (50 CFR 80.15) states “Allowable costs are limited to those which are necessary and reasonable for accomplishment of approved project purposes.” In addition, the regulation further states that, “All costs must be supported by source documents or other records necessary to substantiate the application of funds.”

Recommendation

We recommend that the FWS resolve the \$33,674 in questioned costs.

Department and U.S. Fish and Wildlife Service Responses

The Department stated that the Frankfort Fish Hatchery is the only hatchery that also stocks private ponds and that fish food costs for the Federal and private programs are calculated and prorated by the Federal Aid Coordinator. The Department further stated that it must requisition necessary items, such as food, in advance of when it is to be used. The Department added that the fish food would eventually go to the different hatcheries and be coded to the different cost centers according to where it was used, and therefore, the code on the requisition was irrelevant.

The FWS stated that it accepted the method of cost allocation described by the State as an acceptable accounting practice.

Office of Inspector General Comments

The Department's response did not provide a sufficient explanation or any documentation to support the allocation method used by the Federal Aid Coordinator. Therefore, we consider this recommendation unresolved. FWS should verify that the allocation method used was proper.

5. Unauthorized Grant Costs. Costs totaling \$3,292 (Federal share) for three payments to the Kentucky River Authority for water usage fees were questioned because they were charged to Grant F-50-19 prior to the effective date of the grant modification authorizing such payments. In January 1997, the Department requested a determination from FWS as to the amount of such payments that could be requested for Federal Aid participation. FWS Region 4 responded that, based on a review of the grant documents, there was no agreement to allow for reimbursement for water usage fees. However, in March 1997, FWS issued Amendment No. 15 which incorporated usage fees into the grant and made them reimbursable effective April 1, 1997. As a result, three payments made for the periods ending June 30, September 30 and December 31, 1996 were not authorized under the grant.

Recommendation

We recommend that the FWS resolve the \$3,292 in questioned costs.

Department and U.S. Fish and Wildlife Service Responses

The Department stated that Amendment 1 to F-50-23 was submitted to offset \$65,639 of which \$3,292 was for payments to the Kentucky Water Authority. The Department provided a copy of the amendment to the grant as well as a copy of the general ledger for the grant to demonstrate that sufficient state funds had been expended to offset the questioned costs.

The FWS stated that it concurred with the finding and agreed with the method used by the State to reimburse the costs.

Office of Inspector General Comments

The responses and the documentation provided by the Department are sufficient to consider the recommendation resolved and implemented.

6. Repair Costs. Costs totaling \$6,521 (Federal share) charged to Grant W-45-29 for repairing a dump truck were questioned because they were not allocable to the grant. The dump truck was damaged in a traffic accident, and the working papers indicated that it was Department policy to carry only liability insurance on commercial vehicles. The working papers showed no evidence that such costs were allowable under the grant.

Recommendation

We recommend that the FWS resolve the \$6,521 in questioned costs.
Department and U.S. Fish and Wildlife Service Responses

The Department stated that the vehicle was being used for Grant W-45 work when the accident occurred. However, while trying to research the 1991 purchase, it was unable to obtain a copy of the purchase document to verify that the vehicle was purchased with Federal Aid funds. The Department further stated it had incurred \$1,452,193 of excess Federally eligible expenditures that were not reimbursed. Therefore, there were more than enough funds to offset the amount that was reimbursed by FWS for the repair (\$6,521).

The FWS stated that it concurred that the costs were unallowable. It further stated that the Service policy is to allow overmatch as an offset for unallowable costs as long as they are within the grant period and are for approved activities.

Office of Inspector General Comments

The Department provided sufficient documentation (Financial Status Report) to show that there were sufficient funds to offset the questioned costs. Therefore, the responses were sufficient to consider the recommendation resolved and implemented.

B. Asset Management

The working papers concluded that the Department did not comply with its own written procedures in documenting receipt, transfer and disposal of property. Those procedures require completing form FC-5 to document all equipment transactions including receipt of new items, transferring items to other employees, declaring items as surplus and reporting lost or stolen items.

Recommendation

We recommend that the FWS ensure that the Department complies with its written procedures for documenting receipt, transfer and disposal of property.

Department and U.S. Fish and Wildlife Service Responses

The Department stated that it had taken several steps to enforce the procedures that are already in place. All division directors and assistant directors have been advised on the use of proper inventory procedures and the use of form FC-5 (inventory tracking form) has been stressed to all Department employees. The Department added that it initiated a new accounting program called MARS (Management Administrative and Reporting System) in July 1999. This system generates several fixed asset forms electronically and some are automatically created based on the coding of specific payments.

The FWS stated that it considers the State's corrective actions adequate "although a review has not been done by the Service at this time."

Office of Inspector General Comments

The responses were sufficient to consider the recommendation resolved but not implemented. FWS should confirm that the practices identified in the Department's response have been implemented.

C. Assent Legislation

The Code of Federal Regulations (50 CFR 80.3) states "A State may participate in the benefits of the [Federal Aid] Act(s) only after it has passed legislation which assents to the provisions of the Acts and has passed laws for the conservation of fish and wildlife including a prohibition against the diversion of license fees paid by hunters and sport fishermen to purposes other than administration of the fish and wildlife agency."

The working papers indicated that Kentucky statute KRS 48.315 allows the General Assembly to transfer to the general fund all or part of agency funds, special funds or other funds established under provisions of several statutes, including KRS 150.150 and 235.330 which pertain to the Kentucky game and fish fund. The auditors notified FWS Region 4 on February 11, 2000 of this situation, but the working papers did not indicate whether FWS has taken any action.

Recommendation

We recommend that FWS resolve the issue regarding Kentucky's assent legislation.

Department and U.S. Fish and Wildlife Service Responses

The Department stated that it has met with members of both the Executive and Legislative Branches to discuss the potential ramifications posed by Kentucky statute KRS 48.315. However, the Department indicated that it could not find support for the necessary amendment required to delete the provision. The Department stated, "To date, the Department's funds have never been taken and kept in the General Fund. Because of the potential ramifications on the Department's federal funds that would be caused by such a seizure, the Department is confident that the statute will not be exercised."

The FWS stated that it concurred with the finding. However, it indicated that the State does have a law prohibiting the diversion of license funds.

Office of Inspector General Comments

We do not believe that the responses are sufficient to resolve this matter because Kentucky has a statute which allows the transfer of license revenues to the General Fund. In accordance with the Departmental Manual (360 DM 5.3), please provide us with your written response by June 6, 2003, regarding the open issues remaining in this report.

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 agreed to the sufficiency of those procedures.

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

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

KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 1996 THROUGH JUNE 30, 1998

Grant Number	Grant Amount	Federal Share	Claimed Federal Share	Questioned Costs	Notes
E-2-9	\$170,435	\$127,826	\$118,781		
E-2-10	75,611	56,708	56,708	\$1,702	1
E-2-11	146,164	109,623	109,623	8,496	1
E-2-12	178,248	118,234	118,234		
F-1-44	300,000	225,000	225,000		
F-1-45	310,000	232,500	232,500		
F-1-46	300,000	225,000	175,924		
F-29-30	5,333	4,000	4,000		
F-29-31	5,333	4,000	4,000		
F-40-19	336,200	252,150	215,982		
F-40-20	348,139	261,104	231,450		
F-40-21	380,755	285,566	252,142		
F-49-11	694,000	408,000	289,174		
F-49-12	550,882	413,162	394,832	18,623	2
F-50-19	2,200,000	1,650,000	1,509,873	36,966	3
F-50-20	2,694,380	2,020,785	1,944,548		
F-50-21	3,000,000	2,250,000	2,214,880		
F-61-7	12,000	9,000	9,000		
F-61-8	12,000	9,000	9,000		
F-65-4	549,186	308,390	264,512		
F-65-5	389,000	188,250	188,250		
F-65-6	279,853	151,671	151,446		
F-68-3	20,000	15,000	15,000		
F-68-4	20,000	15,000	15,000		
F-70-1	10,000	7,500	7,500		
F-70-2	10,000	7,500	7,500		
F-72-1	29,000	21,750	18,863		

Grant Number	Grant Amount	Federal Share	Claimed Federal Share	Questioned Costs	Notes
FW-3-20	170,000	127,500	82,009		
FW-3-21	190,000	142,500	132,541		
FW-6-1	289,305	216,978	170,550	7,220	2
P-1-3	65,000	29,000	19,024		
V-2-1	92,202	67,300	52,601		
V-3-1	24,000	17,000	9,000		
V-4-1	8,000	36,000	19,439		
W-45-28	3,781,749	2,836,311	2,812,653	16,440	4
W-45-29	4,404,123	3,303,092	2,318,867	6,521	5
W-6-5	1,286,797	965,097	804,694		
W-7-1	1,030,000	772,500	772,500		
W-7-2	1,030,000	772,500	609,667		
Totals	\$25,437,695	\$18,662,497	\$16,587,267	\$ 95,968	

Explanatory Notes:

1. These questioned costs pertain to costs drawn down in excess of the Federal share (Questioned Costs, 2).
2. These questioned costs pertain to Non-Federal Aid grant costs (Questioned Costs, 3).
3. These questioned costs include \$33,674 of inadequately supported costs and \$3,292 of unauthorized costs (Questioned Costs, 4 and 5, respectively).
4. These questioned costs relate to out-of-period costs and Non-Federal Aid grant costs (Questioned Costs, 1 and 3, respectively).
5. These questioned costs pertain to vehicle repair costs (Questioned Costs, 6).

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