



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

## **AUDIT REPORT**

**COSTS CLAIMED BY  
THE STATE OF INDIANA,  
DEPARTMENT OF NATURAL  
RESOURCES, UNDER FEDERAL  
ASSISTANCE GRANTS FROM  
THE U.S. FISH AND WILDLIFE  
SERVICE FROM JULY 1, 2000,  
THROUGH JUNE 30, 2002**

**Report No. R-GR-FWS-0021-2003  
DECEMBER 2003**



# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

External Audits Division  
12030 Sunrise Valley Drive, Suite 230  
Reston, VA 20191

December 22, 2003

### AUDIT REPORT

#### Memorandum

To: Director,  
U.S. Fish and Wildlife Service

From: Joe Ansnick  
Director of External Audits

Subject: Final Audit Report on Costs Claimed by the State of Indiana, Department of Natural Resources, Under Federal Assistance Grants from the U.S. Fish and Wildlife Service from July 1, 2000, through June 30, 2002  
(No. R-GR-FWS-0021-2003)

### Introduction

This report presents the results of our audit of the costs claimed by the State of Indiana, Department of Natural Resources (Department), under Federal Assistance Grants from the U.S. Fish and Wildlife Service (FWS) from July 1, 2000, through June 30, 2002.

### Background and Scope

The Pittman-Robertson in Wildlife Restoration Act, as amended (16 U.S.C. 669), and the Dingell-Johnson Aid in Sport Fish Restoration Act, as amended (16 U.S.C. 777) (the Acts), authorize FWS to provide Federal Assistance grants to the states to enhance their sport fish and wildlife programs. The Acts provide for FWS to reimburse the states for up to 75 percent of all eligible costs incurred under the grants. Additionally, the Acts specify that state hunting and fishing license revenues cannot be used for any purpose other than the administration of the state fish and game agency.

As requested by FWS, we performed a financial and compliance audit of Federal Assistance grants to the State of Indiana. The objective of our audit was to evaluate: (1) the adequacy of the Department's accounting system and related internal controls; (2) the accuracy and eligibility of the direct and indirect costs claimed under the Federal Assistance grant agreements with FWS; (3) the adequacy and reliability of the Department's hunting and fishing license fee collection and disbursement process; (4) the adequacy of the Department's asset management system and related internal controls with regard to purchasing, control and disposal;

and (5) the adequacy of the Department's compliance with the Acts' assent legislation requirements. The audit also included an analysis of other issues considered sensitive and/or significant by the FWS. The audit work at the Department covered claims that totaled approximately \$22 million on FWS grants that were open during the State's fiscal years ended June 30, 2001 and 2002 (see Appendix 1).

Our audit was performed in accordance with government auditing standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. We relied on the work of the State of Indiana Single Audit Report auditors to the extent possible in order to avoid a duplication of audit effort. Our tests included an examination of evidence supporting selected expenditures charged by the Department to the grants; interviews with employees to ensure that personnel costs charged to the grants were supportable; and a review of the Department's use of fishing and hunting license revenues to determine whether the revenues had been used for program purposes. We did not evaluate the economy, efficiency, and effectiveness of the Department's operations.

Our audit was performed at the Indiana Department of Natural Resources located in Indianapolis, Indiana. We also visited several fish hatcheries and fish and wildlife areas (see Appendix 2).

## **Prior Audit Coverage**

On July 27, 1998, we issued audit report No. 98-E-598, "Audit of U.S. Fish and Wildlife Service Federal Aid Grants to the State of Indiana Department of Natural Resources, Division of Fish and Wildlife, for Fiscal Years 1994, 1995, and 1996." We reviewed this report and followed up on all findings to determine whether they had been resolved prior to our review.

## **Results of Audit**

Our review disclosed that, except for the issues identified below, the Department's accounting system accurately accumulated grant expenditures; the direct and indirect costs were accurately reported; license fee receipts and disbursements were used for fish and wildlife purposes; and the hunting and fishing license certifications accurately reported license holders. The State also had adequate legislation that assented to the provisions of the Acts and prohibited the use of license fees for anything other than the administration of the Department.

- Costs of \$2,230 (Federal share \$1,673) were questioned because they were ineligible.
- The Department did not report program income of \$70,042.
- Indiana's Department of Corrections operated a correctional facility on land purchased with Federal Assistance funds, which was inconsistent with the purpose for which the land was originally acquired.

- Improvements are needed in the Department's time accounting for conservation officers, asset management and accounting for grant costs.

The FWS and the Department responded to a draft of this report on November 10, 2003 addressing each of the findings listed below. Based on the Department's responses, we modified the findings and recommendations as necessary to clarify the issues and to incorporate any additional information provided. We have included the responses after our recommendations to resolve each finding.

## **A. Questioned Costs**

We questioned \$2,230 (Federal share \$1,673) for costs associated with a workplan not approved in grant number W-26-R-32. Indiana's Department of Natural Resources had removed the workplan, identified as a base of operations, because the workplan was not approved in the grant. However, a subsequent Departmental adjustment resulted in the re-recording of \$2,230 of costs associated with the base of operations. Department officials agreed that the costs should not have been charged to the grant.

### **Recommendation**

We recommend that the FWS resolve the \$2,230 of questioned costs.

### **Department Response**

The Department concurred with the finding and deducted the \$2,230 of questioned costs from the total outlays on the final Financial Status Report for grant W-26-R-34.

### **U.S. Fish and Wildlife Response**

The FWS agreed with the finding and action taken by the Department to resolve the questioned costs and provided documentation supporting the action taken.

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

The documentation provided indicates that appropriate adjustments were made; therefore, we consider the recommendation resolved and implemented and no further action is required.

## **B. Additional Findings**

**1. Program Income.** The FWS grants have not been credited for the gross program income generated at Division of Fish and Wildlife areas. As a result, program income was understated by \$70,042 for services provided for in Division leases but not disclosed to FWS. For example:

- The final Financial Status Reports (SF-269) for Grants FW-22-D-33 and FW-22-D-34 included annual program income of \$11,940 from a State Surplus Lease No. 303-

00/01 DNR, for farming 255 acres at Jasper-Pulaski Fish and Wildlife Area (FWA) even though the lease gross income totaled \$30,966. The \$19,026 difference resulted from the Department netting gross income against the lessee's estimated construction costs of a pond (\$13,500) and \$5,526 for the lessee to purchase chemicals and to leave a portion of the crop in the field for use by the FWA.

- The final SF-269s for Grants FW-22-D-33 and FW-22-D-34 included annual program income of \$3,500 from State Surplus Lease No. 304-99-2000 DNR, for farming at the Willow Slough FWA even though the lease gross income totaled \$19,495. The \$15,995 difference resulted from the Department netting gross income against the costs of the lessee providing 100 hours of bulldozing services valued at \$7,000 along with purchasing chemicals and leaving a portion of the crop in the field for use by the FWA valued at \$8,995.

Program income is defined in 43 CFR § 12.65(b) 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. The grant period is defined as the time between the effective date of the award and the ending date of the award reflected in the final financial report. In addition, 43 CFR § 12.65(g) requires program income to be deducted from outlays which may be both Federal and non-Federal unless the Federal agency regulations or the grant agreement specify another alternative.

According to Department officials, obtaining services through the reduction of program income provided benefits to the fish and wildlife areas in its wildlife management efforts. Based on our review of the grant documents, we could not identify that the benefits provided; i.e., pond construction or bulldozing services, were agreed to by FWS. We agree that benefits may be provided through the reduction of program income but that the Department needs to fully report program income in terms of cash or the value of services provided and obtain approval from the FWS for the use of program income. In this way, FWS and the state can identify total program income and program costs, and they can determine what method (deductive or additive) to use to apply program income to program costs.

## **Recommendation**

We recommend that the FWS require the Department to adopt procedures to report total gross income generated by program activity and any reductions to income.

## **Department Response**

The Department stated that it considered this as an issue of procedural documentation. The Department acknowledged that the contract process does not report the services in question as income, but added that it also does not treat products received as costs. As a result, the Department concluded that there was no fiscal impact and therefore, the finding is a reporting issue. The Department has met with FWS Region 3 personnel to discuss procedures to resolve this issue.

## **U.S. Fish and Wildlife Response**

The FWS concurred that the Department should adopt procedures to report total gross income generated by program activity and any reductions to income. The FWS agreed to assist the Department in developing specific procedures providing for full disclosure of services traded as contained in Departmental lease arrangements.

## **Office of Inspector General Comments**

We consider the response sufficient to consider this matter resolved but not implemented. FWS should identify a target date and an official responsible for implementation of the recommendation.

**2. Inappropriate Use of Federal Assistance Land.** The Medaryville Correctional facility, operated by the Indiana Department of Corrections, is located on land acquired in June 1943 with Federal Assistance funds for developing the Jasper-Pulaski Game Preserve, which is now the Jasper-Pulaski Fish and Wildlife Area (FWA). According to Indiana officials, the purchased land included the structures being used as dormitories for prison inmates working at Jasper-Pulaski FWA. In 1961, a brick dormitory was constructed on the site using Indiana Department of Corrections' funding. The use of prison labor assisted in the development of the FWA from a game preserve. As of March 2003, prison laborers continued to work on the FWA.

According to 50 CFR § 80.14, real property acquired or constructed with Federal Aid funds must continue to serve the purpose for which it was acquired or constructed. When such property passes from the fish and wildlife agency control, the control must be fully restored or the real property must be replaced using non-Federal Aid funds. Replacement property must be of equal value at current market prices and with equal benefits as the original property. The State may have a reasonable time, up to three years from the date of notification by the regional director, to acquire replacement property before becoming ineligible. When such property is used for purposes, which interfere with the accomplishment of approved purposes, the violating activities must cease and any adverse effects resulting must be remedied.

Since Federal Assistance funds were used to purchase the land upon which the correctional facility is located, this land cannot be used for its intended purpose of developing wildlife resources and is, therefore, an inappropriate use.

## **Recommendation**

We recommend FWS notify the Department of the inappropriate use and either require full restoration of the property or replace such property with value equal to current market prices and benefits equal to the original property.

## **Department Response**

The Department concurred with the finding and provided a brief history of the property over the past 50 years. The Department has met with FWS Region 3 personnel and developed a joint agreement defining the situation. A list of options is being developed and a timeline for implementing a solution agreed to by the FWS and the Department will be established.

## **U.S. Fish and Wildlife Response**

FWS will be working with the Department to return the property to a use that is eligible and allowable as a project purpose under Federal Assistance grant programs. In addition, FWS Region 3 indicated that the Federal Assistance program should receive some compensation for the use of the land since 1961, when major renovations and expansion were made to the correctional facility. FWS intends to work closely with the Department to establish corrective actions and a reasonable implementation schedule.

## **Office of Inspector General Comments**

We consider the response sufficient to consider this matter resolved but not implemented. FWS should identify a target date and an official responsible for implementation of the recommendation.

**3. Use of License Revenues – Law Enforcement.** Time coded to the Division of Fish and Wildlife by the Law Enforcement Division may not be reasonable in relation to the overall responsibilities of the Law Enforcement Division. Law Enforcement staff coded 82 percent of its time to fish and wildlife activities, although it received only 29 percent of its funding from license fees. However, the acreage identified as fish and wildlife comprised only 25 percent of the land base for which the Law Enforcement Division was responsible. The other acreage included State Parks (15 percent), Reservoirs (27 percent), and Forestry (33 percent). Further, the Department's enforcement duties were assigned to conservation officers whose position descriptions included not only enforcement of Fish and Wildlife regulations but also numerous other general law enforcement duties on Departmental, other State, and private lands.

Assuming that the Law Enforcement Division spends an equal amount of effort enforcing laws on each acre of land, at most 25 percent of the Law Enforcement Division's time should be spent on Fish and Wildlife activities. However, the time reporting system for the Division of Law Enforcement contained only three time codes to charge time during the period - fish and wildlife, boating, and other.

Department officials explained to us that using fish and wildlife land ownership acreage to estimate the activities of its Law Enforcement staff would not result in an accurate estimate of their activities because, in addition to enforcing laws on Departmental land, Law Enforcement is also responsible for enforcing fish and wildlife regulations on all rivers and streams and on private lands. The time spent enforcing fish and wildlife regulations on rivers and streams and on private lands would be left out. According to Department officials, Departmental lands total

only about 4 percent of the State's total land area over which the conservation officers have law enforcement responsibilities.

While we agree that these additional areas of responsibility would affect the coding of law enforcement activities, this disclosure points to the need of a time coding system that truly reflects where the activities of its Law Enforcement staff take place in addition to what activities they perform. Without a detailed time accounting system, neither the Department nor we can accurately determine the proper allocation of law enforcement time and costs to the License Fee Fund.

The Division of Law Enforcement funding for state fiscal year 2002 totaled \$16.7 million that came from the General Fund (\$10.1 million), the License Fee Fund (\$4.8 million), and the sale of permits (\$1.8 million). 50 CFR § 80.4 states that revenues from the license fees paid by hunters and anglers shall not be diverted to purposes other than administration of the State fish and wildlife agency. As such, the Department must be able to ensure that the Division of Law Enforcement activities support at least \$4.8 million (29 percent) of fish and wildlife costs.

The three categories, fish and wildlife, boating, and other, to which the Law Enforcement staff coded their time, were developed in response to a prior audit report finding regarding the adequacy of the Law Enforcement time keeping procedures. In our opinion, these three categories were not adequate because there were no time codes for the other eight Departmental divisions or for other areas of law enforcement in which the Law Enforcement staff may have worked. The fact that the Division of Law Enforcement was limited to recording time in only three categories may have contributed to the large amount of time charged to fish and wildlife activities.

During our discussions with Department officials concerning this issue, we were informed that the Department was attempting to obtain a new time accounting system for the Division of Law Enforcement that would provide more time codes and coding information.

## **Recommendation**

We recommend that the FWS require the Department to adopt more descriptive time codes and coding information for the other Departmental divisions and for the other areas of law enforcement responsibilities.

## **Department Response**

The Department agreed that the existing time accounting system should be upgraded to include a more descriptive series of codes or definitions for the codes reflective of law enforcement activities. The Department took exception to the recommendation to require the Department to adopt a new time accounting system. The Department intends to continue discussions with FWS Region 3 to resolve the issue.



## U.S. Fish and Wildlife Response

The FWS agrees that the Department should improve its time accounting for law enforcement activities and will work with the Department to resolve the issue.

### Office of Inspector General Comments

We have revised the recommendation to clarify that a new time accounting system was not a requirement. We consider the response sufficient to consider this matter resolved but not implemented. FWS should identify a target date and an official responsible for implementation of the recommendation.

**4. Asset Management.** The Department of Natural Resources asset inventory was not current or complete, and did not identify the funding source; e.g., Federal Assistance, license fees, or other. For example, on our site visit to Jasper-Pulaski FWA we found equipment items onsite that were not listed on the State's on-site inventory such as a New Holland wood boss purchased on October 30, 2001 for \$66,695, and a telescope purchased on March 28, 2000, for \$3,353.

The Department's land inventory was accounted for through 1993 on plat maps along with a summary file of individual land purchases and starting in 1994 in the Department's Asset Management System. However, the funding source is not always identified in either system. It should be noted that the number of land purchases in the land inventory system with unidentified funding sources is small. For example, on the Glendale FWA plat map, the funding source was not indicated for 2 of the 101 land acquisitions.

Federal Regulations require that the State:

- Be responsible for the accountability and control of all assets to assure that they serve the purpose for which acquired throughout their useful life (50 CFR § 80.18(c) and USFWS Manual, Part 522, CH. 1.16 B Equipment),
- Maintain current and complete financial, property and procurement records for three years after submission of the final expenditure report and for three years following final disposition of the property (50 CFR § 80.19),
- Use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures (USFWS Manual, Part 522, CH. 1.16 B Equipment & 43 CFR § 12.72 Equipment.)

Department officials were aware that the Department's Asset Management System may or may not reflect the current status of the Division of Fish and Wildlife assets and attributed some of the inventory problems to system processing errors. Further, the identification of the funding source was not included in the system programming.

As a result, the Department of Natural Resources may not be able to ensure easily and in a timely manner that assets purchased with Federal Aid or license fee funds are utilized solely for fish and wildlife purposes. The Department was aware of the problems and was attempting to correct the inventory issues.

### **Recommendation**

We recommend that the FWS monitor the Department's establishment of an asset management system that provides inventory data that is complete and current and that identifies the funding source.

### **Department Response**

The Department concurred with the recommendation and stated that it has been working to improve the asset inventory system for several years and the project will be ongoing for an extended period.

### **U.S. Fish and Wildlife Response**

FWS agreed with the recommendation and will monitor the Department's establishment of an improved asset management system.

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

Based on the response, we consider this matter resolved. FWS should identify a target date and an official responsible for implementation of the recommendation.

**5. Out of Period Costs – Cash Basis Reporting.** Grant costs claimed by the Department included the recognition of costs based on its cash basis accounting system. The Department's application and use of the cash basis of accounting for preparing its final SF-269s and reporting the financial results of its Federal Aid grants ending on June 30 resulted in the charging of some SFY 2001 costs to SFY 2002 grants. Correspondingly, some costs were charged to SFY2001 grants that were costs of SFY 2000 grants. The condition pertained to all grants no matter when the grant ended.

According to 43 CFR § 12.63, where a funding period is specified, a grantee may charge an award only for costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period. In addition, the grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period to coincide with the submission of the annual Financial Status Report (SF-269).

The charging of grants for the costs of a prior year or grant occurred because some obligations for payment occurred near year-end but were not paid (and thus not recognized for SF-269 reporting) until after the end of the grant's period of performance. For example, on

Grant FW-22-D-34, the Department claimed and was reimbursed the costs of a contractor at Atterbury FWA, who was paid \$8,850 on February 5, 2001, for services delivered in the prior grant ending January 31, 2001.

As a result, the Department's claimed grant expenditures can include a prior grant's costs, which would not be allowable. The Department's application and use of the cash basis of accounting has been consistent during the audit period. Furthermore, according to Department officials, this method was in accordance with FWS direction and concurrence.

## **Recommendation**

We recommend that the FWS require the Department to include all grant obligations liquidated between the end of the grant period and the filing of the final SF-269 for every Federal Assistance grant.

## **Department Response**

The Department did not concur with the finding, and stated that the cash basis of accounting meets all state and Federal requirements for accounting of Federal funds. Further, according to the Department, use of any other method could create internal control issues, present difficulties balancing subsidiary records with official records, and could result in the potential of not being able to close a grant within the 90-day period.

## **U.S. Fish and Wildlife Response**

The FWS stated that it would determine whether the Department's use of cash basis accounting to report claimed costs on Federal Assistance grants is consistent with reporting requirements.

## **Office of Inspector General Comments**

Based on the response, we consider this matter unresolved. FWS should determine if it concurs with the finding and if so, identify a target date and an official responsible for implementation of the recommendation.

In accordance with the Departmental Manual (360 DM 5.3), please provide us with your written response by March 24, 2004, to the recommendations included in this report. Your response should include information on actions taken or planned, including target dates and titles of officials responsible for implementation. If you have any questions regarding this report, please contact me at (703) 487-5353 or Mr. K. Timothy Gallagher, Team Leader, at (916) 978-5657.

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

**INDIANA DEPARTMENT OF NATURAL RESOURCES  
FINANCIAL SCHEDULE OF REVIEW COVERAGE**

Grant Number	Grant Amount	Claimed Costs*	Questioned Costs	Federal Share	Note
F-10-D-33	\$1,500,000	\$1,289,354			
F-10-D-34	1,800,000	1,695,840			
F-10-D-35	1,839,662	423,758			
F-15-D-61	120,000	7,850			
F-15-D-63	14,025	14,026			
F-15-D-64	192,405	0			
F-15-D-65	67,037	81,058			
F-15-D-67	564,000	0			
F-18-R-15	733,768	731,729			
F-21-D-10	1,600,000	889,983			
F-21-D-11	2,000,000	1,433,792			
F-21-D-12	1,860,900	810,627			
F-24- E-2	400,000	484,472			
F-24-E-5	132,000	42,227			
F-24-E-6	161,385	144,666			
F-24-E-7	168,230	53,762			
FW-14-C-47	115,900	123,003			
FW-14-C-48	119,826	140,286			
FW-21-D-34	2,959,630	2,057,219			
FW-21-D-35	870,000	229,809			
FW-22-D-33	5,000,000	2,701,764			
FW-22-D-34	5,048,636	4,375,470			
FW-22-D-35	4,166,211	1,524,452			
FW-26-T-10	318,843	186,314			
FW-26-T-11	406,910	320,100			
FW-28-D-1	2,878,191	1,971,318			
W-26-R-32	563,657	337,154	\$2,230	\$1,673	1
W-26-R-33	920,670	571,428			
W-32-S-5	98,000	98,003			
W-32-S-6	15,238	14,332			
Totals	\$36,635,124	\$22,753,796	\$2,230	\$1,673	

\* Includes only amounts recorded during the audit period, July 1, 2000, through June 30, 2002.

**Note:** 1. Questioned costs pertain to an unapproved work plan included in the Statewide Wildlife Research grant (see Questioned Costs, A).

## **INDIANA DEPARTMENT OF NATURAL RESOURCES**

### **SITES VISITED**

Pigeon Fish and Wildlife Area  
Law Enforcement District 1, Syracuse, IN  
Fawn State Fish Hatchery  
Tri-County Fish and Wildlife Area  
Kingsbury Fish and Wildlife Area  
Mixswabah State Fish Hatchery  
Kankakee Fish and Wildlife Area  
Jasper-Pulaski Fish and Wildlife Area  
Winamac Fish and Wildlife Area  
Willow Slough Fish and Wildlife Area  
La Salle Fish and Wildlife Area  
Cikana State Fish Hatchery  
Avoca State Fish Hatchery  
Sugar Ridge Fish and Wildlife Area  
Blue Grass Fish and Wildlife Area  
Law Enforcement District 8, Birdseye, IN  
Glendale Fish and Wildlife Area  
East Fork State Fish Hatchery

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