



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

## **AUDIT REPORT**

**U.S. Fish and Wildlife Service  
Federal Assistance Grants  
Administered by the State of  
New Hampshire, Fish and  
Game Department, from  
July 1, 2001, through  
June 30, 2003**

**Report No. R-GR-FWS-0009-2004**

**March 2005**



# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

External Audits

12030 Sunrise Valley Drive, Suite 230  
Reston, Virginia 20191

March 31, 2005

### AUDIT REPORT

#### Memorandum

To: Director  
U.S. Fish and Wildlife Service

From: Andrew Fedak *Andrew Fedak*  
Director of External Audits

Subject: Final Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the State of New Hampshire, Fish and Game Department, from July 1, 2001, through June 30, 2003 (No. R-GR-FWS-0009-2004)

This report presents the results of our audit of costs claimed by the State of New Hampshire, Fish and Game Department (Department), under its Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included claims that totaled approximately \$8.2 million on FWS grants that were open during the State's fiscal years ended June 30, 2002 and 2003 (see Appendix 1). The audit also included a review of the Department's compliance with certain regulatory and other requirements, including those related to the collection and use of State hunting and fishing license revenues and the reporting of program income.

We questioned costs of \$44,726 for media equipment usage charges that were not supported. We also found that the Department had not implemented recommendations made in our prior audit report regarding the Department's inability to reconcile its Federal Aid Accounting System to the New Hampshire Integrated Financial System.

FWS Region 5 responded to a draft of this report on March 15, 2005, and included the Department's March 14, 2005 response to FWS. Based on the Department's response, we made minor changes to the report to clarify issues and correct inaccuracies. We also summarized the FWS and Department responses after the recommendations and added our comments on the responses. The status of the recommendations is summarized in Appendix 3.

In accordance with the Departmental Manual (361 DM 1), please provide us with your written response to the findings and recommendations included in this report by July 1, 2005. Your response should include information requested in Appendix 3. If you have any questions regarding this report, please contact me at 703-487-5345 or Mr. Tom Nadsady, Audit Team Leader, at (916) 212-4164.

cc: Regional Director, Region 5  
U.S. Fish and Wildlife Service

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# Introduction

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## Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts) <sup>1</sup> authorize the U.S. Fish and Wildlife Service (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 the eligible costs incurred under the grants. They also 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.

## Scope, Objective, and Methodology

We performed our audit at the New Hampshire Fish and Game Department (Department) headquarters in Concord, New Hampshire. The audit work at the Department included claims that totaled approximately \$8.2 million on FWS grants that were open during the State's fiscal years (SFYs) ended June 30, 2002 and 2003 (see Appendix 1). We also visited a waterfowl management area, 3 fish hatcheries, 4 wildlife management areas, 4 regional offices, a conservation area, a youth conservation camp, and 13 boat access facilities (see Appendix 2). The objective of our audit was to evaluate:

- the adequacy of the Department's accounting system and related internal controls;
- the accuracy and eligibility of the direct and indirect costs claimed under the Federal Assistance grant agreements with FWS;
- the adequacy and reliability of the Department's hunting and fishing license fees collection, certification, and disbursement processes;
- the adequacy of the Department's asset management system and related internal controls with regard to purchasing, control, and disposal; and
- the adequacy of the State's compliance with the Acts' assent legislation requirements.

We performed our audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that we considered necessary under the circumstances. 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, or effectiveness of the Department's operations.

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<sup>1</sup> As amended, 16 U.S.C. § 669 and 16 U.S.C. § 777, respectively

## Prior Audit Coverage

On November 30, 2000, we issued audit report No. 01-E-61, “U.S. Fish and Wildlife Service Federal Aid Grants to the State of New Hampshire Fish and Game Department, for Fiscal Years Ended June 30, 1997 and 1998.” In addition, the New Hampshire Office of Legislative Budget Assistant (LBA), Division of Audits, issued Single Audit reports on the State for SFYs 2002 and 2003 and a separate report, “State of New Hampshire Fish and Game Fund, Financial and Compliance Audit Report for the Fiscal Year Ended June 30, 2003.” The results of our review of these reports follows:

- For our November 2000 report, we followed up on all significant recommendations to determine the status of their resolution. We found that four recommendations remained unresolved. The four recommendations related to the Department’s inability to reconcile its Federal Aid Accounting System (FAAS) to the New Hampshire Integrated Financial System (NHIFS). Accordingly, we have included a discussion of the current status of the issue in this report (see Finding B) and updated and reiterated the recommendations to reflect current conditions.
- Our review of the Single Audit reports issued by the LBA for SFYs 2002 and 2003 disclosed that the Department was not considered a major program in either audit, and none of the reported findings impacted the Fish and Game Department’s Federal Assistance grant program.
- Our review of the LBA’s report and selected working papers on its audit of the Department’s Fish and Game Fund indicated that a thorough review of the Department’s financial operations and internal controls had been performed, which resulted in a clean opinion on the financial statements of the Fund. The report on internal controls noted 2 material weaknesses and 46 nonmaterial weaknesses, all of which the Department had either already corrected or agreed to correct. One of the material weaknesses identified in the report was the systems reconciliation issue, which was noted in our November 2000 report and is addressed in our current report. The other material weakness was related to the general internal control environment, which the Department has already initiated action to improve. We considered the reported nonmaterial control weaknesses with a potential effect on Federal Assistance grants, as appropriate, in our testing.

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## Results of Audit

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We found that the Department was generally in compliance with applicable regulations and grant accounting requirements. Specifically, we noted the following:

- Except for finding A below, the direct and indirect costs we tested were accurately reported and claimed;
- The Department's hunting and fishing license fees collection, certification, and disbursement processes were adequate and reliable;
- The asset management system was adequate for identifying and tracking personal and real property with regard to acquisition, control, and disposal; and
- The State had adequate legislation that assented to the provisions of the Acts and prohibited the use of license fees for any purpose other than the administration of the Department.

However, we found that:

- A. The Department did not have adequate support for \$44,726 charged to two grants for media equipment used in the production of television programs.
- B. The Department cannot reconcile its accounting system to the State's financial accounting system. This finding was included in our prior report.

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### A. Unsupported Charges of \$44,726 for Media Equipment

The Department charged \$19,883 (Federal share \$14,912) to Grant FW-29-06 and \$24,843 (Federal Share \$18,632) to Grant FW-29-05 for media equipment usage. This equipment was owned and used by the State to produce television programs as part of its public outreach efforts. The charges were based on rates developed by the Department using quotes obtained from three vendors. Although there was documentation of the quotes received from the vendors, there was no documentation showing how the Department developed its rates.

According to OMB Circular A-87,<sup>2</sup> "rental rates under less-than-arms length leases are allowable only up to the amount that would be allowed had title to the property vested in the governmental unit." The Circular goes on to define less-than-arms-length as including the circumstance where, "both parties are part of the same governmental unit." Since the media equipment was owned by the State, the Department should have recovered the cost of the equipment for the State through

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<sup>2</sup> Attachment B, Cost Item Number 38

application of a use allowance based on the actual acquisition cost of the equipment.<sup>3</sup> Because the Department used an inappropriate method for charging the use of the media equipment to the two grants, we consider the entire \$44,726 charged to be unsupported.

### **Recommendations**

We recommend that FWS:

1. Resolve the unsupported costs of \$44,726.
2. Require the Department to develop and apply usage rates, based on the acquisition cost of the equipment, when claiming costs for media equipment.

### **Department Response**

The Department did not concur with the finding. The Department stated that it charged the grants for equipment usage using a method it believed was appropriate and reasonable. The hourly rates used were based on quotes obtained from the marketplace and the Department used the lowest rates quoted for each service. The Department feels that at a minimum, there should be some value to the equipment usage that could be supported. In addition, the Department stated that the excess state share would offset all of the costs identified as unsupported for Grant FW-29-0-5.

### **FWS Response**

FWS concurred that some value of the equipment usage charges should be supported and that the Department had cost overruns of \$64,140 on grant FW-29-0-5.

### **OIG Comments**

We agree that some portion of the amounts charged to the two Federal Assistance grants for equipment usage would be appropriate but we do not agree that the use of rates from vendor quotes results in appropriate and reasonable charges. We believe that using vendor-quoted rates likely results in excessive charges because the rates include a profit factor while a use allowance is based on costs only. We also agree that it would be appropriate to offset unsupported costs by any overruns that were reported on the FS 269. We did not, however, have documentation at the time of our review showing that an overrun had been incurred or reported. We suggest that the Department reconsider the development of equipment usage rates for any State-owned equipment used on Federal Assistance grants in the future. We consider this finding unresolved and the recommendations not implemented.

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<sup>3</sup> The derivation of a use allowance is discussed in Attachment B of the Circular under Cost Item 15.

## **B. Reconciliation of the Department and State Accounting Systems**

Our prior audit found that the Department did not have the ability to reconcile its accounting system (FAAS) to the State's financial accounting system (NHIFS). The Department's FAAS is a vender-produced software program that was modified by the Department to facilitate Federal Assistance accounting and reporting. FAAS operates as a stand-alone system that does not interface with NHIFS. The audit report contained four recommendations to resolve the reconciliation issue.

However, due to the delayed implementation of a new State financial accounting system, the Department has been unable to take the corrective actions needed to resolve these recommendations. According to a May 2004 memorandum from FWS Federal Assistance officials in Region 5 to the Washington Office regarding the resolution of the recommendations in our November 2000 report, a new statewide accounting system would be implemented by end of SFY 2005. However, Department officials stated that implementation has now been delayed to SFY 2006. The memorandum also indicated that four recommendations that "concern the creation of a financial system that can be reconciled to the State system," remained unimplemented. These recommendations were stated as follows:

- The grantee should create a system that can be reconciled to the State's accounting system; establish and implement requirements for password control at a managerial level; and establish written policies and procedures addressing application controls over transaction input, processing, and output. (Prior Recommendation 8)
- The grantee's new policies and procedures should be evaluated in the future and monitored for adequacy and effectiveness. (Prior Recommendation 9)
- The grantee should establish procedures that require the total labor costs distributed to grants be reconciled with the labor distribution generated by NHIFS. (This recommendation (prior Recommendation 10) addressed an issue regarding the use of different employee labor rates in the two systems.)
- The grantee should conduct a follow-up review to determine if its corrective action steps adequately address the labor reporting system deficiency. (Prior Recommendation 12)

As stated in the LBA report (see Prior Audit Coverage), the inability to reconcile the Department and State accounting systems is a material weakness in properly accounting for Federal Assistance grant costs. Accordingly, we are restating the recommendation on reconciling the two systems.

### **Recommendation**

We recommend that FWS monitor the implementation of the new statewide financial accounting system and ensure that the Department implements an accounting system for Federal Assistance grants that is capable of being reconciled to the State's new system, including the reconciliation of labor costs on Federal Assistance grants.



### **Department Response**

The Department stated that an Acquisition and Implementation Request for Proposals was issued at the end of SFY 2004, but that at this time it is not possible to say precisely when a new system will be in place.

### **FWS Response**

The FWS concurred with the finding.

### **OIG Comments**

Based on the Department and FWS responses and the uncertainty as to when a new State accounting system will be in place, we consider the finding unresolved and the recommendation not implemented.

## NEW HAMPSHIRE FISH AND GAME DEPARTMENT FINANCIAL SUMMARY OF REVIEW COVERAGE

Grant Number	Grant Amount	Claimed Costs*	Unsupported Costs**	
			Total	Federal Share
A-2-O-1	\$15,000	\$15,000		
F-50-R-18	635,850	402,596		
F-50-R-19	588,000	441,000		
F-53-E-15	380,000	228,445		
F-53-E-16	372,000	246,141		
F-60-D-9	1,485,000	1,113,750		
F-60-D-10	1,833,500	1,100,100		
F-61-R-8	280,000	137,818		
F-61-R-9	272,000	185,888		
F-61-R-10	276,000	196,043		
F-100-R-18	6,400	4,764		
F-100-R-19	5,760	3,749		
F-100-R-20	5,000	2,819		
FW-17-C-27	76,000	50,288		
FW-17-C-28	79,200	52,361		
FW-23-D-12	200,000	80,322		
FW-23-D-13	80,000	37,556		
FW-25-T-8	292,000	235,418		
FW-25-T-9	365,800	210,614		
FW-27-D-7	32,000	11,075		
FW-27-D-13	20,500	8,247		
FW-28-D-7	158,185	118,102		
FW-28-D-8	240,120	176,050		
FW-29-O-4	334,000	225,608		
FW-29-O-5	198,000	148,500	\$24,843	\$18,632
FW-29-O-6	282,667	197,621	19,883	14,912
FW-30-T-3	115,000	57,499		
FW-30-T-4	104,000	62,801		
W-11-D-61	284,500	153,359		
W-11-D-62	176,000	107,887		
W-66-S-30	376,000	218,257		
W-66-S-31	413,760	312,720		
W-87-D-2	781,683	606,944		
W-89-R-2	921,000	568,939		
W-89-R-3	664,300	498,225		
	\$12,349,225	\$8,216,506	\$44,726	\$33,544

\* Includes the amounts recorded during the audit period, including indirect costs.

\*\* See Finding A

## **NEW HAMPSHIRE FISH AND GAME DEPARTMENT SITES VISITED**

### **Regional Offices**

Durham  
Keene  
Lancaster  
New Hampton

### **Wildlife Management Areas**

Bellamy WMA  
Enfield WMA  
Fort Hill WMA  
Jones Brook WMA

### **Hatcheries**

Berlin  
New Hampton  
Twin Mountain

### **Boat Access Facilities**

Cedar Pond  
Crystal Lake  
George Pond  
Hopkins Pond  
Hot Hole Pond  
Lucas Pond  
Mount William Pond  
Nay Pond  
Sewalls Falls (Merrimack River)  
Swains Pond  
Turee Pond  
Turtle-town Pond  
Willand Pond

### **Hunter Education Center**

Owl Brook

### **Waterfowl Management Area**

Merrymeeting Marsh

### **Conservation Area**

Knights Pond

### **Youth Conservation Camp**

Camp Barry

**NEW HAMPSHIRE FISH AND GAME DEPARTMENT  
STATUS OF AUDIT FINDINGS  
AND RECOMMENDATIONS**

<b>Recommendation</b>	<b>Status</b>	<b>Action Required</b>
A.1, A.2, and B	Finding Unresolved and Recommendations Not Implemented.	Provide a corrective action plan that identifies the actions taken or planned to resolve the finding and implement the recommendations, or provide an alternative solution. The plan should also include the target date and the title of the official responsible for implementing each recommendation. The unimplemented recommendations remaining at the end of 90 days (after July 1, 2005) will be referred to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

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