



# **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  
Arkansas, Game and Fish  
Commission, from  
July 1, 2001, through  
June 30, 2003**

**Report No. R-GR-FWS-0006-2004**

**May 2005**



# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

External Audits

12030 Sunrise Valley Drive, Suite 230  
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May 20, 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 Arkansas, Game and Fish Commission, from July 1, 2001, through June 30, 2003 (No.R-GR-FWS-0006-2004)

This report presents the results of our audit of costs claimed by the State of Arkansas, Game and Fish Commission (Commission), under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included claims that totaled approximately \$28.7 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 reviewed the Commission'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 identified questioned costs of \$147,013 consisting of \$139,351 that was used to maintain lands or facilities acquired or constructed with Land and Water Conservation Fund monies, which the State was required to maintain at its own expense, and \$7,662 for ineligible law enforcement activities. We also found that the official land records did not identify three parcels of land acquired with Federal funds. In addition, we identified two other issues concerning grant accounting and program income which the Commission promptly corrected during our review. Accordingly, we did not make any recommendations regarding those issues.

FWS Region 4 provided a response to a draft of this report on April 21, 2005. The response stated concurrence with the four recommendations in the report but did not specifically identify the actions to be taken to resolve the questioned costs for SFYs 2002 and 2003. We summarized the FWS response after the recommendations and added our comments regarding the responses. The status of the recommendations is summarized in Appendix 4.

In accordance with the Departmental Manual (361 DM 1.5), please provide us with your written response to the recommendations included in this report by August 19, 2005. Your response should include information requested in Appendix 4. If you have any questions regarding this report, please contact me or Mr. Richard O'Brien, Audit Team Leader, at (703) 487-5345.

cc: Regional Director, Region 4  
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 department.

## Scope, Objective, and Methodology

We performed our audit at the Arkansas Game and Fish Commission (Commission) headquarters in Little Rock, Arkansas. The audit work at the Commission included claims that totaled approximately \$28.7 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 2 fish hatcheries, 5 wildlife management areas, and 15 fishing/boating access areas, (see Appendix 3). The objective of our audit was to evaluate:

- the adequacy of the Commission'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 Commission's hunting and fishing license fees collection, certification and disbursement processes;
- the adequacy of the Commission'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 Commission to the grants; interviews with employees to ensure that personnel costs charged to the grants were supportable; and a review of the Commission'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 Commission'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 March 29, 1999, we issued audit report No. 99-E-394, “U.S. Fish and Wildlife Service Federal Aid Grants to the State of Arkansas, Game and Fish Commission, for Fiscal Years ended June 30, 1996, and 1997.” The report questioned costs of \$592,777 and discussed accounting and internal control weaknesses.

In February 2004, the Arkansas Legislative Auditor issued a Single Audit report on the State of Arkansas’ significant Federal Programs for SFY 2003, including the FWS Federal Assistance grants programs. The audit questioned \$75,368 of unreported program income, but did not identify any weaknesses in internal controls or noncompliance with requirements related to the Commission’s Federal Assistance grants.

We reviewed these reports and followed up on all significant findings to determine whether they had been resolved. The Commission completed its corrective actions during our audit, and we consider all recommendations from the prior reports resolved and implemented.

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## Results of Audit

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We found that the Commission was generally in compliance with applicable regulations and grant accounting requirements with respect to the following:

- The Commission's accounting system and related internal controls adequately and accurately accounted for grant and license fee receipts and disbursements;
- Direct and indirect costs claimed under Federal Assistance grants with FWS were adequately recorded and supported, except as noted below;
- The asset management system adequately identified and tracked personal and real property with regard to acquisition, control, and disposal; and
- The State had adequate assent legislation in place that prohibited the use of license fees for any purpose other than the administration of the Commission.

However, we also identified the following issues:

- A. We identified questioned costs of \$147,013 consisting of:
  - 1. \$139,351 that was used to maintain lands or facilities acquired or constructed with Land and Water Conservation Fund (LWCF) monies, which the State was required to maintain at its own expense, and
  - 2. \$7,662 for ineligible law enforcement activities.
- B. The Commission's official land records did not identify three parcels of land as acquired with Federal funds.

During our audit, the Commission implemented our recommendations on two other findings that we brought to their attention. Therefore, no further action is needed on the following issues:

- C. The Commission did not adequately account for or accurately report the costs incurred under two separate FWS grants for the acquisition of 9,000 acres in the Choctaw Island Wildlife Management Area (WMA).
- D. The Commission did not report program income of \$452,913 derived from the sales of harvested timber on its wildlife management areas that was earned subsequent to the period covered by our audit.

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### A. Questioned Costs

#### 1. Ineligible Use of \$139,351 in Federal Assistance Funds

We found that the Commission used Federal Assistance funds to maintain and/or operate LWCF-funded facilities and properties located in fishing access areas and WMAs. Section 6(f)(1) of the LWCF Act of 1965 (16 U.S.C. § 460l-8) requires states to operate and maintain by acceptable standards, at State expense, properties or facilities acquired or developed with LWCF funds for public outdoor recreation use. The FWS Manual (522 FW 7.5B) states that Federal Assistance funds cannot be used to operate or maintain properties or facilities purchased or constructed under the LWCF Act.

The Commission maintained approximately 91 wildlife management areas, 225 fishing access areas, and 5 hatcheries with Federal Assistance funds during SFYs 2002 and 2003. However, 6 of the locations (3 of the 91 WMAs, 2 of the 225 fishing access areas, and 1 of the 5 hatcheries) contained either properties purchased or facilities constructed with LWCF funds.

Commission officials said they were unaware that LWCF funds had been used between 1972 and 1989 to purchase or develop portions of the six sites, and they could not locate any of the related LWCF grant agreements in their files. We subsequently located the LWCF files at the Arkansas Department of Parks and Tourism.

The Commission's accounting system accounts for costs at the area level. The lowest level of grant accounting was by fish access area, wildlife management area, and hatchery. Accordingly, we were able to determine that the Commission used Federal Assistance funds of \$139,351 for maintenance of lands acquired or facilities constructed with LWCF funds at four of the six properties (see Appendix 2). One area (Swift Ditch Weir at the Dave Donaldson - Black River WMA) had no recorded maintenance costs.

We were unable to quantify the amount of Federal Assistance funds used to maintain LWCF-funded facilities at the hatchery. Grants F-43-16, F-43-17, and F-43-18 provided funds for both operation and maintenance of the hatchery as well as the production and stocking of fish. While we found that \$58,880 of the \$147,291 of non-payroll expenses charged to the grant were for maintenance and operations, utilities, janitorial services, and trash pickup, we could not identify what portion of the \$263,792 for payroll costs were related to operation and maintenance activities. Further, the accounting system did not track costs related to individual facilities. To resolve these questioned costs, the Commission will need to identify the hatchery maintenance costs incurred under the grant and allocate those costs among the facilities, including the LWCF-funded fish spawning facility. Hatchery and accounting officials said that they believe sufficient records are available to construct a reasonable estimate of the operation and maintenance costs associated with the LWCF-funded properties and facilities.

### **Recommendations**

We recommend that FWS:

- a. Resolve the issue of Federal Assistance funds used during SFYs 2002 and 2003 to operate and maintain the five sites either acquired or developed with LWCF funds.
- b. Assist the Commission in developing a methodology to discontinue using Federal Assistance funds to operate and maintain project areas or lands and facilities acquired or developed with LWCF funds.

### **Fish and Wildlife Service Response**

Regarding Recommendation A.1.a, FWS stated that it concurred with the finding and that "Prospectively, no future Federal Assistance grants will be used to maintain and/or operate LWCF-funded facilities." Regarding Recommendation A.1.b, FWS stated that by July 1, 2005, the Commission will submit to FWS documentation of the unique cost

centers for LWCF areas as a control to ensure Federal Assistance funds are not used for this purpose.

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

The response did not identify what actions would be taken to resolve the issue on the use of Federal Assistance funds in SFYs 2002 and 2003 on LWCF-funded facilities and properties. Also, the response did not contain sufficient detail on the controls to be implemented. Therefore, we consider the finding unresolved and the recommendations not implemented.

## **2. Ineligible Labor Costs of \$7,662 for Law Enforcement Activities**

The Commission charged ineligible salary costs of \$7,662 for a law enforcement officer to Grant W-64-32. OMB Circular A-87, Attachment A, Section C.1.d states that costs must conform to any limitations or exclusions set forth in the Circular, Federal laws, and terms and conditions of the Federal award to be allowable under the award. The Code of Federal Regulations (regulations) (50 CFR § 80.6(a)) prohibits the use of Federal Assistance funds for law enforcement activities conducted by the State to enforce the fish and game regulations.

The Commission's Assistant Chief – Fiscal said that the law enforcement officer's time sheet showed him working on Law Enforcement project 061 but the project code was improperly input as project 0261 of Grant W-64-32.

### **Recommendation**

We recommend that FWS resolve the questioned cost of \$7,662 related to ineligible law enforcement charges.

### **Fish and Wildlife Service Response**

FWS concurred with the finding and stated that it had received and approved a revised SF-269 dated March 24, 2005, for Grant W-64-32.

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

The FWS response was sufficient to consider the finding resolved and the recommendation implemented.

## **B. Land Records**

The Commission's official land records do not identify three parcels of land as acquired with Federal funds. Two parcels were acquired with LWCF funds: 3,888 acres acquired in 1971 for the Rex Hanson/Black Swamp WMA and 17 acres acquired in 1984 for the Mount Olive Fishing Access project. The Commission also acquired 127 acres for the Seven Devils WMA as part of an exchange under FWS Grant W-76-1 in 2001. The deeds for the two LWCF parcels do not contain a clause acknowledging Federal participation and the need to contact the National Park



Service when a potential conversion of use is imminent. The deed for the tract acquired by exchange does not contain a clause acknowledging Federal Assistance participation and the need to contact FWS when a disposition of the property or a change in its use is planned.

The regulations [43 CFR § 12.71 (b)] provide that real property will be used for the originally authorized purposes as long as needed for those purposes. The regulations [43 CFR § 12.60 (b) (3)] also require the states to maintain accountability and control over real property and assure that the property is used solely for authorized purposes.

According to Commission officials, land inventory records for the Rex Hanson/Black Swamp and Mount Olive acquisitions were maintained by the State Legislative Auditor until 1999, when the records were transferred to the Commission. Commission officials also said that at the time of transfer, they were not aware of the LWCF Federal assistance because LWCF records were maintained by the Arkansas Department of Parks and Tourism. They added that the Seven Devils land records have not been completely updated because they are awaiting the results of a land survey.

### **Recommendation**

We recommend that FWS require the Commission to update its land inventory and deeds of record to properly show Federal participation in the Mount Olive Fishing Access, Rex Hanson/Black Swamp WMA, and Seven Devils WMA acquisitions.

### **Fish and Wildlife Service Response**

The Service concurred with the finding and said that it has requested the Commission to add a Federal Assistance funding clause to the deeds for Mount Olive Fishing Access and Rex Hancock – Black Swamp WMA by May 1, 2005.

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

The FWS response was sufficient to consider the finding resolved but the recommendation not implemented.

## **Additional Findings**

We identified two additional issues that we brought to the Commission's attention during our audit. The Commission adequately addressed our recommendations prior to the completion of our audit and no further response is necessary.

### **C. Accounting for Grant Costs**

The Commission received two separate FWS grants for the acquisition of 9,000 acres in the Choctaw Island WMA. The estimated cost of the acquisition was about \$9.3 million, of which \$3,823,177 was to be funded by Federal Assistance Grant W-76-1 and \$5,473,805 was to be funded by Grant 98210-G136 under the North American Wetlands Conservation Act (NAWCA)

program. We found that the Commission did not properly account for or accurately report the costs incurred under each grant.

OMB Circular A-87, Attachment A, Section C.1.h states, in part, that to be allowable under Federal awards, costs must not be included as a cost or be used to meet cost sharing or matching requirements of any other Federal award in either the current or prior period, except as specifically provided by Federal law or regulation.

We found that the Commission did not set up a separate account for NAWCA grant costs, and all costs related to the acquisition were recorded in the account for Grant W-76-1. Further, the Commission reported the total outlays (\$9,515,300) for the acquisition on the SF 270 for the NAWCA grant, which included the \$4,508,454 reported on the SF 269 for Grant W-76-1. As a result, we were unable to determine the costs related to each grant and whether sufficient costs had been incurred to earn the grant amounts.

On September 14, 2004, we notified FWS and the Commission of this issue and recommended that FWS require the Commission to (a) properly identify and allocate the costs associated with Federal Assistance Grant W-76-1 and the NAWCA grant, and (b) revise the SF 269 for Grant W-76-1 and the SF 270 for the NAWCA grant to eliminate similar matching costs. Prior to our exit conference, the FWS and the Commission agreed with the findings and recommendations and implemented corrective action. No further action is required.

## **D. Program Income**

The Commission properly reported \$906,703 in timber sales generated on wildlife management areas that received Federal Assistance funds for their operation and maintenance during our audit period. These revenues were identified as program income for Grants W-64-32 and W-64-33 and reported on the respective Financial Status Reports, SF-269s. In October 2003, subsequent to our audit period, Commission officials decided to discontinue reporting timber sales income, beginning with Grant W-64-34. The decision was based on their interpretation of an FWS Director's Policy Memorandum dated June 6, 2002, which stated that timber sales revenue was considered as program income only during the acquisition grant period of performance.

According to the regulations (43 CFR § 12.65), program income is gross income received by a grantee directly generated by a grant-supported activity. Program income should be deducted from total grant costs to determine net costs on which the grantor's share will be based, added to the project funds to further eligible program objectives, or used to meet the cost sharing or matching requirement of the grant agreement.

When we reported this matter to the Commission's fiscal officials and the FWS Region 4 Federal Assistance staff, both parties began negotiations to address the issue. On June 8, 2004, the Regional Director, FWS Region 4, recommended that the Commission (1) submit a corrected SF 269 for Grant W-64-34 showing the revenue from timber sales as program income, and (2) submit an amendment to Grant W-64-35 requesting that timber sales be used as program income and provide the rationale for electing the matching method available under 43 CFR §12.65.

We determined that the Commission had implemented both recommendations. During our review, a revised SF 269, dated June 28, 2004, reported \$452,913 of timber sales as program income. On June 24, 2004, the Acting Chief, Federal Assistance, approved Amendment No. 2 to Grant Agreement W-64-35, changing the method of use for program income from the deductive method to the cost sharing/matching method. No further action is required.

**ARKANSAS GAME AND FISH COMMISSION FINANCIAL  
SUMMARY OF REVIEW COVERAGE  
JULY 1, 2001 THROUGH JUNE 30, 2003**

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	Federal Share	Category
F-42-16	\$621,300	\$128,689			
F-42-17	300,000	354,126			
F-42-18	860,000	231,769			
F-43-16	2,200,000	2,382,275			
F-43-17	1,519,267	1,301,317			
F-43-18	2,440,000	6,750			
F-62-9	718,900	145,744			
F-62-10	754,800	802,478			
F-62-11	800,000	597,713			
F-65-3	1,000,000	566,531	\$30,859	\$23,144	LWCF
F-65-4	690,000	818,557	33,378	\$25,033	LWCF
F-66-2	541,075	356,951			
F-66-3	651,065	402,307			
F-67-1	710,000	447,108			
F-68-1	1,640,000	1,781,043			
F-69-1	4,090,828	2,827,923			
F-70-1	636,511	552,205			
FW-1-45	216,666	45,241			
FW-1-46	228,400	141,665			
FW-1-47	228,400	93,004			
FW-6-27	200,668	91,252			
FW-6-28	200,668	227,930			
FW-6-29	250,668	209,446			
W-1-30	566,400	47,089			
W-1-31	548,534	750,876			
W-1-32	400,000	243,057			
W-64-32	4,000,000	1,740,702	7,662	5,747	Labor
W-64-33	4,000,000	3,516,398	41,766	31,325	LWCF
W-64-34	4,000,000	2,133,379	33,348	25,011	LWCF
W-69-26	90,000	4,982			
W-69-27	90,000	55,128			
W-69-28	90,000	27,030			
W-76-1	3,823,177	4,508,454			
W-77-1	181,772	183,910			
W-78-1	1,175,166	738,275			
W-79-1	23,200	20,769			
W-80-1	394,030	205,674			
	\$40,881,495	\$28,687,747	\$147,013	\$110,260	

**ARKANSAS GAME AND FISH COMMISSION  
QUESTIONED COSTS  
FEDERAL ASSISTANCE FUNDS USED FOR  
MAINTENANCE ON LWCF LAND AND FACILITIES**

<b>LWCF Project</b>	<b>F-65-3</b>	<b>F-65-4</b>	<b>W-64-33</b>	<b>W-64-34</b>	<b>Totals</b>
<b>Acquisition</b>					
Rex Hancock/Black Swamp WMA			\$37,042	\$33,348	\$70,390
Mount Olive Fish Access	\$312	\$2,834			3,146
<b>Development</b>					
Blue Mountain WMA			4,724		4,724
Lake Pine Bluff Fish Access	30,547	30,544			61,091
Joe Hogan Hatchery *					
	<u>\$30,859</u>	<u>\$33,378</u>	<u>\$41,766</u>	<u>\$33,348</u>	<u>\$139,351</u>

\* The Joe Hogan Hatchery received funds under Grants F-43-16, F-43-17 and F-43-18. We could not determine the amount of grant funds used to maintain the specific facilities constructed with LWCF assistance.

**ARKANSAS GAME AND FISH COMMISSION  
SITES VISITED**

**Wildlife Management Areas**

Bayou Meto  
Camp Robinson Demonstration Area  
Choctaw Island  
Rex Hancock/Black Swamp  
Seven Devils

**Fishing/Boating Access**

Cannon Brake  
Cox Cyprus Lake Boat Ramp  
Hampton Research Center Boat Ramp  
Hicks Creek  
Lake Pine Bluff Park  
Little Bayou Meto  
Long Pond Boat Ramp  
Lower Vallier Boat Ramp  
Moore Access Ramp  
Pierce Creek  
Rex Hancock/Black Swamp  
Rocky Hole Boat Ramp  
Upper Vallier Levee High Water Boat Ramp  
Upper Vallier Levee Low Water Boat Ramp  
Wrape Boat Ramp

**Fish Hatchery**

Joe Hogan Fish Hatchery  
Mammoth Springs Fish Hatchery

**ARKANSAS GAME AND FISH COMMISSION  
STATUS OF AUDIT FINDINGS  
AND RECOMMENDATIONS**

<b>Recommendation</b>	<b>Status</b>	<b>Action Required</b>
A.1.a and A.1.b	Finding Unresolved	Provide a corrective action plan that identifies the actions taken or planned to resolve the finding and implement the recommendations, as well as the basis for disagreement with any recommendations. The plan should also include the target date and the official responsible for implementation of each recommendation. The unimplemented recommendations remaining at the end of 90 days (after August 19, 2005) will be referred to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.
A.2	Finding Resolved and Recommendation Implemented.	No further action is required.
B	Finding Resolved but Recommendation Not Implemented	Provide a corrective action plan that identifies the actions taken or planned to implement the recommendation. The plan should also include the target date and the official responsible for implementation. If the recommendation is not implemented at the end of 90 days (after August 19, 2005), it will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

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