



# **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 California, Department of  
Fish and Game, from July 1, 2001,  
through June 30, 2003**

**Report No. R-GR-FWS-0018-2003  
July 2005**





# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

External Audits

12030 Sunrise Valley Drive, Suite 230

Reston, Virginia 20191

July 15, 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 California, Department of Fish and Game, from July 1, 2001, through June 30, 2003 (No. R-GR-FWS-0018-2003)

This report presents the results of our audit of costs claimed by the State of California, Department of Fish and Game (Department), under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit covered claims of \$45.6 million on 27 grants that were open during the State's fiscal years ended June 30, 2002 and 2003 (see Appendix 1). The audit also covered the Department's compliance with applicable laws, regulations, and FWS guidelines, including those related to the collection and use of State fishing and hunting license revenues and the reporting of program income. We did not include the FWS motorboat access grants in this review because another State agency was involved in the administration of those grants. The motorboat access grants were reviewed under a separate audit.

### We found the Department:

- Claimed costs of \$81,000 for activities that were not authorized by the grants to which they were charged.
- Claimed costs of \$57,000 for leave payout payments to two retired employees, even though much of the accrued leave had been earned prior to the grant periods.
- Did not maintain sufficient documentation to support costs claimed of \$2.5 million under 11 Federal Assistance grants.
- Did not report all program income received on three grants.
- Allowed another State agency to operate a sewage treatment facility on a parcel of land acquired for other purposes with Federal Assistance funds.
- Had not correctly eliminated duplicate hunting and fishing license holders from its license certifications.

- Had not established adequate procedures and controls over employee and volunteer time sheets.
- Did not have adequate controls over its equipment.

Our draft audit report contained an additional finding regarding the use of Federal Assistance funds to maintain lands acquired under the Land and Water Conservation Fund Act (Act). However, since FWS has now determined that Act does not prohibit the use of Federal Assistance funds for this purpose, we have excluded the finding from the final report.

FWS Region 1 provided a response to a draft of this report on May 13, 2005, which included a copy of the Department's May 11, 2005 response to FWS. FWS generally concurred with the audit findings and recommendations. We summarized the FWS and Department responses after the recommendations, revised Recommendation D.3, 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), please provide us with your written response to the recommendations included in this report by October 17, 2005. Your response should include the information requested in Appendix 4. If you have any questions regarding this report, please contact Mr. Tim Horsma, Audit Team Leader, at (916) 978-5668, or me at (703) 487-5345.

cc: Regional Director, Region 1  
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. The Acts 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.

### Objectives, Scope, and Methodology

The objectives of our audit were to evaluate:

- The adequacy of the California Department of Fish and Game (Department) 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;
- The adequacy of the State's compliance with the Acts' assent legislation requirements; and
- Other issues considered sensitive and/or significant by FWS.

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 the administration of the Department. We relied on the work of the auditors that conducted the State of California Single Audit to the extent possible in order to avoid duplication of audit effort. We did not evaluate the economy, efficiency, or effectiveness of the Department's operations.

In addition, we reviewed the accounting system and related internal controls over the grantee's financial management system. We also reviewed transactions related to purchases, other direct costs, drawdowns of reimbursements, in-kind contributions, program income, and equipment/assets. Based on the results of our control testing, we assigned a level of risk to these

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T<sup>1</sup> Volume 16 U.S.C. § 669 and 16 U.S.C. § 777, as amended.

systems, and based on the level of risk assigned, we selected a number of transactions for substantive testing. The transactions tested were selected randomly, and we did not project the results of the substantive tests to the total population of recorded transactions.

Our audit was conducted at the Department's headquarters in Sacramento, California. The audit work included claims that totaled approximately \$45.6 million on 27 FWS grants that were open during the State's fiscal years (SFYs) 2001 and 2002<sup>2</sup> ended June 30, 2002 and 2003 (see Appendix 1). As agreed to by the Department and FWS, we did not include the motorboat access grants in this review because another State agency was involved in the administration of those grants. The motorboat access grants were reviewed in a separate audit. As part of our audit, we also visited two regional offices, six field offices, three wildlife areas, and a fish management station (see Appendix 3).

## **Prior Audit Coverage**

On February 13, 1997, we issued audit report No. 97-E-450, "U.S. Fish and Wildlife Service Federal Aid Grants to the State of California for Fiscal Years 1994 and 1995," which transmitted a report prepared by the Defense Contract Audit Agency (DCAA). We followed up on all significant findings in the DCAA report and determined that four findings had not been fully resolved. As discussed under the Results of Audit section, these findings relate to monitoring the State's matching share of costs (see Finding C), reporting program income (Finding D), eliminating duplicate license holders from license certifications (Finding F), and ensuring that all employees complete time sheets to support grant labor charges (Finding G).

In addition, we reviewed the State of California Single Audit reports for SFYs 2001 and 2002. The State's Sport Fish Restoration and Wildlife Restoration Programs had not been selected for testing in the Single Audits. These reports did not contain any findings that would impact the Department's Federal Assistance grants.

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<sup>2</sup> California uses the calendar year in which the State's fiscal year begins to designate the fiscal year; e.g., fiscal year 2001 began on July 1, 2001, and ended on June 30, 2002.

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## Results of Audit

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We determined that the State had passed laws that complied with the provisions of the Acts and had legislation in place that prohibited the use of license fees for any purpose other than the administration of the Department.

However, we identified questioned costs of \$2,678,259 related to:

- A. Activities that were not authorized by the grant agreements (\$81,329).
- B. Payments for leave payouts to two retired employees (\$57,013).
- C. A lack of support for claimed costs (\$2,539,917).

In addition, we concluded that:

- D. Program income related to activities funded under three grants was not reported to FWS, and we could not determine whether the income was used for grant purposes.
- E. Land acquired with Federal Assistance funds was being used by another State agency for purposes unrelated to the grant.
- F. The process for eliminating duplicate license holders in the annual license certifications was inadequate.
- G. Controls over employee time sheets did not ensure that they were completed and reviewed.
- H. Controls over equipment were ineffective.

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### **A. Costs Claimed for Unauthorized Activities - \$81,329**

We questioned costs of \$81,329 claimed on three grants for activities that were not authorized by the grant agreements, as follows:

- Grants W-64-D-19 and W-64-D-20 provided funds for the maintenance of specific wildlife areas. Included in the Department's claim for reimbursement were \$68,615 for the maintenance of the following hatchery and wildlife areas that were not specifically approved in the grant agreement:

SFY	Area	Questioned Costs	
		W-64-D-19	W-64-D-20
2001	American River Fish Hatchery	\$12,527	
2001	Ash Creek Wildlife Area	7,296	
2001	San Jacinto Wildlife Area	19,431	
2001	Tehama Wildlife Area	6,062	
2002	Ash Creek Wildlife Area		\$15,598
2002	Tehama Wildlife Area		7,701
		<u>\$45,316</u>	<u>\$23,299</u>

- The Department claimed timber harvesting costs of \$12,714 under Aquatic Education Grant F-49-AE-15. The grant, however, did not authorize funding for timber harvesting.

The Code of Federal Regulations (50 CFR § 80.16) states, “Payments shall be made for the Federal share of allowable costs incurred by the State in accomplishing approved projects.” The Department claimed costs for the maintenance of unapproved projects because the individuals assigning and approving the coding of the costs were unaware that the maintenance costs of only certain projects were eligible for reimbursement. Neither we nor the Department could determine why timber harvesting costs were charged to the Aquatic Education grant.

### **Recommendations**

We recommend that FWS:

1. Resolve questioned costs of \$81,329 related to projects or activities that were not approved by the grant agreement.
2. Require the Department to ensure that staff responsible for assigning and approving the coding of expenses is aware of which charges are allowable for Federal Assistance grant funding.

### **FWS Response**

FWS stated that it concurred with the finding and recommendations.

### **Department Response**

Regarding Recommendation 1, the Department noted that although the subject wildlife areas were not specifically listed in the grants, the reported expenditures for these areas “substantially conform to the same wildlife management purposes as the other 11 wildlife areas listed in the subject grants.” The Department further noted that all three wildlife areas currently receive Federal Assistance funding. The Department also stated that the fish hatchery expenditures resulted from a coding error and therefore the \$12,527 charge “is not an allowable expenditure.” Regarding the charges for “Timber Harvest” costs, the



Department said that the costs had been miscoded and were valid charges for an employee who was listed in the grant agreement.

Regarding Recommendation 2, the Department stated that it had a training meeting in May 2005 to direct all staff involved in Sport Fish and Restoration Act to comply with Federal Assistance rules and regulations.

### **OIG Comments**

While FWS stated that it agreed with the finding and recommendations, it did not state whether it agreed with the Department's response or identify specific actions that would be taken to address the recommendations. Therefore, we consider the finding unresolved and the recommendations not implemented.

## **B. Costs Claimed for Accrued Leave - \$57,013**

We questioned retirement leave payouts of \$17,673 and \$39,340 that were charged to Grants F-6-C-50 (Fish Management Coordination) and W-58-HS-31 (California Hunter Education Training Program), respectively. The payouts were made to two Department employees who retired during SFYs 2001 and 2002. The Department charged each employee's total leave payout to the Federal Assistance grant they worked on at the time of their retirement. However, since much of the accrued leave was earned in periods prior to the period of the grant, only a portion of the leave payments should have been charged to the current grants.

In addition, we found that on 3 of 74 time sheets that we selected for payroll testing, the employees charged all leave to a Federal Assistance grant even though part of their time was spent working on non-grant-funded projects. One employee charged 32 hours of leave, another charged 35 hours of leave, and a third charged 72 hours of leave to Federal Assistance grants, even though they worked 12, 41, and 66 hours, respectively, on non-grant projects.

These inequitable charges occurred because the Department did not have a policy or procedure on how to charge leave, such as requiring leave costs to be allocated to grant and non-grant activities based on how leave was actually earned. Instead, we found that the Department charged leave to the project or activity to which the employee had been pre-assigned.

Office of Management and Budget (OMB) Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments), Attachment A, Section C, requires that in order to be allowable under federal awards, costs must be necessary, reasonable, and allocable. In addition, the Government Accounting Standards Board Statement No.16 states that vacation leave should be accrued as a liability as the benefits are earned if it is probable that the employee will be compensated for the benefits by a cash payment or other means at retirement or termination. Claiming the total costs of the leave balances paid to retiring employees at the time they retired and claiming leave costs for leave taken in pay periods when employees worked a portion of the time on non-grant projects resulted in excessive allocations of costs to Federal Assistance grants.

We believe there are other methods that would result in a more equitable allocation of leave costs to Federal Assistance grants. For example, instead of charging the total leave payout to a single grant at the time an employee retires, the Department could charge leave costs as an expense as the leave is earned through the fringe benefit rate or some other means. In addition, the Department could charge annual leave to its projects in proportion to the number of hours worked on each project during the period.

### **Recommendations**

We recommend that FWS:

1. Resolve the \$57,013 of questioned leave payouts payments to the two retired employees.
2. Require the Department to discontinue the practice of allocating leave costs to projects based on employees' preassigned projects and to establish an equitable policy and procedure to allocate leave costs to Federal Assistance grants and other projects.

### **FWS Response**

FWS stated that it concurred with the finding and recommendations.

### **Department Response**

The Department stated that although it believed that the charges were appropriate because both employees "had worked under the Hunter Education Program and Sport Fish Restoration Program for over 10 years," it plans to discontinue this practice by implementing the policy and procedures set forth in the State Administration Manual. The response further stated that this action will ensure that leave costs are allocated equitably during the employees' service on Federal Assistance grants.

### **OIG Comments**

We do not believe that most of the \$57,013 for lump sum leave payments was valid because the payments were for leave earned prior to the current grant period. Further, the Department's statement that it will implement the policy and procedures in the State Administrative Manual which "will ensure that leave costs are allocated equitably..." implies that charging the entire lump sum leave payments to the grants was not in accordance with the State's policy. Since FWS did not state whether it agreed with the Department's response or identify what actions would be taken regarding the questioned costs, we consider the finding unresolved and the recommendations not implemented.

## **C. Unsupported Costs - \$2,539,917**

We questioned \$2,539,917 of the \$22.8 million claimed on 11 grants because the Department had not maintained sufficient documentation to support the claims. The questioned costs consist of (1) the value of in-kind contributions of labor, goods, and services and (2) Departmental supervision, staff time, and operating expenses. The amounts questioned represent a portion of the Department's share of project costs under the 11 grant agreements (see Appendix 2).

The following OMB Circular and Federal regulations contain requirements on providing adequate support for costs claimed on Federal grants:

- OMB Circular A-87, Attachment A, Section C, lists factors for determining whether costs are allowable. To be allowable under federal awards, costs must be necessary and reasonable, allocable and authorized, and adequately documented.
- 43 CFR § 12.60(a) (2) requires that the State's financial management system must permit the tracing of funds to a level adequate to establish compliance with grant provisions.
- 43 CFR § 12.64(b) (6) provides that "costs and third party in-kind contributions ... must be verifiable from the records of grantees.... These records must show how the value placed on third party in-kind contributions was derived."
- 43 CFR §§ 12.64(c) and (d) provide guidance on the valuation of volunteer services and donated third party supplies.
- 50 CFR § 80.15(a) requires that "all costs must be supported by source documents or other records as necessary to substantiate the application of funds."

As reported in the prior audit, the Department had not routinely monitored its matching share to ensure that sufficient costs had been incurred and/or that in-kind contributions had been received prior to each drawdown of Federal Assistance funds. In response to the prior audit, the Department planned to develop procedures to record grant matching costs. Based on our current review, the Department did not yet have such policies and procedures in place in all cases. For the 11 grants shown in Appendix 2, the Department did not know what the total outlays were, although it assumed that sufficient costs had been incurred or sufficient in-kind contributions had been received to claim the reimbursements it requested.

We found that for two hunter education grants, W-58-HS-30 and W-58-HS-31, the Department anticipated receiving volunteer labor of sufficient value to meet the entire amount of the State's required matching share. The Department claimed the grants' total expenditures of \$1,161,766 and \$1,086,766, respectively, for reimbursement. However, the Department had not determined if it had received in-kind contributions of sufficient value to support the State's required 25 percent matching share of \$384,512 and \$362,255, respectively. In the case of these grants, the Department assumed that there would be sufficient volunteer instructor hours to meet its matching requirement. Further, although the Department provided a summary listing of

volunteer instructor hours, it could not provide time sheets to support the number of hours necessary to meet its matching share because it filed the time sheets in the order that they were received and input into a database, and did not have a system to retrieve them from the files. Also, our review of the summary listing identified duplications of instructor hours and hours claimed for game wardens, whose efforts are not allowed as hunter education volunteer instructor time.

We found that for the remaining nine grants, which were all Sport Fish Restoration grants, the Department anticipated using a combination of the value of in-kind contributions of labor, goods, services, and Departmental costs to provide the State's matching share. The Department, however, was unable to identify specific costs recorded in the accounting system that totaled the amounts claimed.

We found that the Department's method for computing its matching share on these nine grants did not allow us to verify a portion of the matching share claimed. The method used was as follows:

- First, the Department computed the amount needed to meet its 25 percent matching share requirement based on the amount of the Federal Assistance reimbursement being requested.
- Second, the Department identified the costs recorded in designated Federal Assistance accounts that could be used to meet its matching share.
- And finally, if there was a shortfall in matching costs, the Department identified (in total) amounts recorded in other expense accounts (those not identified to a specific grant) that would equal the shortfall. In doing so, Department staff would prepare a worksheet that identified accounts and amounts that were subsequently assigned to grants as support for the required matching share. The Department, however, was not able to identify specific transactions within the accounts to support the amounts claimed. In some cases, the Department also identified contract obligations and budgeted costs (estimates) as support for the required share of matching costs.

For example, the Department claimed matching costs of \$975,613 on Grant F-4-D-51. Of this amount, the Sport Fish Coordinator identified \$516,484 related to specific costs recorded in the accounting system (from Federal Assistance grant cost accounts). However, the balance of the required matching costs, or \$459,129, was not specifically identified in the accounting system as expenses related to the grant. As support for the additional \$459,129 needed to meet the matching requirement for the funds that had been drawn down, the Sport Fish Coordinator claimed (1) \$165,188 from Account D1000, for the costs of fish, temporary help, and the operation of the urban fishing program; (2) \$84,615 from Account A2014 for a contract with the California Conservation Corps to provide a variety of activities throughout the State; and (3) \$209,326 from Account C2000 for the cost of hatchery support. We reviewed these accounts and found that they contained costs in excess of the amounts claimed. We reviewed the transactions recorded in the accounts but could not identify transactions relating to these activities that added up to the amounts claimed.

We concluded that the Department's financial accounting system was not adequate to record and report all costs claimed for the 11 grants. As a result, the Department was unable to support \$2,539,917 of costs claimed on these grants.

After we informed the Department of our finding, it established a task force to address its policy and the documentation required for its matching share of grant costs, and began working with FWS to address these issues. In addition, Departmental officials were conducting research to determine whether support for certain amounts could be located at field sites.

## **Recommendations**

We recommend that FWS:

1. Resolve the unsupported costs of \$2,539,917 claimed on the 11 grants identified in Appendix 2.
2. Require the Department to develop and implement policies and procedures to determine and record in its accounting system the value of in-kind services and donated goods that are claimed as the State's matching share of grant costs.
3. Require the Department to establish and implement procedures to ensure that it has incurred and recorded sufficient costs and/or received in-kind services to meet matching share requirements before Federal Assistance funds are drawn down. These procedures should include the identification of specific transactions that support the amount claimed as the Department's matching share.

## **FWS Response**

FWS stated that it concurred with the finding and recommendations.

## **Department Response**

The Department stated it has determined that sufficient documentation exists to support the questioned costs and that these records are available for FWS review. The Department also stated that policy and procedures are being developed to ensure that all claimed costs are documented and supported. In addition, the Department's response identified procedures put in place to ensure that matching in-kind services have been received before Federal Assistance funds are drawn down.

## **OIG Comments**

Although FWS stated concurrence with the finding and recommendations, it did not specifically address the Department's response or identify the actions to be taken to address the finding and implement the recommendations. Therefore, we consider the finding unresolved and the recommendations not implemented.

## **D. Program Income**

The Department did not properly report program income of \$66,383 from hunter education fees on its Financial Status Reports (SF-269s) for Grant W-58-HS-31, did not recognize or report program income for Grants W-64-D-19 and W-64-D-20 for the value of crops received in exchange for allowing farmers to raise crops on wildlife area lands, and did not adequately account for or properly report estimated program income that had been identified on the grant applications and agreements for Grants W-64-D-19 and W-64-D-20.

Program income is defined in 43 CFR § 12.65(b) as gross income received by a grantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. In addition, the regulation requires that program income be deducted from grant outlays, added to the funds committed to the grant agreement, or used to meet the cost-sharing or matching requirement of the grant.

**Hunter Education Fees** The Department did not properly report \$66,383 generated from hunter education training program fees collected under Grant W-58-HS-31. This income was generated from a \$3 per applicant charge for a hunter safety validation stamp that was required to obtain a hunting license. A worksheet provided by a Department employee stated that the Department deducted program income from total costs in SFY 2002 to determine the amount of the final drawdown of funds for Grant W-58-HS-31, and reported the net amount as the total grant expenditures on its final SF-269. The Department should have included the total costs of the program in the reported outlays and separately identified the program income on the SF-269. In SFY 2001, the Department correctly reported total outlays and identified program income on the SF-269 for Grant W-58-HS-31.

**Crops From Wildlife Areas** The Department entered into agreements that allowed farming activities on lands within wildlife areas in exchange for crops left on the land as food for wildlife. Since the wildlife areas are maintained with Federal Assistance funds under Grants W-64-D-19 and W-64-D-20, the value of the crops should be considered program income. The Department was unaware that the value of crops received in this type of arrangement is considered program income.

**Reporting Program Income** The Department's grant proposals and agreements for Grants W-64-D-19 and W-64-D-20 identified estimated program income of \$150,000 that it expected to generate from other activities. However, the Department did not identify any program income on its final SF-269s. Instead, the Department reported outlays on the SF-269 that were net of the program income shown in the grant agreements. According to Departmental officials, program income was used to fund grant-related expenditures and was accounted for in a non-grant account. As a result of the Department's treatment of program income, FWS was not made aware of the total amount of program income received by the Department and could not determine the Department's actual costs for these three grants.

## **Recommendations**

We recommend that FWS:

1. Require the Department to revise the final SF-269s for Grants W-64-D-19, W-64-D-20, and W-58-HS-31 to report total outlays and to identify the amount of program income received from the grant-related activities identified above.
2. Require the Department to develop policies and implement procedures to identify and report, as program income, the value of all goods, services, improvements, or other benefits it receives from grant related activities. This includes the value of crops or other goods and services received from farming activities on wildlife areas that are maintained and operated with Federal Assistance funds. The estimated amounts of all program income should also be included in the Department's Applications for Federal Assistance.
3. Instruct the Department to request approval for its desired method of accounting for program income reported on Grants W-64-D-19, W-64-D-20, and W-58-HS-31.

## **FWS Response**

FWS stated that it concurred with the finding and Recommendations 1 and 2 but suggested that Recommendations 2 and 4 in the draft report be combined. FWS did not concur with Recommendation 3 concerning FWS instructions to the Department on the application of program income. FWS suggested that "It would be more appropriate for the Department to request approval for its desired method of accounting for program income." We therefore revised the recommendation accordingly.

## **Department Response**

Regarding Recommendation 1, the Department stated that it has revised grants W-64-D-19, W-64-D-20, and W-58-HS-31 to report total outlays from the identified above except for the benefit derived from farmed crops.

Regarding Recommendation 2, the Department stated that it is currently conducting a review to identify existing agreements with farmers and ranchers and will begin treating these activities as program income. The Department further stated that for the purposes of grant administration, budgeting, and reporting, it will identify and include all the activities mentioned in the report as program income beginning with the 2005/2006 grant cycle. The Department did not specifically respond to Recommendation 3.

## **OIG Comments**

Based on FWS response, we combined Recommendations 2 and 4 (which are now Recommendation 2) and revised Recommendation 3. We are requesting FWS to review the revised recommendations and address them in the corrective action plan. Based on the FWS and Department responses and the changes to the recommendations, we consider the finding unresolved and the recommendations not implemented.

### **E. Loss of Control of Lands Acquired With Grant Funds**

Sixteen acres of land acquired with Federal Assistance funds were converted to a use that was not related to the grant purpose. The 16-acre tract was included in the 7,814 acres the Department acquired for the Tehama Wildlife Area (WA) with Federal Assistance funds in October 1949.

In September 1989, the Department entered into a 20-year Memorandum of Understanding (MOU) with the California Department of Forestry (Forestry), without FWS approval, allowing Forestry to use approximately 16 acres for sewer pond sites for the Ishi Conservation Camp. The MOU also allowed the Department to use 9 acres of Forestry property, including two houses and detached garages known as the Ishi Conservation Camp Residence site, as a residential area for Tehama WA personnel, provided that the Department would maintain the land and residences. Since establishing the MOU, the Department and Forestry have sought a land exchange, without notifying FWS, which would result in each agency acquiring fee title to the lands that each now uses and controls under the MOU. According to the State's Wildlife Restoration Coordinator, the Department and Forestry are in the final stages of this process.

Two Federal regulations, 43 CFR § 12.71 and 50 CFR § 80.14, specifically prohibit the use of Federal funds for purposes other than those for which they were intended.

- According to 43 CFR § 12.71(b), "Except as otherwise provided by Federal statutes, real property will be used for the originally authorized purposes as long as needed for those purposes, and the grantee or subgrantee shall not dispose of or encumber its title or other interests."
- According to 50 CFR § 80.14(b), "Real property acquired or constructed with Federal Aid funds must continue to serve the purpose for which acquired or constructed. (1) When such property passes from management control of the fish and wildlife agency, the control must be fully restored to the State fish and wildlife agency or the real property must be replaced using non-federal assistance 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."



In addition to the requirements regarding use of Federal Assistance-funded land, the regulations provide direction on what to do when land is no longer needed: 43 CFR § 12.71(c) states that when real property is no longer needed for the originally authorized purpose, the grantee will request disposition instructions from the awarding agency.

We concluded that the Department did not have policies and procedures in place to ensure compliance with the requirements on the use and disposition of lands acquired with Federal Assistance funds.

### **Recommendations**

We recommend that FWS:

1. Resolve the issue of the conversion of land use in the Tehama WA.
2. Require the Department to establish and implement policies and procedures to ensure that lands acquired with Federal Assistance funds are not used for unauthorized purposes or disposed of without first notifying FWS and requesting instructions.

### **FWS Response**

FWS stated that it concurred with the finding and recommendations. Regarding Recommendation 1, FWS stated that emphasis should be given to seeking FWS approval on the land exchange that is currently reflected in an MOU.

### **Department Response**

The Department stated that it will establish and implement policies and procedures to ensure that lands acquired with Federal Assistance funds are not used for unauthorized purposes.

### **OIG Comments**

The Department's response did not identify the actions to be taken regarding Recommendation 1 or when it planned to finalize the policies and procedures identified in response to Recommendation 2. Therefore, we consider the finding unresolved and the recommendations not implemented.

## **F. Duplicate License Holders in License Certifications**

The prior audit report stated that the Department's process for identifying duplicate license holders was inadequate. Our current audit found that the Department still did not have an adequate process for identifying and eliminating duplicate hunting and fishing license holders in its annual certifications of license holders, as required by 50 CFR § 80.10(c)(5). The regulation specifies that the State Fish and Wildlife Director, in certifying license information to FWS, is

responsible for eliminating duplication or multiple counting of single individuals in the figures the Director certifies. The FWS Service Manual (522 FW 2.7(1)) provides that the State may use a statistical survey to eliminate duplicate counting of licenses provided that a new survey is conducted at least every 5 years.

The Department did not have a database that would allow it to identify duplicate fishing license holders. Instead, the Department used statistics from a 1992 survey to reduce the total number of certain types of fishing licenses sold by 4.2 percent. Because the survey was more than 5 years old, we concluded that the Department's methodology for eliminating duplicate fishing license holders from its annual certifications may be inadequate.

In addition, the Department did not maintain a database on hunting licenses or have a survey that would allow it to identify and eliminate duplicate license holders from its certification.

Since the Department did not maintain sufficient records to permit the effective elimination of duplicate fishing and hunting license holders, the number of license holders certified in SFYs 2001 and 2002 may be overstated.

### **Recommendation**

We recommend that FWS require the Department to develop and implement an effective methodology to identify or estimate and eliminate duplicate license holders in its annual license certifications.

### **FWS Response**

FWS concurred with the finding and recommendation.

### **Department Response**

The Department concurred with the finding and recommendation. The Department stated that it plans to replace the current paper-based system with an automated license data system which will allow it to identify each unique licensee and eliminate duplicate license holders from its annual certifications. It further stated that it anticipates the new system will be implemented in 2007.

### **OIG Comments**

Although FWS stated that it concurred with the findings and recommendations, it did not specifically address the Department's response or identify the actions to be taken to address the finding and implement the recommendation. The Department's response did not identify what actions it would take in the interim to eliminate duplicate license holders until the new system is implemented in 2007. Therefore, we consider the finding unresolved and the recommendation not implemented.

## **G. Controls over Documentation of Labor Costs**

The Department's controls over the documentation of labor costs did not ensure that the labor costs charged to Federal Assistance grants were accurate. The standards for financial management systems for state and local government grantees are set forth in 43 CFR § 12.60. According to the regulation, a State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds (43 CFR § 12.60 (a)) and accounting records must be supported by such documentation as time and attendance records (43 CFR § 12.60 (b) (6)). Although the Department had established timekeeping policies, it did not ensure that its policies were followed, resulting in several time sheet documentation errors and misreporting of time worked.

In response to a prior audit report finding on timekeeping deficiencies, the Department revised its policies to require any employee working on a federally funded project to complete and submit an Exceptional Time Report (time sheet). The Department's revised policies also required that employees sign their time sheets, that supervisors initial time sheets after they reviewed and approved them, and that both the employee and the supervisor initial any changes to a time sheet.

Our review of 74 time sheets found that 9 were missing, 4 were amended without any supervisory approvals, 3 were not approved by a supervisor, 2 contained attendance data that was entered incorrectly, and 1 was not signed by the employee.

The Department's accounting system provided that when a time sheet was not submitted, the employee would be paid and the labor costs would be automatically charged to the employee's preassigned work activity ( in these nine cases, the labor costs were charged to Federal Assistance grants when a time sheet was not submitted). Although the Department subsequently provided seven of the nine missing time sheets, six of the time sheets had not been stamped to indicate that they had been processed. We believe that this process could potentially result in significant overcharges to Federal Assistance grants.

### **Recommendations**

We recommend that FWS:

1. Require the Department to distribute its policy on the preparation of time sheets to all employees and point out the requirements that any employee working on a Federal Assistance project must prepare, sign, and submit a time sheet; that supervisors must sign the time sheets indicating their review and approval; and that both the employee and supervisor must initial any changes to a time sheet.
2. Establish procedures and controls to ensure that time sheets are not processed without the appropriate signatures, initials, and approvals.
3. Resolve the problems with the time sheets that we identified above that were used to support the labor charges claimed and reimbursed during SFYs 2001 and 2002.

4. Discontinue the practice of charging all labor costs to a Federal Assistance grant in cases where an employee fails to submit a time sheet.

### **FWS Response**

FWS stated that it concurred with the finding and recommendations.

### **Department Response**

The Department stated that it agreed that its controls over the documentation of some labor costs did not ensure that labor costs charged to Federal Assistance grants were accurate. The Department stated that it is establishing a directive that will require employees working on federal grants to submit a time sheet, and that the time sheet not be processed without appropriate signatures, initials, and approvals. The Department also stated that it has discontinued the practice of charging labor costs to Federal Assistance program grants in instances where employees fail to submit time sheets.

### **OIG Comments**

Although FWS stated that it agreed with the finding and recommendations, it did not specifically address the Department's response. Therefore, we consider the finding unresolved and the recommendations not implemented.

## **H. Asset Management - Equipment**

Our review of the Department's asset management procedures and our visits to 12 wildlife areas and fisheries sites identified the following deficiencies:

- The Department has not conducted a physical inventory of its property within the last 3 years, as required by the Department's policies and directives (State Administrative Manual, Chapter 8600).
- During our visits to the 12 sites, we identified equipment that (1) was not on the inventory, (2) was not at the location indicated on the inventory (California directives required that changes to the status or item location be identified on specific forms), and (3) did not have a property identification tag as required by Chapter 8600 of the State Administrative Manual. We also identified a vehicle purchased with Federal Assistance funds that was being used for a non-Federal Assistance program.
- For equipment with a cost greater than the State's \$5,000 threshold for inclusion in the inventory, 491 out of 2,400 items in the inventory database did not have a location code. We did not differentiate between funding sources (Federal Assistance, license revenues, and other federal or state funds) for the purchase because that information was not readily identifiable in the inventory database.

- The FWS Service Manual (522 FW 1.16.B) requires that the proceeds from the sale of equipment with a current market value over \$5,000 must be treated as program income. The Department's disposal procedures did not provide for crediting proceeds greater than \$5,000 from the sale of equipment to the applicable Federal Assistance grant or to the license fee fund.

We concluded that the Department did not have effective controls over its personal property to ensure compliance with federal and state requirements.

According to Department personnel, the inventory database was being updated to reflect the status of all equipment, and a physical inventory would be performed when the update is completed. In addition, the Department was in the process of reviewing the disposal requirements and anticipated implementing the necessary procedures for crediting the program income to the appropriate grant.

### **Recommendations**

We recommend that FWS:

1. Require the Department to perform a physical inventory as soon as possible and establish procedures to ensure that inventories are completed at least once every 3 years.
2. Require the Department to establish policies and procedures that address asset dispositions where proceeds are in excess of \$5,000 and include a requirement to deposit the proceeds from such dispositions to either the Federal Assistance program or the license revenue fund, depending on the source of funding for the purchase.
3. Resolve the issues regarding (1) property that was not on the inventory, (2) equipment that was not at the location identified in the inventory, (3) equipment that did not have property identification tags, and (4) a vehicle purchased with Federal Assistance that was being used for a non-Federal Assistance program.

### **FWS Response**

FWS stated that it concurred with the finding and recommendations.

### **Department Response**

The Department stated that property records are being updated and that a 3-year inventory plan is being developed and is expected to be implemented by the fall of 2005. The Department also stated that the State Administrative Manual states that proceeds from the sale of equipment are generally deposited into the General Fund, but that this could be changed if directed to do so. The response did not specifically address Recommendation 3.

## **OIG Comments**

Although FWS agreed with the finding and recommendations, it did not provide comments on the Department's response. Therefore, we consider the finding unresolved and the recommendations not implemented.

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

Grant Number	Grant Amount	Claimed Costs	Questioned Costs <sup>*</sup>		Notes
			Total	Federal Share	
F-4-D-51	\$ 4,057,500	\$3,902,456			
F-4-D-52	4,848,400	3,796,888			
F-6-C-50	1,215,600	908,887	\$17,673	\$13,255	1
F-6-C-51	482,000	322,872			
F-27-D-31	273,100	147,887			
F-27-D-32	218,000	154,512			
F-49-AE-15	1,427,500	1,383,359	12,714	9,535	2
F-49-AE-16	1,501,936	1,381,039			
F-50-R-14	2,899,300	2,233,697			
F-50-R-15	2,806,900	2,557,052			
F-51-R-14	4,920,000	4,920,000			
F-51-R-15	5,219,000	5,187,934			
F-68-R-11	412,700	351,711			
F-68-R-12	427,000	264,277			
F-77-R-8	22,980	22,980			
F-89-D-5	387,081	387,081			
F-89-D-6	394,492	393,154			
F-103-E-1	729,000	333,167			
F-111-E-1	695,000	347,671			
W-29-C-55	352,718	352,717			
W-29-C-56	371,497	279,593			
W-58-HS-30	1,700,025	1,608,600			
W-58-HS-31	1,449,021	1,449,021	39,340	29,505	3
W-64-D-19	4,962,048	4,962,048	45,316	33,987	4
W-64-D-20	4,911,187	4,911,187	23,299	17,474	5
W-65-R-19	1,638,209	1,638,209			
W-65R-20	1,669,575	1,392,274			
	<u>\$ 49,991,769</u>	<u>\$45,590,273</u>	<u>\$138,342</u>	<u>\$103,756</u>	

Notes: See next page.

<sup>\*</sup>Questioned costs relate to expenditures for unauthorized activities and the lump sum leave payments as described in Findings A and B. Unsupported costs are identified separately in Finding C and are detailed in Appendix 2.

Notes to Appendix 1:

1. **Grant F-6-C-50, Fish Management Coordination.** We questioned \$17,673 for a lump sum leave payment to an employee who retired. See Finding B.
2. **Grant F-49-AE-15, Aquatic Education.** We questioned \$12,714 for timber harvesting expenditures because this activity was not authorized by the grant agreement. See Finding A.
3. **Grant W-58-HS-31, California Hunter Education Training Program.** We questioned \$39,340 for a lump sum leave payment to an employee who retired. See Finding B.
4. **Grant W-64-D-19, Wildlife Habitat Development and Maintenance.** We questioned \$45,316 for maintenance costs of three wildlife areas and a fish hatchery because the grant did not provide funds for the maintenance of these wildlife areas and hatchery facilities. See Finding A.
5. **Grant W-64-D-20, Wildlife Habitat Development and Maintenance.** We questioned \$23,299 for maintenance costs of two wildlife areas because the grant did not provide funds for the maintenance of these wildlife areas. See Finding A.



**CALIFORNIA DEPARTMENT OF FISH AND GAME  
SCHEDULE OF UNSUPPORTED GRANT COSTS  
JULY 1, 2001, THROUGH JUNE 30, 2003**

<b>Grant Number</b>	<b>Claimed Costs</b>	<b>Unsupported Amount<sup>*</sup></b>	<b>Notes</b>
F-4-D-51	\$3,902,456	\$459,129	1
F-4-D-52	3,796,888	262,490	2
F-6-C-50	908,887	22,090	3
F-6-C-51	322,872	3,098	4
F-49-AE-15	1,383,359	344,990	5
F-49-AE-16	1,381,039	345,260	6
F-50-R-15	2,557,052	58,941	7
F-51-R-15	5,187,934	213,860	8
F-103-E-1	333,167	83,292	9
W-58-HS-30	1,608,600	384,512	10
W-58-HS-31	1,449,021	362,255	11
<b>TOTAL</b>	<b>\$22,831,275</b>	<b>\$2,539,917</b>	

Notes: See next page.

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<sup>\*</sup>The unsupported costs were included in the amounts reported as the State's matching share. The unsupported costs included costs that were not specifically identified in the accounting system and the value of in-kind contributions not supported by adequate documentation.

Notes to Appendix 2:

**UU1. Grant F-4-D-51, Stream and Lake Improvement.** We questioned as unsupported \$459,129 claimed as matching costs, which included (1) hatchery staff time - \$209,326 [Program Cost Account (PCA) C2000], (2) an amount paid under contract FG# 7001-IF with the California Conservation Corps (CCC) - \$84,615 (PCA A2014), and (3) regional staff time and amounts paid to the Urban Fishing Program in order to purchase fish - \$165,188 (PCA D1000). The regional and hatchery staff time was not supported by time sheets that identified hours worked on this grant and transactions supporting the other costs could not be found in the PCAs.

**2. Grant F-4-D-52, Stream and Lake Improvement.** We questioned as unsupported \$243,502 claimed as in-kind, which included (1) volunteer time (which was identified as the excess not used from the budget of Grant F-49-AE -16) - \$79,773, (2) regional staff time - \$88,157 (PCA D1000 budget documents), and (3) an amount paid under contract FG# 7001-IF with the CCC - \$75,572 (PCA A2014). We also questioned \$18,988 claimed as a matching in-kind contribution but identified on supporting documentation as hatchery staff time (PCA C2000). The regional staff, hatchery staff, and volunteer time were not supported by time sheets that identified hours worked on this grant and transactions supporting the other costs could not be found in the PCAs.

**3. Grant F-6-C-50, Fish Management Coordination.** We questioned as unsupported \$22,090 claimed as matching costs and reported as supervisory time (Index J100/ PCA B3000). The supervisory time was not supported by time sheets that identified hours worked on this grant.

**4. Grant F-6-C-51, Fish Management Coordination.** We questioned as unsupported \$3,098 claimed as matching in-kind contributions but identified as supervisory time on supporting documentation (Index J100/ PCA B3000). The supervisory time was not supported by time sheets that identified hours worked on this grant.

**5. Grant F-49-AE-15, Aquatic Resource Education Program.** We questioned as unsupported \$344,990 claimed as matching costs and reported as (1) donations of fishing equipment, advertising, and special event donations - \$210,000 (from grant budget documents); and (2) regional staff time and amounts paid to the Urban Fishing Program for the purchase of fish - \$134,990 (PCA D1000). The donated goods and services were not supported by any valuation method other than the grant budget. Staff time was not supported by time sheets that identified hours worked on this grant. We could not find transactions supporting the other costs (purchase of fish) in PCA D1000.

**6. Grant F-49-AE-16, Aquatic Resource Education Program.** We questioned as unsupported \$287,750 claimed as in-kind and reported as (1) donations of fishing equipment and advertising, and special event donations - \$210,050 (from grant budget documents), (2) volunteer time - \$36,450, and (3) operating costs funded by the California Environmental License Plate Program (from the grant budget) - \$41,250. We also questioned \$57,510 claimed as matching costs and reported as supervisor's time.

The donations were not supported by documentation detailing the donations' valuation methodology for the donations. The volunteer time was not supported by time sheets. Operating costs should be supported by invoices and expense transactions that identify the use of cash or other assets in exchange for some goods or services, not the transfer of funds from the California Environmental License Plate Program to the License Revenue Fund. The supervisor's hours worked on this program were not identified on the supervisor's time sheets.

**7. Grant F-50-R-15, Marine Sport Fish Management and Research.** We questioned as unsupported \$58,941 claimed as in-kind contributions but supporting documentation indicated that the claim was for an amount paid under contract P0270005 for the Ocean Resources Enhancement and Hatchery Program. The contract was for \$333,333 and the Department anticipated that 75 percent of that amount (\$250,000), would be paid out of Federal Assistance funds, but we could not find payment(s) totaling \$58,941 in the accounting records identified with this grant.

**8. Grant F-51-R-15, Inland and Anadromous Sport Fish Management and Research.** We questioned as unsupported \$165,543 claimed as in-kind contributions but supported by documentation indicating that the claim was for an amount paid under a contract and recorded in PCA B3404 and PCA B3420. We could not identify the contract that the records referred to and we could not find payment(s) totaling \$165,543 in PCA B3404 identified with this grant. We also questioned \$48,317 reported as program income but supported by claims of supervisory time. The supervisors' time sheets did not identify any hours worked on this project.

**9. Grant F-103-E-1, Nimbus Hatchery Visitor Center Construction.** We questioned as unsupported \$83,292 reported as in-kind contributions and supported by documentation indicating that the contributions were from the California Wildlife Foundation and local community organizations (from the grant budget). The donations were not supported by any documents other than the grant budget.

**10. Grant W-58-HS-30, California Hunter Education Training Program.** We questioned as unsupported \$384,512 reported as in-kind contributions and supported by a summary of volunteer instructor time. However, the Department could not produce time sheets or other support for the hours on the summary. The Department filed the support for individual instructor hours but, due to the method of document filing, was unable to provide support for the instructors' time in our test sample. These documents were not filed by instructor name or instruction date but filed at the point in time the instructor submitted the forms, thus making retrieval of specific forms problematic. We also found some duplication of individual instructor hours and hours claimed for instruction by game wardens, which are unallowable, included on the summary volunteer instructor time report.

**11. Grant W-58-HS-31, California Hunter Education Training Program.** We questioned as unsupported \$362,255 reported as other recipient outlays and supported by a summary of volunteer instructor time. However, the Department could not produce time sheets or other support for the hours on the summary because of the reasons described in Note 10. We also found some duplication of individual instructor hours and hours claimed for instruction by game wardens, which are unallowable, included on the summary volunteer instructor time report.

**CALIFORNIA DEPARTMENT OF FISH AND GAME  
SITES VISITED**

**Wildlife Areas**

Butte Valley  
Grizzly Island  
Shasta Valley

**Fisheries**

**Region 1, Redding**

Arcata  
Eureka  
Red Bluff  
Yreka

**Region 3 Yountville/Napa**

Fort Bragg  
Hopland  
Potter Valley (Van Arsdale Fish Station)

**CALIFORNIA DEPARTMENT OF FISH AND GAME  
STATUS OF AUDIT FINDINGS  
AND RECOMMENDATIONS**

<b>Recommendation</b>	<b>Status</b>	<b>Action Required</b>
A.1, A.2, B.1, B.2, C.1, C.2, C.3, D.1, D.2, D.3, E.1, E.2, F, G.1, G.2, G.3, G.4, H.1, H.2, and H.3.	Finding Unresolved and Recommendations Not Implemented	Provide a corrective action plan that identifies the actions taken or planned to resolve the findings and implement the recommendations, as well as the basis for any disagreement with the recommendations. and 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 October 17, 2005) will be referred to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.



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