



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 Alabama, Department of
Conservation and Natural Resources, Wildlife
and Freshwater Fisheries Division and Marine
Resources Division from October 1, 2002,
through September 30, 2004**

**Report No. R-GR-FWS-0002-2005
SEPTEMBER 2005**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

External Audits

12030 Sunrise Valley Drive, Suite 230
Reston, Virginia 20191

September 7, 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 Alabama, Department of Conservation and Natural Resources, Wildlife and Freshwater Fisheries Division and Marine Resources Division, from October 1, 2002, through September 30, 2004 (No. R-GR-FWS-0002-2005)

This report presents the results of our audit of outlays reported by the State of Alabama, Department of Conservation and Natural Resources (Department), Wildlife and Freshwater Fisheries Division (Wildlife and Fisheries) and Marine Resources Division (Marine Resources), under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included reported outlays that totaled approximately \$23.8 million on FWS grants that were open during the State's fiscal years ended September 30, 2003 and 2004 (see Appendix 1). The audit also covered the Divisions' 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 found that Wildlife and Fisheries did not report program income on the correct form, and did not report the interest earned on that income during the grant period.

FWS Region 4 provided a response to the draft of this report on August 4, 2005, which included the Department's July 18, 2005 response to FWS. The FWS and Department responses generally concurred with the audit findings and recommendations, but included suggested changes to the report. Based on the responses, we clarified the finding on program income and modified the report to incorporate the interest amounts computed by the Department and correct minor errors. We summarized the FWS and Department responses after the recommendations and added our comments regarding the responses. The status of the recommendations is summarized in Appendix 3.

In accordance with Departmental Manual (361 DM 1), please provide us with your written response to the recommendations included in this report by December 6, 2005. Your response should include the information requested in Appendix 3. If you have any questions regarding this report, please contact Mr. Lawrence Kopas, Audit Team Leader, or me at (703) 487-5345.

cc: Regional Director, Region 4, U.S. Fish and Wildlife Service

Introduction

Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts) ¹ authorize FWS to provide Federal Assistance grants to states to enhance their wildlife and sport fish 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 conducted our audit at the Alabama Department of Conservation and Natural Resources (Department) offices in Montgomery, the Wildlife and Freshwater Fisheries Division (Wildlife and Fisheries) headquarters in Montgomery, and the Marine Resources Division (Marine Resources) headquarters at Dauphin Island. The audit included reported outlays that totaled approximately \$23.8 million on 49 of the 51 ² FWS grants that were open during the State's fiscal years (SFY) ended September 30, 2003 and 2004 (see Appendix 1). We also visited three district offices, one fish hatchery, and two Marine Resources offices (see Appendix 2). The objective of our audit was to determine:

- the adequacy of the Divisions' accounting systems and related internal controls;
- the accuracy and eligibility of the direct and indirect costs claimed under the Federal Assistance grant agreements with FWS;
- the accuracy and reliability of Wildlife and Fisheries' hunting and fishing license fees collection, certification, and disbursement processes;
- the adequacy of the Divisions' asset management systems 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 Divisions to the grants, interviews with employees to ensure that personnel costs charged to the grants were supportable, and a review of Wildlife and Fisheries use of hunting and fishing license

¹ As amended 16 U.S.C. § 669 and 16 U.S.C. § 777, respectively.

² There were no outlays on 2 of the 51 grants during the audit period.

revenues to determine whether the revenues were used only for fish and wildlife program purposes. We relied on the work performed by the Alabama Department of Examiners of Public Accounts (State auditors) on the State Single Audit for SFY 2003 to the extent possible in order to avoid a duplication of effort. At the time of our fieldwork, the State auditors had not completed fieldwork on the Single Audit for SFY 2004.

Based on our review of the audit work of the State auditors, we were able to reduce the amount of our internal control testing and other audit work for the accounting, purchasing, and labor reporting systems. In addition, we were able to reduce our audit work for grant compliance and expenditure testing, license certifications, drawdowns, license revenue, program income, assent legislation, real property management, equipment management, and in-kind contributions. Therefore, our review covered primarily SFY 2004. We did not evaluate the economy, efficiency, or effectiveness of the Divisions' operations.

At the time of our review, FWS granted the Department an extension until March 31, 2005, for submitting the annual Financial Status Reports for the SFY 2004 grants. Our review of expenditures for SFY 2004 was based on the information in the Divisions' drawdown records.

Prior Audit Coverage

On July 17, 2002, we issued a memorandum to FWS on the "Results of Agreed-Upon Procedures Review of Costs Claimed by the State of Alabama Department of Conservation and Natural Resources, Division of Wildlife and Freshwater Fisheries and Division of Marine Resources, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from October 1, 1998 through September 30, 2000." The memorandum stated that the prior audit agency had not completed its audit work in the areas of purchasing, labor recording, asset management, and testing of costs claimed for reimbursement to determine whether the costs were incurred in accordance with the grant agreements. We reviewed the memorandum, followed up on the two findings, and determined they had been resolved prior to our review. In addition, the State auditors issued a Single Audit report on the State of Alabama for SFY 2003 in which the Sport Fish and Wildlife Restoration programs were audited as major programs. The report did not identify any findings regarding Federal Assistance grants or license fees or the State's fish and wildlife programs.

Results of Audit

We found that:

- The accounting system used by both Wildlife and Fisheries and Marine Resources was adequate to account for grant and license fee receipts and disbursements.
- The asset management system used by both divisions and related internal controls with regard to purchasing, control, and disposal of assets was adequate.
- The Wildlife and Fisheries hunting and fishing license fees collection and disbursement processes were adequate and reliable.
- The Wildlife and Fisheries license certification process was adequate and reliable.
- The State had adequate assent legislation in place to prohibit the use of license revenues for any purpose other than the administration of the Department's game and fish activities.

However, we also found that while Wildlife and Fisheries identified program income on its annual performance reports, it did not report this program income on its Financial Status Reports (SF 269). In addition, Wildlife and Fisheries did not report interest earned on this program income.

A. Program Income

Although the Department reported program income totaling \$865,729 on its annual performance reports, it did not include all program income on its Financial Status Reports (SF 269). According to the performance reports, the Department received \$850,951 from a timber lease and the sale of timber, \$13,338 from Farm Services payments, and \$1,440 from the sale of replacement cards that were produced under the Hunter Education grants.³

Source	Grant No.				Total
	W-34-50	W-34-51	W-1-31	W-1-32	
Timber Sales	\$682,646	\$168,305			\$850,951
Farm Services	5,950	7,388			13,338
Replacement Cards			\$1,220	\$220	1,440
Totals	\$688,596	\$175,693	\$1,220	\$220	\$865,729

³ The performance reports also identified, as program income, refunds, and reimbursements totaling \$321 for grant Nos. W-34-50 (\$245) and W-34-51 (\$76). We did not include these amounts in the table because according to the regulations (43 CFR § 12.65 (a)) refunds are not considered program income.

Title 43 CFR § 12.65 (b) defines program income as “gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period.” Regarding the use of program income, 43 CFR § 12.65 (g) states:

“Ordinarily, program income shall be deducted from total allowable costs to determine the net allowable costs [deductive method]. Program income shall be used for current costs unless the Federal agency authorizes otherwise...When authorized, program income may be added to the funds committed to the grant agreement by the Federal agency and the grantee [addition method] ... [or] used to meet the cost sharing or matching requirement of the grant agreement.”

FWS authorized the Department to use the addition method to dispose of program income and defer the disposition of this income. The receipts were deposited into the Capital Outlays Account in the Department’s Game and Fish Fund (Fund), an interest-bearing fund, where they were commingled with license fees and other revenues and retained until the opportunity arose to acquire land for its fish and wildlife programs. At such time, FWS would award the Department a grant for the specific acquisition, funded entirely with the program income revenues.

The U.S. Fish and Wildlife Service Manual (522 FW 1.23) requires states to submit an annual Financial Status Report (SF 269) not later than 90 days after the expiration date of the grant agreement unless a request for extension has been approved. FWS also requires the states to identify estimated program income on the grant application and agreement and report actual program income on the SF 269.

The Department reported revenues totaling \$689,816⁴ as program income for 2003 on its performance report for grant No. W-34-50, but did not report these revenues as program income on the SF 269s. The amount reported on the SF 269s should have included \$688,596 for grant No. W-34-50 and \$1,220 for grant No. W-1-31.

In January 2005, we notified FWS and the Department of this issue and recommended that FWS require the Department to (a) adopt procedures to report program income from timber sales on the SF 269 and track timber sales revenues deposited into the Fund’s Capital Outlays Account and (b) report program income of \$688,596 for grant No. W-34-50, and \$175,693 for grant No. W-34-51 on the respective SF 269s. FWS and the Department agreed with our finding and recommendations, and prior to our exit conference, the Department submitted a revised SF 269 for grant No. W-34-50, which properly identified the revenues as undisbursed program income. The Department also agreed to report program income of \$175,693 on the final SF 269 for grant No. W-34-51, which was not yet due at the completion of our audit (FWS had granted an extension).

⁴ Does not include refunds and reimbursements totaling \$245 that were reported as program income.

We also found that the Department did not report the interest earned during the grant period on the program income deposited into the Fund. The Department earned interest totaling \$6,257 on grant Nos. W-34-50 (\$4,356) and W-34-51 (\$1,901). The Department earned a negligible amount of interest on grant Nos. W-1-31 and W-1-32.

Recommendations

We recommend that FWS:

1. Ensure that the Department properly reports the \$175,913 of program income on its final SF 269s for grant Nos. W-34-51 (\$175,693) and W-1-32 (\$220).
2. Require the Department to develop written procedures for (a) ensuring that program income is properly reported on the SF 269s, and (b) reporting the status and use of revenues deposited into the Capital Outlays Account of the Game and Fish Fund along with the SF 269.
3. Ensure the Department reports program income of \$4,356 for grant No. W-34-D-50 and \$1,901 for grant No. W-34-D-51 on the respective SF 269s for the interest earned during the grant periods on the revenues deposited in the Capital Outlays Account.

Department Response

The Department's response included general comments on the finding in addition to the comments on the recommendations.

General Comments. The Department stated that it does not agree that not all program income was reported since the income was identified in its annual performance reports to FWS. It agreed, however, that it should have reported this income on the SF 269s. The Department expressed concern that, "Read alone, without the follow-up information presented in this report, it would appear the [FWS] was unaware of the program income," and suggested that the report be reworded to more accurately reflect the reporting issue.

We believe the finding in the draft report, when read in total, clearly noted that the Department had reported the program income on its performance reports to FWS. However, we have modified the finding to clarify the circumstances.

Comments on Recommendations. The Department's comments on the recommendations are summarized below.

The Department agreed with Recommendation 1 but disagreed with the dollar amounts to be reported as program income. The Department stated that it had reported additional income of \$321 from refunds and reimbursements, and suggested that we revise the report to reflect this additional income. The Department's response included copies of the

revised SF 269s submitted to FWS, which include program income. The Department also stated that the program income from the replacement cards was attributed in the report to the wrong Hunter Education grants.

The Department agreed with Recommendation 2 and has developed written procedures for the accounting and reporting of program income, and has provided those procedures to FWS.

The Department also agreed with Recommendation 3, but did not agree with the interest amounts shown in the report. The Department recomputed the interest on program income for SFYs 2003 and 2004 and included these amounts on its revised SF 269s.

FWS Response

FWS stated that it concurred with the recommendations, but agreed with the Department that the report should be revised to include program income from refunds and reimbursements, the revised interest amounts computed by the Department, and the correct grant numbers for the income derived from the replacement cards under the Hunter Education program.

OIG Response

Regarding Recommendation 1, the regulations (43 CFR 12.65 (a)) state that refunds are not considered program income, and the SF 269 form indicates that “refund, rebates, etc.” should be reported as an offset to reported outlays. Therefore, we did not revise the report to include refunds and reimbursements. However, since the Department did not report the \$321 as an offset, has already reported this amount as program income on the SF 269s, and the amount is immaterial, we do not believe that any further action is needed.

Regarding Recommendation 2, FWS should determine whether the Department’s new procedures for reporting and accounting for program income are adequate.

Regarding Recommendation 3, we agree with the Department’s interest computations and have revised the report to include these amounts.

Although FWS stated that it concurred with the recommendations, it also stated that the State’s response “will be considered in the Corrective Action Plan.” Therefore, additional information is needed on the actions taken or planned to resolve the finding and to implement the recommendations. This information should be included in the corrective action plan.

**ALABAMA DEPARTMENT OF CONSERVATION AND NATURAL
RESOURCES, WILDLIFE AND FRESHWATER FISHERIES DIVISION
AND MARINE RESOURCES DIVISION
FINANCIAL SUMMARY OF REVIEW COVERAGE
OCTOBER 1, 2002 THROUGH SEPTEMBER 30, 2004**

WILDLIFE AND FRESHWATER FISHERIES

<u>Grant No.</u>	<u>Grant Amount</u>	<u>Reported Outlays</u>
F-18-39	\$12,000	\$12,000
F-18-40	12,000	12,000
F-18-41	12,000	0
F-35-30	733,500	833,353
F-35-31	700,000	803,659
F-37-30	580,000	640,667
F-37-31	580,000	587,428
F-38-30	580,000	660,953
F-38-31	650,000	640,858
F-39-30	360,000	385,207
F-39-31	380,000	378,658
F-40-30	511,928	383,808
F-40-31	390,788	274,526
F-41-30	680,000	693,973
F-41-31	600,000	587,056
F-46-18	694,276	620,091
F-46-19	665,000	567,950
F-50-15	200,000	128,608
F-50-16	300,000	114,575
F-54-14	180,000	260,891
F-54-15	218,000	247,967
W-1-31	480,000	482,716
W-1-32	480,000	474,247
W-8-61	400,000	383,939
W-8-62	400,000	448,439
W-34-50	3,404,000	3,248,059
W-34-51	3,316,000	3,170,743

Appendix 1

WILDLIFE AND FRESHWATER FISHERIES

<u>Grant No.</u>	<u>Grant Amount</u>	<u>Reported Outlays</u>
W-35-50	245,000	275,470
W-35-51	248,000	228,700
W-39-46	12,120	12,120
W-39-47	12,120	12,120
W-39-48	12,120	0
W-44-28	52,244	38,954
W-44-29	54,244	40,683
W-47-13	75,000	68,385
W-48-19	62,000	57,256
W-48-20	69,300	39,440
W-49-18	166,000	168,466
W-49-19	130,000	137,867
W-53-11	468,000	474,704
W-53-12	472,000	518,086
W-60-2	172,000	188,681
W-60-3	86,000	84,573
W-61-3	1,143,000	1,128,998
W-62-1	<u>72,052</u>	<u>84,888</u>
Subtotal	<u>\$21,070,692</u>	<u>\$20,601,762</u>

MARINE RESOURCES

<u>Grant No.</u>	<u>Grant Amount</u>	<u>Reported Outlays</u>
F-51-16	\$150,000	\$148,224
F-51-17	150,000	130,529
F-52-13	400,000	225,980
F-52-14	300,000	22,417
F-101-10	1,450,000	957,991
F-101-11	<u>1,450,000</u>	<u>1,729,797</u>
Subtotal	<u>\$3,900,000</u>	<u>\$3,214,938</u>
Total	<u>\$24,970,692</u>	<u>\$23,816,700</u>

**ALABAMA DEPARTMENT OF CONSERVATION AND NATURAL
RESOURCES, WILDLIFE AND FRESHWATER FISHERIES
DIVISION AND MARINE RESOURCES DIVISION
SITES VISITED**

HEADQUARTERS

Department of Conservation and Natural Resources, Montgomery, AL
Marine Resources Division, Dauphin Island, AL
Wildlife and Freshwater Fisheries Division, Montgomery, AL

WILDLIFE AND FRESHWATER FISHERIES DIVISION

District 1, Tanner, AL

Wildlife Section
Fisheries Section
Law Enforcement Section

District 2

Wildlife Section, Jacksonville, AL
Fisheries Section, Eastaboga, AL

District 5, Spanish Fort, AL

Wildlife Section
Fisheries Section
Law Enforcement Section

Fish Hatchery, Eastaboga, AL

Eastaboga Fish Hatchery

MARINE RESOURCES DIVISION

Dauphin Island Office, Dauphin Island, AL
Gulf Shores Office, Gulf Shores, AL

**ALABAMA DEPARTMENT OF
CONSERVATION AND NATURAL RESOURCES
STATUS OF AUDIT FINDINGS
AND RECOMMENDATIONS**

Recommendation	Status	Action Required
A.1 and A.2	Management Concur; Additional Information Needed	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 December 6, 2005) will be referred to the Assistant Secretary for Policy, Management and Budget, for resolution and/or tracking of implementation.
A.3	Finding Resolved and Recommendation Implemented	No further action is necessary.

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