



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 West Virginia,
Division of Natural Resources,
from July 1, 2002, through June 30, 2004**

**Report No. R-GR-FWS-0005-2005
February 2006**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

External Audits

12030 Sunrise Valley Drive, Suite 230

Reston, Virginia 20191

February 6, 2006

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From:

Patti L. Boyd

Acting Director of External Audits

Subject: Final Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the State of West Virginia, Division of Natural Resources, from July 1, 2002, through June 30, 2004 (No. R-GR-FWS-0005-2005)

This report presents the results of our audit of costs incurred by the State of West Virginia, Division of Natural Resources (Division), under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included total outlays of approximately \$15.8 million on FWS grants that were open during the State's fiscal years ended June 30, 2003 and 2004 (see Appendix 1). We also reviewed the Division's compliance with certain regulatory and other requirements, including those related to the collection and use of state hunting and fishing license revenues and the reporting of program income.

We questioned costs of \$37,443 for contributions for temporary employees to the State retirement system because temporary employees are not entitled to retirement benefits and the costs were not incurred. We also found that the Division had not reported proceeds of at least \$495,770 from the disposal of real property acquired with Federal Assistance funds, had not reported program income of at least \$137,214, and had used Federal Assistance lands for unauthorized purposes. In addition, the Division's real and personal property inventories contained inaccurate data and its property management procedures needed improvement.

FWS Region 5 provided a response to a draft of this report on October 26, 2005, which included a copy of the Division's October 19, 2005 response to FWS. We summarized the FWS and Division responses after the recommendations and added our comments regarding the responses. The status of the recommendations is summarized in Appendix 3.

In accordance with the Department Manual (361 DM 1), please provide us with your written response to the recommendations included in this report by May 8, 2006. Your response should include information on actions taken or planned, including target dates and titles of officials responsible for implementation. If you have any questions regarding this report, please contact Mr. Tim Horsma, Audit Team Leader, at (916) 978-5668 or Mr. Chris Krasowski, Federal Assistance Audit Coordinator at (703) 487-5345.

cc: Regional Director, Region 5, 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 the 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 Division.

Objective, Scope, and Methodology

The objective of our audit was to determine whether costs incurred and claimed under Federal Assistance grants to the Division were in accordance with the Acts and related regulations, FWS guidelines, and the grant agreements; state hunting and fishing license revenues were solely for fish and wildlife program activities; and program income was reported and used in accordance with Federal regulations.

The audit work at the Division included total outlays of approximately \$15.8 million on FWS grants that were open during the State's fiscal years (SFY) ended June 30, 2003 and 2004 (see Appendix 1). We performed our audit at the Division's headquarters in Charleston, West Virginia. We also visited three district offices, three law enforcement offices (located at district offices), three wildlife areas, one fish hatchery, and one boating access site (see Appendix 2). The audit included steps to determine whether:

- The Division's accounting system was adequate to account for grant receipts and disbursements.
- The direct and indirect costs incurred and the in-kind contributions claimed by the Division under Federal Assistance grants were necessary and reasonable, allocable, accurate, and eligible for reimbursement.
- The Division's hunting and fishing license certifications were based on official State records, and procedures used to prepare those certifications were adequate for eliminating duplicate license holders.
- The Division had an adequate system to account for and report license fee revenues and disbursements and those revenues were used only for the Division's fish and wildlife programs.

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

- Controls over real property and equipment acquired with Federal Assistance funds or license revenues were adequate to ensure compliance with program requirements.
- The Division complied with selected grant agreement provisions and requirements of the Acts.
- The State enacted assent legislation in compliance with the Acts.

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 Division to the grants, interviews with employees to ensure that personnel costs charged to the grants were supportable, and a review of the Division's use of hunting and fishing license revenues to determine whether the revenues had been used solely for fish and wildlife program purposes. We did not evaluate the economy, efficiency, or effectiveness of the Division's operations.

Prior Audit Coverage

On December 12, 2000, we issued audit report No. 01-E-117 "Audit of U.S. Fish and Wildlife Service Federal Aid Program Grants to the State of West Virginia, Division of Natural Resources for Fiscal Years Ended June 30, 1997, and 1998." The report identified a diversion of license revenue funds to law enforcement and administrative expenses. The report also identified deficiencies in the Division's asset management system.

In February 2004 and 2005, Ernst & Young LLP issued Single Audit reports for the SFYs 2002 and 2003, respectively. The State's Federal Assistance program, administered by the Division, was not identified as a major program and, therefore, was not specifically reviewed.

We reviewed these reports and followed up on all significant findings related to the FWS Federal Assistance grant funds and programs to determine whether they had been resolved. We determined that the Division has not fully implemented prior audit recommendations related to its asset management system. This finding is addressed in the Results of Audit section of this report.

Results of Audit

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

- The Division's accounting system and related internal controls appear adequate to account for grant and license fee receipts and disbursements.
- Except for the issue discussed in finding A, direct and indirect costs claimed under the Federal Assistance grant agreements with FWS were adequately recorded, supported, and eligible for reimbursement.
- Hunting and fishing license certification processes were adequate and reliable.
- The State of West Virginia had adequate assent legislation in place that prohibited the use of license fees for any purposes other than the administration of the Division.

However, we identified the following issues regarding the Division's administration of its Federal Assistance programs:

- A. Costs totaling \$37,443 for contributions to the retirement system were questioned because temporary employees were not entitled to receive retirement benefits and the costs were not incurred.
- B. Proceeds of at least \$495,770 from the disposition of natural gas were not reported.
- C. Program income of at least \$137,214 was not reported.
- D. Land acquired with Federal Assistance funds was used for unauthorized purposes.
- E. The Division's real property and equipment records were inaccurate and/or incomplete and property management procedures needed to be improved.

A. Questioned Costs - Retirement

We questioned \$37,443 charged to 27 grants for retirement costs for temporary employees. The Division did not actually incur these costs since temporary employees are not entitled to receive retirement benefits. Title 50 CFR §80.15 and 80.16 state that (1) allowable costs are limited to those which are necessary and reasonable for accomplishment of approved project purposes and are in accordance with the cost principles of OMB Circular A-87 and (2) payments shall be made for the Federal share of allowable costs incurred by the State in accomplishing approved projects.

The Division's cost accounting system computed fringe benefit costs on project labor based on a predetermined fringe benefit rate that included a component for retirement. The Division allowed supervisors to combine the hours of temporary and permanent staff on their monthly work reports and the full fringe benefit rate was applied to this total. While the predetermined rate was appropriate for permanent full time employees, it was not appropriate for temporary staff because temporary employees are not entitled to receive retirement benefits. By not

assigning each employee a specific employee identification number, the cost accounting system was unable to apply the appropriate fringe benefit rates to temporary staff wages.

As a result, the Division charged \$37,443 to 27 grants for retirement costs that were not incurred (see Appendix 1).

Recommendation

We recommend that FWS:

1. Resolve the questioned costs of \$37,443 for retirement system contributions for temporary employees.
2. Require the Division to establish procedures and controls to preclude charging grants for retirement costs for temporary employees.

Division Response

The Division concurred with the finding and the recommendation that it establish procedures and controls to preclude charging grants for retirement costs for temporary employees. The Division also stated that to address this finding, all temporary employees have been assigned a specific employee identification number and will be responsible for submitting a monthly work report identifying Federal Assistance projects, allowing the cost accounting system to apply the appropriate fringe benefit rates to temporary staff wages.

OIG Comments

Since FWS did not comment on the finding and recommendations, we consider them unresolved. FWS should address the findings and recommendations in the corrective action plan.

B. Disposition of Real Property

The Division did not report proceeds totaling at least \$495,770 from the disposition of real property (natural gas) from lands acquired with Federal Assistance funds. The revenues consisted of royalties generated under a gas lease, initially established in 1959, on the Panther State Forest Wildlife Management Area (WMA). Lands comprising Panther State Forest WMA were acquired in 1939 and 1940 with Federal Assistance funds under grant No. W-4-L (Federal participation in the acquisition cost was 75 percent).

The regulations (43 CFR § 12.71(c) (2)) require that when a grantee sells real property that was acquired with Federal Assistance funds, it must compensate the awarding agency. The regulations further state:

“The amount due to the awarding agency will be calculated by applying the awarding agency’s percentage of participation in the cost of the original purchase to the proceeds of the sale after deduction of any actual and reasonable selling and fix-up expenses.”

Based on the Federal participation rate of 75 percent on these acquisitions, FWS is due compensation of \$371,827 (75 percent of \$495,770). While the FWS Manual (522 FW 6.7D) refers to gas as an interest in real property that may be separated from the land by sale, lease, easement, or other method, it also states that revenue from the sale, lease, or easement of gas, oil, and minerals may be considered program income. [FWS needs to determine the proper treatment of these revenues.]

Division officials stated that they believed that it was appropriate to retain gas royalty revenue to fund the administration of the Division.

Recommendations

We recommend that FWS:

1. Determine whether royalties totaling \$495,770 should be treated as program income or as proceeds from sale of real property, and proceed accordingly.
2. Instruct the Division to develop and implement policies and procedures for identifying and reporting the revenues received from gas leases on lands acquired or managed with Federal Assistance funds.

Division Response

The Division partially concurred with the finding acknowledging that when a grantee sells real property acquired with Federal funds, it must compensate the awarding agency. The Division also agreed that the amount due to the awarding agency be calculated by applying the awarding agency percentage of participation in the cost of the original purchase to the proceeds of the sale.

The Division, however, disagreed with the audit reports assessment of the value realized from the disposition of real property. The disagreement was based on the number of natural gas wells in current operation on the portion of the wildlife management area acquired with Federal Assistance funds. The Division recommended that its staff work with FWS to develop and implement a policy and procedure for identifying and reporting the revenue received from activities on lands acquired with Federal Assistance funds.

OIG Comments

We acknowledge that during our review, the Division had not developed data on the location and production of gas wells on lands acquired with Federal Assistance or State funds. We determined, however, that in 1959 when the lease was established, all land on

the wildlife management area had been acquired with Federal Assistance funds. Accordingly, we believe that FWS should determine the extent of royalties that should be treated as program income or as proceeds from the sale of real property.

Since FWS did not comment on the finding and recommendations, we consider them unresolved. FWS should address the findings and recommendations in the corrective action plan.

C. Unreported Program Income

The Division did not report program income on grant Nos. W-41-D-40 and W-41-D-41 (District Wildlife Management and Investigations) totaling \$137,214 that was generated from campsite rentals, timber sales, and land leases on wildlife management areas that were maintained, and in some instances acquired, with Federal Assistance funds.

The regulations (43 CFR § 12.65(b)) state that program income is 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. Also, 43 CFR § 12.65(a) states that program income includes income from services performed and the sale of commodities. According to 43 CFR § 12.65(g), program income should be deducted from total grant costs to determine net costs on which the Federal share is based or, with FWS approval, may be added to the project funds to further eligible program projects or used to meet the cost sharing or matching requirement of the grant agreement. In addition, the grant agreement should identify the estimated amounts, sources, and method of accounting for program income.

The March 2004 Director's Order 168, Program Income from Federal Assistance Grants, provides guidance on identifying activities that may generate program income. Prior to the Director's Order 168, FWS Region 5 had instructed the Division that revenues generated on lands acquired with Federal Assistance grant funds should be reported as program income. Director's Order 168 clarified FWS policy, adding that grantees should also report revenues generated on lands managed with Federal Assistance funds as program income.

According to Division staff, revenues that may be considered program income are recorded in Fund 3227, Game and Fish Recreation fund. Based on our review, we determined that at least \$137,214 of the \$1,214,427 in Fund 3227, primarily from campsite rentals, timber sales, and land leases, should have been reported as program income on the Financial Status Reports for grant Nos. W-41-D-40 and W-41-D-41.

According to the regulations (43 CFR § 12.65 (g)(1)), "Program income which the grantee did not anticipate at the time of the award shall be used to reduce the Federal agency and grantee contributions rather than to increase the funds committed to the project." Since the program income was not reported, FWS could not ensure that the income was used in accordance with the regulations.

Recommendations

We recommend that FWS:

1. Resolve the unreported program income of \$137,214.
2. Instruct the Division to develop and implement policies and procedures to ensure that all program income is identified and reported.

Division Response

The Division did not concur with the finding, and stated that it will work with FWS to clarify the types of revenue that are required to be reported as program income. The Division stated that it disagreed with the interpretation of Director's Order 168, "Program Income from Federal Assistance Grants" that revenue generating from activities on land wholly owned by the state, but managed using Federal Assistance grant funds, must be reported as program income.

OIG Comments

As the Division had not reported revenue received as program income during the 2-year period of our review, we believe that the Division should work with FWS to develop and implement policies and procedures to clarify the types of revenue that are required to be reported as program income.

Since FWS did not comment on the finding and recommendations, we consider them unresolved. FWS should address the findings and recommendations in the corrective action plan.

D. Conversion of Land Acquired with Federal Assistance Funds

The Division allowed its forestry and parks units to develop and use approximately 26 acres on the Panther State Forest WMA for recreation facilities. These lands were acquired with Federal Assistance funds in 1939 and 1940 to be maintained as a wildlife refuge. The recreation facilities developed include two swimming pools, a bathhouse, picnic areas, campgrounds, and group camp facilities. The swimming pool complex and group camp facilities were developed in 1949 and 1979, respectively.

Federal regulations prohibit the use of real property purchased with Federal Assistance funds for purposes other than those for which they were acquired. Specifically, 43 CFR §12.71(b) states, "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." In addition, 50 CFR § 80.14(b) states:

“Real property acquired or constructed with Federal Aid funds must continue to serve the purpose for which acquired or constructed. 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 aid funds. Replacement property must be of equal value at current market prices and with equal benefits as the original property. The State may have a reasonable time, up to three years from the date of notification by the regional director, to acquire replacement property before becoming ineligible [to participate in the Sport Fish and Wildlife Restoration Programs].”

The Division did not have sufficient policies and procedures in place to preclude conversion of lands acquired with Federal Assistance funds.

Recommendations

We recommend that FWS:

1. Resolve the issue on the conversion of the 26 acres of land acquired with Federal Assistance funds.
2. Require the Division to establish and implement policies and procedures to preclude the conversion of lands acquired with Federal Assistance funds without FWS approval.

Division Response

The Division concurred with the finding that the development of recreation facilities on lands acquired with Federal Assistance funds is a diversion. The Division disagreed, however, with the statement that it did not have sufficient policies and procedures in place to preclude conversion of lands acquired with Federal Assistance funds.

OIG Comments

We determined that incomplete land record data relating to acquisition funding source and insufficient policy contributed to the land diversion identified. We therefore believe that the Division should establish and implement policies and procedures to preclude the conversion of lands acquired with Federal Assistance funds without FWS approval.

Since FWS did not comment on the finding and recommendations, we consider them unresolved. FWS should address the finding and recommendations in the corrective action plan.

E. Property Management

The regulations (50 CFR § 80.19) require the states to maintain current and complete property records in accordance with requirements contained in the Service Manual and OMB Circular A-102. According to 50 CFR § 80.18 and the FWS Manual (522 FW 1.16), the states are responsible for the accountability and control of all assets to assure that they are used for the purpose for which they were acquired throughout their useful life. We found that the Division's real property and equipment records were incomplete and/or inaccurate and that the Division's property management procedures needed improvement.

Real Property. The Division's land records were incomplete and did not identify the funding source for the acquisition. Specifically, the Division could not provide a complete list of lands purchased and capital improvements made with Federal Assistance funds or license revenues because the inventory records did not identify the funding source. The Division provided us with a list of four land purchases (all wildlife management areas), which had been identified by the previous auditors as lands acquired with Federal Assistance funds. In contrast, FWS provided us with a list of 11 land purchases (6 wildlife management areas, 4 boating access sites, and 1 lake) made with Federal Assistance funds. The Division was also unable to provide us with a listing of lands purchased with license revenues.

We concluded that the Division has not developed adequate policies and procedures to ensure that its records are adequate for managing its real property effectively. These records should identify the funding source, location, acreage and conveyances, or encumbrances. As a result, the Division did not have effective control over its real property to ensure that lands acquired with Federal Assistance funds and license revenues were used solely for their intended purposes.

Personal Property. The Division's personal property inventory listing contained inaccurate and incomplete data. During our site visits to six locations, we found that 6 of the 55 items in our sample were not at the locations shown on the inventory. The Procurement Office had approved the transfers of the items, but the inventory listing had not been updated to show the new locations. In addition, we found two items at the sites that were not on the inventory listing. According to Division staff, a physical inventory had not been performed in over 3 years but annual Inventory Certifications had been submitted to the Purchasing Division without adequate verification.

The State's Inventory Management Manual (section 3.17) requires that all agencies take a physical inventory by June 30 once every 3 years. Section 3.18 of the Manual further requires that all agencies complete an annual Inventory Certification Cover Sheet and submit it to the Purchasing Division by July 15. Agencies are required to certify the date of the last physical inventory, that all assets under their jurisdiction with an acquisition cost of \$1,000 or more were entered into the West Virginia Financial Information System Fixed Asset System, and that all obsolete assets under their jurisdiction were retired in accordance with policy, procedures, and guidelines. In completing annual Inventory Certification forms, the Division compared information on the property inventories to recent acquisitions but not to all equipment records for equipment that was transferred or retired.

We concluded that the Division did not have effective control over its personal property to ensure that property acquired with Federal Assistance funds or license revenues was adequately safeguarded and used in accordance with applicable requirements.

Recommendations

We recommend that FWS:

1. Require the Division to establish complete and accurate records for lands acquired with Federal Assistance funds and license revenues.
2. Require the Division to establish policies and procedures for maintaining land records that include source of funding, year of acquisition, acreage, location and conveyances or encumbrances.
3. Require the Division to develop procedures to ensure that personal property inventory records are adjusted promptly when items are transferred to other locations.
4. Require the Division to establish controls to ensure compliance with State Inventory Management Manual requirements for physical inventories of personal property and adjustments to inventory records.

Division Response

The Division concurred with the finding, and stated that its land records were incomplete and did not identify the funding source for land acquisitions. The Division also stated that it would work with FWS to ensure that all areas acquired with Federal Assistance funds are identified and that funding information is captured on land purchases. The Division also agreed to modify its procedures and establish a process to ensure that it conducts a physical inventory every three years and adjustments are made to inventory records.

OIG Comments

Since FWS did not comment on the finding and recommendations, we consider them unresolved. FWS should address the findings and recommendations in the corrective action plan.

**WEST VIRGINIA DIVISION OF NATURAL RESOURCES
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2002 THROUGH JUNE 30, 2004**

<u>Grant No.</u>	<u>Grant Amount</u>	<u>Total Outlays</u> ^{III}	<u>Questioned Costs</u>	<u>Federal Share</u>
F-11-R-41	\$161,000	\$121,318		
F-11-R-42	140,000	128,060	\$23	\$17
F-11-R-43	144,000	112,651	92	69
F-20-D-29	247,000	128,994	946	710
F-20-D-30	263,700	193,472	5	4
F-24-R-21	20,595	14,959		
F-24-R-22	21,610	29,049	312	234
F-24-R-23	22,710	7,096	35	26
F-31-D-13	510,000	398,002		
F-31-D-14	476,000	402,565	2,863	2,147
F-31-D-15	423,000	429,477	1,631	1,223
F-37-D-9	1,750,000	1,890,696	3,946	2,960
F-37-D-10	1,750,000	2,033,958	3,702	2,777
F-40-D-5	145,000	118,695		
F-40-D-6	145,000	94,423	487	365
F-40-D-7	185,000	175,617	837	628
F-41-R-1	150,000	30,538		
F-41-R-2	134,000	73,393	541	406
F-41-R-3	136,251	63,388	263	197
F-42-R-1	100,000	29,099		
F-42-R-2	93,500	45,485	90	67
F-42-R-3	93,500	54,747	247	185
F-43-R-1	110,000	69,682		
F-43-R-2	92,500	68,434	97	73
F-43-R-3	93,200	43,638	130	98

**WEST VIRGINIA DIVISION OF NATURAL RESOURCES
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2002 THROUGH JUNE 30, 2004**

<u>Grant No.</u>	<u>Grant Amount</u>	<u>Total Outlays^[1]</u>	<u>Questioned Costs</u>	<u>Federal Share</u>
FW-2-C-43	510,000	339,139		
FW-2-C-44	325,000	345,767		
FW-4-T-34	303,638	364,807	2,431	1,823
FW-4-T-35	353,920	351,587	2,665	1,998
FW-6-T-23	506,529	450,876	532	399
FW-6-T-24	471,908	458,087	619	464
W-41-D-40	2,545,522	2,120,827	7,234	5,425
W-41-D-41	2,643,338	2,266,120	5,930	4,448
W-43-S-31	498,032	339,418		
W-43-S-32	611,697	375,519	5	4
W-48-R-19	1,077,000	900,886	1,298	974
W-48-R-20	<u>1,093,700</u>	<u>708,745</u>	<u>482</u>	<u>361</u>
Totals	<u>\$18,347,850</u>	<u>\$15,779,214</u>	<u>\$37,443</u>	<u>\$28,082</u>

[1] The amounts shown include the Division's incurred costs and the in-kind contributions during the audit period.

**WEST VIRGINIA DIVISION OF NATURAL RESOURCES
SITES VISITED**

Headquarters

Division of Natural Resources, Charleston, WV

District Offices

District 3 French Creek

District 5 Point Pleasant (Wildlife)

District 5 St. Albans (Law Enforcement)

District 6 Parkersburg

Wildlife Areas

Chief Cornstock

McClintic

Panther State Forest

Fish Hatchery

Apple Grove

Boating Access Site

Rollins Lake

**WEST VIRGINIA DIVISION OF NATURAL RESOURCES
STATUS OF AUDIT FINDINGS
AND RECOMMENDATIONS**

Recommendations	Status	Action Required
A.1, A.2 B.1, B.2 C.1, C.2 D.1, D.2 E.1, E.2, E.3, E.4	Finding Unresolved and Recommendation Not Implemented	Provide a corrective action plan that identifies the actions taken or planned to resolve the finding and implement the recommendation, as well as the basis for any disagreement with the recommendation. The plan should also include the target date and the official responsible for implementation of the recommendation. If the recommendation is not implemented at the end of 90 days (after May 8, 2006), it will be referred to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

Report Fraud, Waste, Abuse and Mismanagement



Fraud, waste, and abuse in government concerns everyone: Office of Inspector General staff, Departmental employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and abuse related to Departmental or Insular area programs and operations. You can report allegations to us in several ways.



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