



**Department of the Interior
Office of Inspector General**

**U.S. Fish and Wildlife Service
Federal Assistance Grants
Administered by the State of Michigan,
Department of Natural Resources,
from October 1, 2002 through September 30, 2004**





United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230
Reston, Virginia 20191

May 1, 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 Michigan, Department of Natural Resources, from October 1, 2002, through September 30, 2004 (No. R-GR-FWS-0010-2005)

This report presents the results of our audit of costs incurred by the State of Michigan, Department of Natural Resources (Department), under its Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included total reported outlays of approximately \$53.8 million on FWS grants that were open during the State's fiscal years (SFY) 2003 and SFY 2004 (see Appendix 1). The audit also covered Department compliance with applicable laws, regulations, and FWS guidelines; including those related to the collection and use of hunting and fishing license revenues and the reporting of program income.

In general, we found that the Department complied with applicable grant accounting and regulatory requirements for administering its Federal Assistance programs. However, we found user fees totaling \$325,445 collected at shooting ranges were not reported as program income for the hunter education grants, written policies and procedures were not developed nor implemented to ensure proper reporting of in-kind contributions from volunteer hunter education instructors, and approximately \$7.45 million of equipment acquired with grant funds or license revenues was not adequately controlled and tracked by fund source. In addition, the State of Michigan needs to make a minor technical revision to its assent legislation to refer to the Secretary of the Interior as the authority to promulgate rules and regulations instead of the Secretary of Agriculture as the State's assent legislation currently states.

FWS Region 3 provided a copy of the Department's March 29, 2006 response to the draft of this report on April 3, 2006. FWS Region 3 elected not to respond to the draft report and will work with the Department to address any reported issues in the corrective action plan. We summarized the Department responses after the recommendations and added our comments regarding the responses. The status of the recommendations is summarized in Appendix 3.

Please respond in writing to the findings and recommendations included in this report by July 31, 2006. Your response should include information on actions taken or planned, target dates, and titles of officials responsible for implementation.

If you have any questions regarding this report, please contact Mr. Steven Moberly, Audit Team Leader, at (916) 978-5650 or me at (703) 487-5345.

cc: Regional Director, Region 3, 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 sport fish and wildlife programs. The Acts allow 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 fish and game department.

Objective

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

Scope

The audit work included total reported outlays of approximately \$53.8 million on 34 FWS grants that were open during the SFYs 2003 and 2004 (see Appendix 1). We performed our audit at Department headquarters in Lansing, Michigan. We also visited two operation service center management unit offices, three field offices, and two state game offices (see Appendix 2). This audit was performed to supplement, not replace, the audits required by the Single Audit Act of 1984, as amended, and the Office of Management and Budget Circular A-133.

Methodology

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 examining the evidence that supports selected expenditures charged to the grants by the Department, interviewing Department employees to ensure that personnel costs charged to the grants were supportable, and determining whether the Department used fishing and hunting license revenues solely for fish and wildlife program purposes. To the extent possible, we relied on the work of the State's Auditor General to avoid duplication of audit effort. 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 reduce the amount of audit work in the areas of payroll and fringe benefits and other grant expenditures, drawdowns of federal funds, and hunting and fishing license fee

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

revenues. We did not evaluate the economy, efficiency, or effectiveness of the Department's operations.

The audit team reviewed the financial management system for labor and license fees to identify the internal controls over transactions recorded in those systems and to test the operation and reliability of those controls. Based on the results of our initial assessments, we assigned a level of risk to these systems. Based on the level of risk assigned, we selected a judgmental sample of transactions for substantive testing. We also reviewed transactions related to purchases, other direct costs, drawdowns of reimbursements, in-kind contributions, program income, equipment, and other property. We did not project the results of the substantive tests to the total population of recorded transactions.

Prior Audit Coverage

On February 5, 2003, we issued report No. 2003-E-0017, "Advisory Report on Costs Claimed by the State of Michigan, Department of Natural Resources, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from October 1, 1995 Through September 30, 1997." In addition, the State's Auditor General issued a Single Audit report on the Department's financial schedules for SFY 2002 and 2003. We followed up on all significant findings in the reports and determined that they had been resolved prior to our review.

Results of Audit

We found that the Department complied, in general, with applicable grant agreement provisions and requirements of the Acts, regulations, FWS guidelines, and that state hunting and fishing licenses revenues were used solely for the Department's fish and wildlife program activities.

However, we also found that:

- ✖ **Program Income.** The Department did not report program income of \$325,445 from user fees collected at shooting ranges or include estimated program income on its grant applications.
- ✖ **In-Kind Contributions.** The Department had not developed or implemented policies and procedures to ensure that volunteer instructors submitted adequate documentation to support the in-kind contributions claimed for hunter education instruction.
- ✖ **Equipment Management.** The Department did not (1) track by funding source, approximately \$7.45 million of computers and other information technology equipment, (2) include the equipment in its inventory, or (3) perform annual physical inventories.
- ✖ **Assent Legislation.** Although the State of Michigan had adequate assent legislation in place, it needs to complete action on a minor, but necessary, revision initiated during our fieldwork.

Findings and Recommendations

We address each finding in detail below.

A. Program Income

Federal Assistance grants Nos. W-120-S-40 and W-120-S-41 provided funds to directly support Michigan's hunter education program including the operation and maintenance of six shooting ranges to expand the shooting opportunities through state-owned facilities. During SFYs 2003 and 2004, the Department collected \$325,445 in user fees at the shooting ranges. However, we found that the Department did not report these revenues as program income on its Financial Status Reports (SF 269) or include an estimate of program income in its grant application. As such, the Department underreported program income associated with grant No. W-120-S-40 by \$160,884 and grant No. W-120-S-41 by \$164,561 during the 2-year period.

The Code of Federal Regulations (43 CFR § 12.65) states, "Program income means 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." The regulations (43 CFR § 12.65 (g)) further state, "Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise. 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...When authorized, program income may be added to the funds committed to the grant agreement by the Federal agency and the grantee... [or] used to meet the cost sharing or matching requirement of the grant agreement.”

Department officials stated that they were not aware that these revenues needed to be reported as program income. Consequently, the Department deposited the shooting range receipts into the Park Improvement Fund instead of the Fish and Game fund because the shooting ranges are located on Division of Parks and Recreation lands. According to information provided by the Division, capital improvements to the shooting ranges had been made over the years from various Department funds including the Park Improvement Fund.

Because this program income was not reported on the grant application or the SF 269s, FWS did not have the opportunity to (1) authorize in advance whether the program income should be used to reduce FWS and Department contributions or to enhance the grant’s program objectives or (2) determine whether this income was used properly. However, since the hunter education grants did not authorize program income to be added to the grant amount, the net allowable costs eligible for cost sharing was overstated by \$325,445.

Recommendations

We recommend that FWS:

1. Resolve the \$325,445 in unreported program income for SFYs 2003 and 2004.
2. Notify the Department that, in the future, it should identify estimated shooting range fee revenues in its applications for Federal Assistance and report actual revenues as program income on the applicable SF-269s.
3. Document the amount and resolve the additional shooting range revenues collected subsequent to the period of our audit.

Department Response

Regarding the finding and three recommendations, the Department did not state either agreement or disagreement but instead addressed how it proposed to resolve the unreported program income identified. The Department stated that to resolve the \$325,445 of unreported program income identified in Recommendation 1, it recommends that FWS recognize and allow it an “offset credit” for approximately \$4.1 million of shooting range operation and improvement expenditures since 1998. The Department can demonstrate with supporting documentation that the expenditures were eligible and allowable, and were used to meet and enhance the hunter education grant objectives. Regarding Recommendation 2 and 3, the Department stated that it has amended its SFY 2005 hunter education grant to include and report the estimated program income (\$156,000) generated at the shooting ranges and proposed that FWS allow it a credit for the capital improvements made during the year (\$160,049). For SFY 2006 the Department stated that it included the estimated revenue and

expenditure amounts in the hunter education grant and therefore has complied with Recommendations 2 and 3.

OIG Comments

The Department did not agree or disagree with the finding and recommendations but instead addressed how it proposed resolving the finding. However, since FWS elected not to comment on the finding and recommendations, we consider them unresolved. FWS should address the finding and recommendations in the corrective action plan.

B. In-Kind Contributions

The Department used volunteer instructor hours to provide the State match (25 percent) on its hunter education program grants (Nos. W-120-S-40 and W-120-S-41). In our February 5, 2003 advisory report (Report No. 2003-E-0017), we reported that the Department did not have “adequate, written policies and procedures to ensure proper accumulation, recording and reporting of in-kind contributions” associated with Federal Assistance grants. In addition, we noted that volunteers who performed work for the Department did not always sign the sheets supporting the hours claimed. This matter was reported as a management issue; therefore, the report did not contain any formal recommendations to correct the deficiency and the issue was not addressed in the Corrective Action Plan. We followed up on this issue and found that the Department had not developed or implemented written policies and procedures to ensure that adequate controls for the accumulation, recording, and reporting of in-kind contributions are in place and being followed.

The regulations (43 CFR § 12.64(b) (6)) state, “Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors...To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs.” In addition, the Department Personnel Manual, Chapter 15.02, Section 1 states that “Time and Attendance” report forms must be signed by the employee before the timekeeper can process the form.

A Department official stated they were not aware they needed to develop written policies describing the process used by the Law Enforcement Division to account for the volunteer instructor hours or that signatures were needed on time reporting sheets. We believe that the Department needs to strengthen the accounting controls and processes over in-kind voluntary contributions to its hunter education program, which were valued at approximately \$500,000 annually.

Recommendation

We recommend that FWS require the Department to develop written policies and procedures on the accounting methods and processes used to ensure the proper documentation, accumulation, recording, and reporting of in-kind contributions associated with its hunter education program; including a requirement that volunteer instructors sign their time sheets.

Department Response

The Department agreed with the recommendation and provided documentation of the written policies and procedures that it had developed to better account for, document and report in-kind contributions associated with its hunter education program, including a requirement that volunteer instructors sign their time sheets.

OIG Comments

The Department agreed with the recommendation and provided information on the actions it has taken to develop written policies and procedures to better account for in-kind contributions associated with its hunter education program; however, since FWS elected not to comment on the finding and recommendation, we consider it unresolved. FWS should address the finding and recommendation in the corrective action plan.

C. Equipment Management

The Department did not track by funding source approximately \$7 million in computer-related equipment and approximately \$2.1 million of non-computer equipment in its equipment inventory system. In addition, during SFYs 2003 and 2004, the Department of Information Technology (DIT) purchased on behalf of the Department, with Federal Assistance funds or license revenues, approximately \$450,000 in computer-related equipment, but did not record the equipment in either the Department's or DIT's inventory system. Finally, the Department did not perform its required annual physical inventory of the \$7.45 million (\$7 million and \$450,000) of computer-related equipment during SFYs 2003 and 2004 to ensure that the equipment purchased with Federal Assistance funds or license revenues was properly controlled, inventoried, and used only for the purpose for which it was acquired. Accordingly, property acquired with Federal Assistance funds or license revenues could not be verified. Existing inventory practices are not adequate to safeguard equipment and to identify equipment that is lost, damaged, stolen, or no longer needed to support Restoration Program requirements.

The Department's Administrative Procedures, Series 04.02-00, requires the maintenance of inventory records for all Department-owned equipment with a value of \$1,000 or more, and equipment that is susceptible to theft or has a long useful life. In addition, Series 04.02-03, states that each Property Location Unit Supervisor is responsible for conducting a complete physical inventory, certifying the results by April 1 each year, and reconciling the results with their lists and the Department Equipment Inventory System. In addition, the regulations (50 CFR § 80.19) require the states to maintain current and complete property records.

In October 2001, the State of Michigan created DIT by Executive Order No. 2001-3, which consolidated authority over computer operations and information technology for all State agencies including the Department. However, neither during nor subsequent to the transition did the Department ensure that issues of compliance with applicable federal and state laws and regulations related to the authority transferred were resolved. Also, the Department did not develop or revise its policies and procedures to reflect the new operational aspect and authorities created by the Executive Order. Finally, according to Department officials, the

Department has not identified the funding source for \$2.1 million of non-computer-related equipment because this equipment was for the most part purchased prior to a 1999 conversion to a new equipment inventory system.

We concluded that the Department does not have adequate control over approximately \$7.45 million of computer-related equipment purchased with either Federal Assistance funds or license revenues and \$2.1 million of non-computer-related equipment purchased prior to fiscal year 1999. In addition, there is a high risk that the computer-related equipment could be diverted to uses other than the Department's fish and wildlife activities.

Recommendations

We recommend that FWS require the Department to:

1. Take immediate action to inventory, account for, and identify the funding source for all computer-related equipment purchased by or transferred to DIT that was procured in whole or in part with either Federal Assistance funds or license revenues since the creation of DIT.
2. Develop policies and procedures to describe the new operational arrangements and controls to ensure that computer-related equipment purchased with Federal Assistance funds or license revenues is used only for fish and wildlife program purposes.
3. Document that DIT is aware of and will comply with federal and state laws and regulations related to equipment purchased with either Federal Assistance or license receipt funding.
4. Identify the funding source for the non-computer-related equipment for equipment with a fair market value of \$5,000 or more.

Department Response

The Department agreed with each of the recommendations and stated that it "will comply." Specifically, regarding Recommendation 1, the Department stated that it and DIT are currently in the process of converting computer equipment data from the Department's and DIT's databases into a new Department computer equipment database. Once the conversion is completed the Department will confirm the equipment at each location and ensuring inclusion in its annual physical inventory certification process. The Department anticipates that this will be completed by September 30, 2007. Regarding Recommendation 2, the Department stated that it will develop written policies and procedures as part of the new process for tracking and inventorying computer-related equipment. The Department anticipates that this will be complete by September 30, 2007. Regarding Recommendation 3, the Department stated that it will provide DIT with the applicable state and federal laws and regulations related to equipment purchased with Federal Assistance or license revenues and will request DIT to confirm its understanding of those laws and regulations. The Department anticipates that this will be complete by June 30, 2006. Finally, regarding Recommendation 4, the Department stated that it has already taken action to identify all non-computer-related

equipment in its equipment database without a funding source and are in the process of determining which items have a fair market value of \$5,000 or more and are researching these items to determine the funding source. The Department anticipates that this will be complete by September 30, 2007.

OIG Comments

The Department agreed with the recommendations and provided information on the actions it has taken or planned to address the recommendations; however, since FWS elected not to comment on the finding and recommendations, we consider them unresolved. FWS should address the findings and recommendations in the corrective action plan.

D. Assent Legislation

The State of Michigan enacted Act 451 of 1994, Sections 324.40501 and 324.47701, to meet the requirements of the Restoration Acts to codify into State law a provision prohibiting the diversion of revenues from hunting and fishing licenses for any purpose other than the administration of the State's fish and game department. However, we identified a need for a minor technical revision in Section 324.40501, to refer to the Secretary of the Interior as the authority to promulgate rules and regulations instead of the Secretary of Agriculture as the Act currently states. During our fieldwork, Department officials agreed that a revision should be made and initiated action to have the State amend the Act. Since the actions initiated by the Department had not been completed by the end of our fieldwork, we believe that FWS should ensure that this action is completed.

Recommendation

We recommend that FWS ensure that the Department's proposed action to amend the State's Act of 1994, Section 324.40501, is completed.

Department Response

The Department stated that it has forwarded the amended language for the Act's technical revision to the Governor's Legislative Affairs Office so it can be added to an upcoming hunting and fishing bill. The Department anticipates that the action will be completed by July 1, 2006.

OIG Comments

The Department's action appears to adequately address the recommendation; however, since FWS elected not to comment on the finding and recommendation, we consider the recommendation unresolved. FWS should address the finding and recommendation in the corrective action plan.

Appendix 1

MICHIGAN DEPARTMENT OF NATURAL RESOURCES FINANCIAL SUMMARY OF REVIEW COVERAGE OCTOBER 1, 2002 THROUGH SEPTEMBER 30, 2004

<u>Grant No.</u>	<u>Grant Amount</u>	<u>Reported Outlays</u>
F-62-D-16	\$7,293,872	\$6,522,163
F-62-D-17	6,897,824	6,746,680
F-80-R-4	863,840	866,546
F-80-R-5	622,353	745,767
F-81-R-4	3,414,997	3,911,137
F-81-R-5	2,920,471	3,970,008
F-82-R-3	192,444	120,457
F-82-R-4	168,135	121,770
F-83-B-1	8,020,000	7,903,126
F-84-D-1	100,200	100,200
F-84-D-2	200,400	195,823
F-84-D-3	200,460	200,459
F-85-D-1	100,200	32,361
F-86-B-1	1,552,711	
W-120-S-40	1,799,180	1,823,238
W-120-S-41	1,863,109	1,868,490
W-140-D-8	775,500	431,383
W-140-D-9	60,000	
W-140-D-10	601,380	203,360
W-140-D-11	60,000	
W-141-D-5	5,480,807	4,001,296
W-141-D-6	5,390,355	4,328,477
W-142-L-6	212,800	132,329
W-142-L-7	241,648	119,190
W-143-P-6	807,586	469,486
W-145-L-3	1,252,500	101,093
W-145-L-4	5,000,000	
W-147-R-1	7,188,484	4,524,654
W-147-R-2	7,005,572	4,053,253
W-147-R-3	6,595,672	
W-148-M-1	3,217,000	
W-149-P-1	2,645,000	
FW-4-C-14-F	176,373	138,027
FW-4-C-15-F	187,870	139,519
	<u>\$83,108,743</u>	<u>\$53,770,292</u>

**MICHIGAN DEPARTMENT OF NATURAL RESOURCES
SITES VISITED**

Headquarters

Department of Natural Resources, Lansing, Michigan

Operation Service Center, Management Unit, and Field Offices

Allegan Field Office

Baldwin Field Office

Cadillac Operations Service Center Management Unit Office

Plainwell Operations Service Center Management Units Office

Paris Field Office

State Game Areas

Allegan

Pentwater River

**MICHIGAN DEPARTMENT OF NATURAL RESOURCES
STATUS OF AUDIT FINDINGS
AND RECOMMENDATIONS**

Recommendations	Status	Action Required
A.1, A.2, A.3, B.1, C.1, C.2, C.3, C.4, D.1	Findings 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 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 July 31, 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.



By Mail: U.S. Department of the Interior
Office of Inspector General
Mail Stop 5341 MIB
1849 C Street, NW
Washington, D.C. 20240

By Phone: 24-Hour Toll Free 800-424-5081
Washington Metro Area 202-208-5300

By Fax: 202-208-6081

By Internet: www.oig.doi.gov

Revised 02/06