

Department of the Interior
Office of Inspector General



Audit Report

**U.S. Fish and Wildlife Service
Federal Assistance Grants Administered
by the Commonwealth of Virginia,
Department of Game and Inland Fisheries,
from July 1, 2002 through June 30, 2004**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230
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July 13, 2006

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Christina M. Bruner *Christina M. Bruner*
Director of External Audits

Subject: Final Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the Commonwealth of Virginia, Department of Game and Inland Fisheries from July 1, 2002, through June 30, 2004 (No. R-GR-FWS-0021-2005)

This report presents the results of our audit of costs incurred and claimed by the Commonwealth of Virginia (Commonwealth), Department of Game and Inland Fisheries (Department), under Federal Assistance Program grants from the U.S. Fish and Wildlife Service (FWS). The audit included total reported outlays of approximately \$26 million on FWS grants that were open during the Commonwealth's fiscal years ended June 30 of 2003 and 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.

We found that the Department complied with applicable grant accounting and regulatory requirements for administering its Federal Assistance Program grants. However, we found that the Department did not report \$114,436 of timber sales revenue as program income; prepared annual license certifications using an outdated survey; transferred to another state agency computer-related equipment that may have been purchased with license revenues; and needed to improve its management of equipment. We also found the Commonwealth had not passed laws assenting to the Pittman-Robertson Wildlife and Dingell-Johnson Sport Fish Restoration Acts. However, the Department initiated corrective action during our audit by drafting a legislative amendment to comply with the assent requirement. The State Legislature passed the amendment on February 15, 2006, and the Governor signed it on February 23, 2006. The amendment became effective July 1, 2006.

We provided a draft of the report to FWS and the Department for response. This report includes a summary of Department and FWS responses after each recommendation, as well as our comments on the responses. We list the status of each recommendation in appendix 3.

Please respond in writing to the findings and recommendations included in this report by October 11, 2006. This corrective action plan should include information on actions taken or planned, target completion dates, and titles of officials responsible for implementation.

If you have any questions regarding this report, please contact Team Leader Owen Nicholson at 703-487-5342 or me at 703-487-5353.

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 FWS to provide Federal Assistance Program grants to states to enhance their sport fish and wildlife restoration 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.

Objective

The objective of our audit was to determine whether 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 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 \$26 million on FWS grants that were open during fiscal years ended June 30 of 2003 and 2004 (see appendix 1). We performed our audit at Department headquarters in Richmond, Virginia. We also visited three regional offices, four wildlife management areas, two boating access sites, two hatcheries, one field office, and one warehouse (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. The audit included steps to determine whether the Department:

- has a financial management system adequate to account for grant and license fee receipts and disbursements;
- incurred and/or claimed only necessary, reasonable, allocable, accurate, and reimbursable direct and indirect costs and in-kind contributions under Federal Assistance Program grants;
- based hunting and fishing license certifications on official Commonwealth of Virginia records and prepared them using procedures adequate to eliminate duplicate license holders;

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

- used an adequate system to account for and report license fee revenues and to ensure those revenues were used solely for Department fish and wildlife programs;
- exercised controls over real property and equipment acquired with Federal Assistance Program funds or license revenues adequate to ensure compliance with applicable requirements;
- complied with applicable grant agreement provisions and requirements of the Acts, regulations, and FWS guidance; and

whether the Commonwealth of Virginia:

- enacted assent legislation in compliance with the Acts.

Methodology

We performed our audit in accordance with the “Government Auditing Standards” issued by the Comptroller General of the United States. We tested records and performed other auditing procedures that we considered necessary under the circumstances. Our tests included an examination of evidence supporting selected expenditures charged to the grants by the Department, interviews with employees to ensure that personnel costs charged to the grants were supportable, and a review of Department use of hunting and fishing license revenues to determine whether the revenues had been used solely for fish and wildlife program purposes. To the extent possible, we relied on the work of the Commonwealth Auditor of Public Accounts to avoid duplication of audit effort. We did not evaluate the economy, efficiency, or effectiveness of Department operations.

We reviewed the financial management systems 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 and 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, and property. We did not project the results of the substantive tests to the total population of recorded transactions.

Prior Audit Coverage

On September 4, 2002, we issued advisory report no. 2002-E-0009, “Final Advisory Report on Costs Claimed by the Commonwealth of Virginia, Department of Game and Inland Fisheries, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1997 to June 30, 1999.” We followed up on the findings and determined that they had been resolved; however, Department asset management processes still need improvement (see Asset Management – Equipment).

We also reviewed the Commonwealth Comprehensive Annual Financial Report and the single audit reports for the fiscal years ending June 30 of 2003 and 2004. However, the Department was not audited as a major program, and the reports did not include any findings regarding Federal Assistance funds or programs. The Auditor of Public Accounts also issued a separate report on the Secretary of Natural Resources Agencies for the period July 1, 2003, to June 30, 2004, and the State Internal Auditor issued a May 23, 2005 Hotline Report. We reviewed these reports and determined the areas of concern did not indicate weaknesses of any particular system affecting the Federal Assistance Program grant.

Results of Audit

We found that the Department generally complied with applicable regulations and grant accounting requirements. The:

- financial management system and related internal controls were adequate to account for grant and license fee receipts and disbursements;
- direct costs, indirect costs, and in-kind contributions claimed under the Federal Assistance Program grants were reasonable, supported, and eligible for reimbursement;
- hunting and fishing license fees collection, certification, and disbursement processes were adequate and reliable, except as discussed in finding B;
- asset management system was adequate for identifying and tracking personal and real property with regard to acquisition, control, and disposal, except as discussed in finding D; and the
- Department complied with selected grant agreement provisions and requirements of the Acts, regulations, and FWS guidance.

However, we found that the Department:

- A. failed to report \$114,436 of program income;
- B. used duplication rates that were based on a survey more than 5 years old to adjust annual license certifications;
- C. transferred computer-related equipment that may have been acquired with license revenues to another state agency; and
- D. needs to improve its asset management processes.

A. Program Income

The Department earned \$297,187 in revenues from timber sales in FY2003 and FY2004 on wildlife management areas that receive Federal Assistance Program funds for operation and maintenance. Of this amount, \$114,436 was not identified as program income or reported on the Financial Status Report (SF-269s) for Grants W-48-D-44 and W-48-D-45.

According to the Code of Federal Regulations (43 C.F.R. § 12.65), program income is gross income received by a grantee that is directly generated by a grant supported activity. Program income should be deducted from total grant costs to determine net costs on which the grantor's share will be based, or it should be added to project funds to further eligible program objectives.

The Department followed FWS Region 5 guidance and reported only that revenue earned on wildlife management areas for which Federal Assistance Program funds were used to acquire land. The Department was unaware that program income should be reported on wildlife management areas that receive Federal Assistance Program funds for operation and maintenance. As a result, the Department did not deduct \$114,436 program income from the total grant costs

to determine the net costs on which the Federal share would be based for Grants W-48-D-44 and W-48-D-45.

FWS Region 5 has clarified its guidance to the Department, and all future timber sales revenue will be reported as program income and applied to the FY2005 grant.

Recommendation

We recommend that FWS determine how best to resolve the \$114,436 unreported program income.

Department Response

The Department states that, based on FWS Region 5 guidance in effect during the years audited, it categorized and reported revenues from timber sales by the source of funds used to purchase the land on which the timber was harvested. This procedure resulted in reporting as program income only those receipts from wildlife management areas where Federal Assistance Program funds were used to acquire land. The FWS guidance was revised by Director's Order 168 to require the state to include all receipts as program income. As a result, the Department reported all timber sales revenue on the FY2005 grant as program income and plans to follow the same procedures on future grants. In addition, the Department indicates there were cost overruns for the two grants specified in the finding that exceeded the unreported program income.

FWS Response

FWS confirms that the Department properly followed Region 5 guidance in reporting program income. Director's Order 168, issued in October 2004, has revised this guidance. Based on recent grant submissions and final financial status reports, the Region has determined that the Department is now in full compliance, considers the issue resolved, and recommends no further action on the part of the Department.

OIG Comments

FWS confirms that the Department has taken corrective action and is now properly reporting program income. Based on the FWS response, we consider the recommendation resolved and implemented.

B. Annual License Certifications

The Department completed and submitted annual license certifications for license years (LY) 2003 and 2004 to the Division of Federal Assistance of FWS. The Department used duplication rates based on a survey that was over 5 years old to make required adjustments for duplicate license holders. It indicated that it did not have adequate funding to complete a new survey.

The FWS Federal Aid Handbook, 522 FW 2.7(1), indicates that if states use a statistical survey to eliminate duplicate counting, they should conduct a new survey at least every 5 years – or sooner if the license structure changes.

As a result, the number of hunting and fishing licenses certified by the Department in LY2003 and LY2004 may be inaccurate.

Recommendation

We recommend that FWS ensure that the Department completes the required survey to validate the annual adjustment for duplicate license holders.

Department Response

The Department states that it will complete and document a duplication study in LY2006 and implement fully an electronic point of sale system for hunting and fishing licenses. The system will include a duplication study.

FWS Response

FWS plans to work closely with the Department to develop and implement corrective actions for this recommendation.

OIG Comments

The corrective action proposed by the Department appears to be adequate. However, we consider the finding unresolved because FWS did not provide specific information regarding it or our recommendation. FWS should address the finding and recommendation in the corrective action plan.

C. Asset Management – Computer-Related Equipment

On October 25, 2004, the Department transferred information technology (IT) personnel and assets² and ownership of those assets to Virginia Information Technology Agency (VITA). However, the Department does not identify the specific type of funds used to purchase IT equipment. License fees may have been the source of funding for some of the transferred assets because the Department deposits license fees and other revenues into the Game Protection Fund and uses these funds for equipment purchases.

The Department transferred the IT assets under Virginia Executive Order 50(30), which was issued to comply with Virginia General Assembly legislation passed in 2003. On September 17, 2004, the Department signed the transition overview document that specified terms of the transfer. Recognizing its responsibilities under the Federal Assistance Program, the Department

² These assets included data centers; servers; telecommunications equipment, services, and networks; desktop and laptop computers; portable devices and peripherals; and all associated software.

added a section to the agreement. The new section requires that all Department-bought IT assets be used only for state fish and wildlife management activities.

Section 80.4 of title 50 C.F.R. precludes use of hunting and fishing license revenues for other than administration of the state fish and wildlife agency. When the state fails to meet this requirement, the FWS Director may declare a diversion of license revenues. Upon the issuance of such a declaration, the state becomes ineligible to participate under the pertinent restoration act until corrective action is taken. The state must restore all diverted license revenues and assets acquired with license revenues, or it may make an amount equal to the license revenue diverted or the current market value of assets available for use for the administration of the state fish and wildlife agency.

The Department no longer controls computer-related equipment that may have been purchased with license revenues. It cannot ensure any such equipment would be used for fish and wildlife activities.

Recommendation

We recommend that FWS:

1. determine whether the transfer of ownership of Department IT assets constituted a diversion of license revenues and
2. resolve the diversion, if it occurred, according to the requirements of 50 C.F.R. § 80.4(d).

Department Response

The Department states that VITA will work with the Department and FWS to ensure that computer-related equipment is used solely for Department purposes until it reaches the end of its useful life or is fully depreciated.

FWS Response

FWS plans to work closely with the Department to develop and implement corrective actions for this recommendation.

OIG Comments

Since corrective action has not been taken or proposed by the Department or FWS, we consider the finding and recommendation unresolved. FWS should address the finding and recommendation in the corrective action plan.

D. Asset Management – Equipment

Using two inventory lists, we inspected property at ten sites³, as well as the Department headquarters in Richmond, Virginia. We selected a judgmental sample from each list and, with the assistance of the staff at each location, inspected the sample of vehicles, equipment, and computer-related items. We found that not all items were tagged and that inventory listings contained inaccurate and incomplete data.

According to 50 C.F.R. § 80.19, the State must maintain current and complete property records according to the requirements in the Service Manual and OMB Circular A-102. The Commonwealth Accounting Policies and Procedures Manual requires that each fixed asset be assigned responsibility to a specific person and be tagged with a unique number. Information such as tag number, item description, historical cost, and acquisition date is entered in the Fixed Asset Accounting and Control System. Furthermore, a physical inventory of all fixed assets must be performed at least once every 2 years. Any discrepancies between recorded and actual inventories must be resolved by submitting revised input forms and, if necessary, tagging.

The Department provided an equipment inventory listing generated from the Asset Management System⁴, which is maintained by the Administrative Services Division. It identified 1,715 items valued at \$23.6 million, including vehicles and equipment. Our judgmental sample included 232 items valued at \$2.7 million. We verified that the items existed and were properly tagged and that related data in the inventory listing was accurate.

Of the items sampled, we found:

- 18 untagged items valued at \$95,915;
- 4 improperly tagged items valued at \$16,650 (the property tag number and inventory listing did not match);
- 22 incorrectly tagged items valued at \$328,638 (locations differed from those identified in inventory); and
- 5 tagged or titled items not listed in the inventory.

We could not find:

- 1 item valued at \$7,197;
- 10 items valued at \$84,160 (transferred to other locations); and
- 3 items valued at \$50,301 (surplussed).

The inventory records were inaccurate and incomplete because tags fell off; tags were illegible due to age and/or exposure; field personnel failed to install tags supplied by the asset

³Regional offices at Williamsburg, Forest, and Fredericksburg Regional Offices; Chesapeake Field Office; Ashland Warehouse; Montebello and King and Queen Hatcheries; and Chickahominy, Hog Island, Phelps, and Powhatan Wildlife Management Areas.

⁴The Asset Management System includes information related to buildings, land, improvements, and equipment that has a value greater than \$5,000 or that is titled.

management coordinator; and the asset management coordinator was not told when items were moved to other locations or disposed.

VITA provided a computer inventory listing that identified 2,116 items (\$1.4 million value). Of these items, 1,242 showed no purchase cost. We selected a judgmental sample of 174 items to verify that the items existed and were properly tagged and that related data in the inventory listing were accurate.

Of the items sampled, we found:

- 26 items improperly recorded in the inventory (wrong tag numbers, or different location);
- 13 items disposed of as surplus;
- 14 items not on the inventory list, 5 of which were untagged; and
- 6 items listed in inventory with a different custodian or location than what we observed.

Recommendations

We recommend that FWS ensure that the Department:

1. accurately update data in the Asset Management System and tag untagged items and
2. work with VITA to accurately update the computer equipment inventory.

Department Response

The Department issued new asset management and control policy and procedures on January 1, 2006, which require an annual inventory of all assets. Printed tags are to be replaced with embossed metal plates, and placement of the tags has been standardized. These changes should allow the Department to maintain current and accurate asset data. VITA concurred with the finding but proposed no corrective action.

FWS Response

FWS plans to work closely with the Department to develop and implement corrective actions for this recommendation.

OIG Comments

The corrective action proposed by the Department regarding its noncomputer-related equipment appears to be adequate; however, the Department proposed no corrective action regarding computer-related equipment. Since FWS did not specifically comment on these findings and recommendations, we consider them unresolved. FWS should address the findings and recommendations in the corrective action plan.

VIRGINIA DEPARTMENT OF GAME AND INLAND FISHERIES
FINANCIAL SUMMARY OF REVIEW COVERAGE
July 1, 2002, Through June 30, 2004

| <u>Grant Number</u> | <u>Grant Amount</u> | <u>Total Outlays</u> |
|---------------------|---------------------|----------------------|
| F105D36 | \$120,000 | \$118,045 |
| F105D37 | 77,764 | 74,540 |
| F105D38 | 216,809 | 216,809 |
| F105D39 | 150,502 | 150,502 |
| F107D12 | 400,000 | 336,718 |
| F107D13 | 695,000 | 338,614 |
| F109D11 | 1,222,000 | 1,023,375 |
| F109D12 | 1,309,000 | 1,131,544 |
| F109D13 | 1,160,000 | 1,137,091 |
| F111R11 | 1,917,000 | 1,850,857 |
| F111R12 | 1,774,000 | 1,669,145 |
| F111R13 | 1,946,000 | 1,870,279 |
| F121R4 | 190,356 | 190,356 |
| F121R5 | 115,367 | 115,367 |
| F122R2 | 36,575 | 36,575 |
| F123R1 | 184,000 | 129,526 |
| F123R2 | 180,000 | 83,911 |
| F123R3 | 190,000 | 173,641 |
| F124D1 | 5,162,258 | 4,363,627 |
| F125R1 | 56,012 | 56,012 |
| F127L1 | 65,875 | 0 |
| W31C55 | 400,000 | 329,185 |
| W31C56 | 400,000 | 355,789 |
| W48D44 | 2,364,084 | 1,716,096 |
| W48D45 | 1,761,167 | 1,908,577 |
| W87E1 | 1,000,000 | 897,452 |
| W87E2 | 1,086,667 | 1,264,566 |
| WE99R12 | 2,756,969 | 2,630,698 |
| WE99R13 | 2,505,919 | 1,894,582 |
| Total | \$29,443,323 | \$26,063,478 |

**VIRGINIA DEPARTMENT OF GAME AND INLAND FISHERIES
SITES VISITED**

Regional Offices

Forest
Fredericksburg
Williamsburg

Hatcheries

King and Queen
Montebello

Wildlife Management Areas

Chickahominy
Hog Island
Phelps
Powhatan

Other Sites

Ashland Warehouse
Chesapeake Field Office
Bent Creek Boating Access
Horseshoe Bend Boating Access

**VIRGINIA DEPARTMENT OF GAME AND INLAND FISHERIES
STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

| Recommendations | Status | Action Required |
|------------------------|--|---|
| A | Finding Resolved and Recommendation Implemented | No action necessary. |
| B, C1, C2, D1, D2 | Finding Unresolved and Recommendation(s) 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 October 11, 2006), it will be referred to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation. |

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