



Department of the Interior  
Office of Inspector General

# Audit Report

**U.S. Fish and Wildlife Service  
Federal Assistance Grants  
Administered by the  
Commonwealth of Kentucky,  
Department of Fish and Wildlife Resources,  
from July 1, 2002, Through June 30, 2004**

Report No. R-GR-FWS-0013-2005

September 2006



# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230  
Reston, Virginia 20191

September 22, 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 Kentucky, Department of Fish and Wildlife Resources, from July 1, 2002, Through June 30, 2004 (No. R-GR-FWS-0013-2005)

This audit report presents the results of our audit of costs incurred by the Commonwealth of Kentucky (Commonwealth), Department of Fish and Wildlife Resources (Department). The Commonwealth incurred the costs under Federal Assistance grants administered by the U.S. Fish and Wildlife Service (FWS). The audit included total reported outlays of approximately \$39 million on FWS grants that were open during Commonwealth fiscal years (CFYs) ended June 30 of 2003 and 2004 (see appendix 1). The audit also evaluated 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, in general, with applicable grant accounting and regulatory requirements. We questioned \$66,408 in costs because the Department could not provide supporting documentation for two selected expenditures. We also identified issues pertaining to real property records and license revenues.

We provided a draft of the report to FWS and the Department for response. We summarized the Department's responses after each recommendation, as well as our comments on the responses. FWS concurred with the recommendations and stated the Department's proposals to implement the recommendations will be considered in the development of the Corrective Action Plan. We listed the status of each recommendation in appendix 3.

Please provide us with your written response to the findings and recommendations included in this report by December 21, 2006. Your response 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 Mr. Tom Nadsady, Audit Team Leader, at 916-212-416 or me at 703-487-5345.

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

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# Introduction

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## Background

The Pittman-Robertson Federal Aid in Wildlife Restoration Act and the Dingell-Johnson Federal Aid in Sport Fish Restoration Act (Acts)<sup>1</sup> authorize FWS to provide Federal Assistance grants to states to enhance their sport fish and wildlife restoration programs. The Acts allow FWS to reimburse 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 agency.

## Objectives

Our audit objectives were to determine whether the Department:

- claimed and incurred costs under Federal Assistance grants in accordance with the Acts and related regulations, FWS guidelines, and grant agreements;
- used state hunting and fishing license revenues solely for fish and wildlife program activities; and
- reported and used program income in accordance with federal regulations.

## Scope

The audit work included claims totaling approximately \$39 million on FWS grants that were open during the CFYs 2003 and 2004 (see appendix 1). We performed our audit at Department headquarters in Frankfort, Kentucky. We also visited four regional offices, eight wildlife management areas, two boat ramps, one fish hatchery, and two shooting ranges (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. We tested records and conducted other auditing procedures as necessary under the circumstances. We examined the evidence that supports selected expenditures charged to the grants by the Department, interviewed Department employees to ensure that personnel costs charged to the grants were supportable, and determined whether the Department used hunting and fishing license revenues solely for sport fish and wildlife program purposes. To the extent possible, we relied on the work of the

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<sup>1</sup>As amended, 16 U.S.C. §§ 669 and 777, respectively.

Commonwealth's Auditor of Public Accounts to avoid duplication of effort. We did not evaluate the economy, efficiency, or effectiveness of Department operations.

We selected a judgmental sample of transactions for substantive testing based on an initial assessment of risk. We reviewed transactions and supporting documentation 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 substantive tests to the total population of recorded transactions. We also reviewed the financial management systems for labor and license fees to identify the relevant internal controls over transactions recorded in those systems and to test the operation and reliability of those controls.

### **Prior Audit Coverage**

On March 4, 2003, we issued a Report titled, "Final Advisory Report on Costs Claimed by the Commonwealth of Kentucky, Department of Fish and Wildlife Resources, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1996, through June 30, 1998," (2003-E-0020). The Department implemented seven of the eight report recommendations. The remaining recommendation on assent legislation is still unimplemented, and we discuss it in the Results of Audit section.

We reviewed the Auditor of Public Accounts Single Audit Reports for CFYs 2003 and 2004. The Sport Fish Restoration and Wildlife Restoration Programs were not selected for testing in the 2003 Single Audit but were selected for testing in the 2004 Single Audit. The Department implemented two of the three report recommendations. The remaining recommendation also relates to assent legislation and is discussed in the Results of Audit section.

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## Results of Audit

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### Audit Summary

We found that the Department complied, in general, with selected grant agreement provisions and requirements of the Acts, regulations, and FWS; 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.

We also identified the issues listed below that required attention by FWS, including \$66,408 in questioned costs. We discuss these issues in more detail and recommend corrective actions in the findings and recommendations section.

- **Questioned Costs: Lack of Documentation.** The Department did not have supporting documentation for two selected grant expenditures that totaled \$66,408.
- **Insufficient Real Property Records.** The Department did not have real property records sufficient to determine if it owns a 33-acre tract of land that was being logged by a party who claims ownership of the land.
- **Noncompliance With the Acts.** The Commonwealth General Assembly enacted legislation that potentially allows license revenues from its Game and Fish Fund to be diverted to its General Fund.

### Findings and Recommendations

We address each finding in detail below.

#### A. Questioned Costs: Lack of Documentation

We reviewed 75 transactions that totaled \$4.6 million and found the Department could not provide an original purchase order, invoice, or payment document for the purchase of a dump truck and a pick-up truck totaling \$66,408. Since the grant is based on a 72/25 cost share, the Federal portion questioned is \$49,806. These purchases were charged to the Statewide Wildlife Management grant W-45-35.

OMB Circular A-87, Attachment A, Section C.1. j, states that for costs to be allowable under federal awards, they must be adequately documented. Also, Section 1 of FAP 111-28-00, Manual of Policies and Procedures, Commonwealth Finance and Administration Cabinet, states "each agency shall maintain records necessary to support each purchasing transaction . . . An agency's filing system shall be set up so that any transaction can be referenced easily and audited from the initial purchase request within the agency to completion and payment."

## **Recommendation**

We recommend that FWS work with the Department to resolve the \$66,408 in unsupported costs and require the Department to strengthen its internal controls to ensure compliance with Section 1 of FAP 111-28-00.

## **Department Response**

The Department concurred. The Department agreed it did not have supporting documentation for the grant expenditures and proposed to FWS that overmatching costs be used to offset the expenditures. The Department acknowledged the cause of the finding to be a filing error due to staff turnover.

## **FWS Response**

FWS concurred with the finding and recommendation.

## **OIG Response**

We consider the recommendation resolved but not implemented, since FWS has not taken corrective action. FWS should address the finding and recommendation, and the specific actions taken or planned, in the corrective action plan.

## **B. Insufficient Real Property Records**

The Department may have lost control of a 33-acre tract of land that it believes was purchased with Federal Assistance funds. In 1975, the Department acquired 4,056 acres of land in the Yellowbank Wildlife Management Area (WMA). In 2004, a private party purchased a 33-acre tract on or near the WMA and began a logging operation on the property. The operation was stopped at the request of the Department because of concerns over whether the land was part of the WMA.

FWS Service Manual 522 FW 20, Loss of Control and Disposal of Real Property, describes the role of FWS and the states in identifying and remedying a loss of control of real property purchased with Federal Assistance funds. The manual states that when property passes from management control of the state fish and wildlife agency, control must be fully restored to that agency or the real property must be replaced using non-Federal Assistance funds. The manual also states that the replacement property must be of equal value at current market prices and have benefits equal to the original property and that license revenues cannot be used to replace the property. As discussed previously, FAP 111-28-00, Section 1, requires each agency to maintain records necessary to support each purchase.

Department survey officials stated that the 33-acre tract of land in question was not included in the original land boundary survey or reflected in the plat filed for the acquired property because the land survey inadvertently excluded the tract. They also told us that

they believe the language in the deed for the described property indicates that the Department does, in fact, own the land. As of December 2005, the ownership of the land was not resolved, and the Department was negotiating with the logging operator.

### **Recommendations**

We recommend that FWS require the Department to:

1. immediately resolve ownership of the 33-acre tract of land and, if it is determined that the land was acquired with Federal Assistance funds, revise the deed and land boundary and resolve the issues regarding the control of the land with the logging operator and
2. strengthen its internal controls to ensure compliance with Section 1 of FAP 111-28-00.

### **Department Response**

The Department concurred. The Department proposed hiring an independent title attorney to determine the boundaries of the land, properly mark the boundary of the property, and litigate a solution to the illegal timber harvest. The Department acknowledged that any monetary settlement will be reported as program income.

### **FWS Response**

FWS concurred with the finding and recommendations.

### **OIG Response**

We consider the recommendations resolved but not implemented, since FWS has not taken corrective action. FWS should address the finding and recommendations, and the specific actions taken or planned, in the corrective action plan.

## **C. Noncompliance With the Acts**

Although the Commonwealth's assent legislation includes a provision that prevents the diversion of license revenues to non-fish and wildlife activities, the Commonwealth General Assembly enacted legislation that could override the assent legislation. Kentucky Revised Statute (KRS) 48.315 allows the General Assembly to transfer to the General Fund all or part of agency funds, special funds, or other funds established under provisions of several statutes, including KRS 150.150 and 235.330, which pertain to the Commonwealth Game and Fish Fund.

Both Restoration Acts require that a state pass legislation that assents to their provisions before any grant monies can be apportioned to that state. They also require the state to pass laws for the conservation of fish and wildlife and to prohibit the diversion of hunting

and fishing license fees paid by hunters and sport fishermen for any purpose other than administration of the state's fish and wildlife agency.

This issue was addressed in our March 2003 Report and the Commonwealth Single Audit Report for CFY 2004. Specifically, the former recommended that FWS resolve the issue regarding the Commonwealth's assent legislation, while the latter recommended that the Department consider asking the General Assembly to adopt the provisions of 50 CFR § 80.3-80.4 into state law. These provisions prohibit the diversion of license revenues to non-fish and wildlife purposes.

At the time of our current audit, the Commonwealth General Assembly had not passed an amendment to KRS 48.315 prohibiting the diversion of the Department's license revenues to the General Fund or other non-fish and wildlife purposes. As a result, license revenues can potentially be used for non-fish and wildlife purposes, which would make the Commonwealth ineligible to receive funds under the Acts.

### **Recommendation**

We recommend that FWS require the Department to work with the General Assembly to amend the language in KRS 48.315 to prohibit the diversion of license revenues to non-fish and wildlife purposes.

### **Department Response**

The Department concurred. The Department reported to FWS that KRS 48.315 has been amended to eliminate both KRS 150.150 and 235.330, which allowed the transfer of fish and game license revenues for general state purposes.

### **FWS Response**

FWS concurred with the finding and recommendation.

### **OIG Response**

We consider the recommendation resolved but not implemented, since FWS has not taken corrective action. FWS should address the finding and recommendation, and the specific actions taken or planned, in the corrective action plan.



**COMMONWEALTH OF KENTUCKY**  
**DEPARTMENT OF FISH AND WILDLIFE RESOURCES**  
**FINANCIAL SUMMARY OF REVIEW COVERAGE**  
**July 1, 2002, Through June 30, 2004**

<b>Grant Number</b>	<b>Grant Amount</b>	<b>Reported Outlays</b>	<b>Questioned Costs</b>	<b>Federal Share</b>
F-1-50	\$334,000	\$297,489		
F-1-51	300,000	347,326		
F-1-52	360,000	327,060		
F-40-25	420,000	305,760		
F-40-26	534,000	446,862		
F-40-27	458,000	423,637		
F-49-16	596,501	469,869		
F-49-17	901,659	685,508		
F-49-18	859,014	501,308		
F-50-25	3,400,000	3,195,125		
F-50-26	3,700,000	3,770,618		
F-50-27	3,800,000	3,520,836		
F-61-13	8,500	8,500		
F-61-14	8,500	8,514		
F-65-10	227,863	265,802		
F-65-11	231,442	308,482		
F-65-12	232,000	220,738		
F-71-1	1,864,180	1,853,681		
F-71-3	2,854,081	2,836,483		
F-71-4	276,000	238,501		
F-75-1	21,333	24,164		
FW-3-25	300,000	284,948		
FW-3-26	270,000	162,646		
FW-3-27	250,000	269,142		
FW-6-5	250,000	251,962		
FW-6-6	213,333	212,055		
FW-6-7	213,333	170,167		
W-7-6	800,000	1,212,308		
W-7-7	800,000	1,237,786		
W-7-8	830,776	1,156,512		
W-45-33	3,271,000	3,653,634		

**COMMONWEALTH OF KENTUCKY  
DEPARTMENT OF FISH AND WILDLIFE RESOURCES  
FINANCIAL SUMMARY OF REVIEW COVERAGE  
July 1, 2002, Through June 30, 2004**

<b>Grant Number</b>	<b>Grant Amount</b>	<b>Reported Outlays</b>	<b>Questioned Costs</b>	<b>Federal Share</b>
W-45-34	\$3,634,452	\$3,987,512		
W-45-35	3,964,452	4,334,165	\$66,408	\$49,806
W-46-5	390,000	6,480		
W-46-6	86,500	80,475		
W-46-7	208,000	238,954		
W-46-8	440,000	436,873		
W-46-9	136,600	2,900		
W-46-10	582,000	579,926		
W-46-11	260,000	225,762		
W-62-1	80,000	49,276		
W-62-2	110,000	0		
W-64-1	205,111	205,375		
W-65-1	71,000	74,091		
<b>TOTAL</b>	<b>\$38,753,630</b>	<b>\$38,889,213</b>	<b>\$66,408</b>	<b>\$49,806</b>

## Appendix 2

### COMMONWEALTH OF KENTUCKY DEPARTMENT OF FISH AND WILDLIFE RESOURCES SITES VISITED

#### **Regional Offices**

##### *Fisheries Offices*

Northwest

Southeast

##### *Wildlife Offices*

Green River

Northeast

#### **Wildlife Management Areas (WMA)**

Beaver Creek

Fish Trap

Green River

Greyson

Lloyd

Mill Creek

Sloughs

Yellowbank

#### **Boat Ramps**

Alexander Creek

Green River Arrue Young

#### **Hatchery**

Minor Clark

#### **Shooting Ranges**

Higginson-Henry WMA

Lloyd WMA

**COMMONWEALTH OF KENTUCKY  
DEPARTMENT OF FISH AND WILDLIFE RESOURCES  
STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

<b>Recommendation</b>	<b>Status</b>	<b>Action Required</b>
A. B1, B2, C	Finding Resolved but Recommendation(s) Not Implemented	Provide a corrective action plan that identifies the actions taken or planned to 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 December 21, 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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