



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

AUDIT REPORT

**U.S. Fish and Wildlife Service
Federal Assistance Grants
Administered by the State of Delaware,
Department of Natural Resources and
Environmental Control, Division of
Fish and Wildlife, from July 1, 2003,
through June 30, 2005**

Report No. R-GR-FWS-0027-2005 October 2006



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230
Reston, Virginia 20191

October 16, 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 Division, Grants Administered by the State of Delaware, Department of Natural Resources and Environmental Control, Division of Fish and Wildlife, from July 1, 2003, through June 30, 2005 (No. R-GR-FWS-0027-2005)

This audit report presents the results of our audit of costs incurred by the State of Delaware (state), Department of Natural Resources and Environmental Control (Department), Division of Fish and Wildlife (Division), under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included approximately \$11.4 million of total reported outlays on FWS grants that were open during state fiscal years (SFYs) ended June 30 of 2004 and 2005 (see appendix 1). The audit also covered Division 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 for administering its Federal Assistance grants. We also identified issues concerning the certification of license holders and the use of indirect cost rates.

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 January 15, 2007. 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 about this report, please contact the team leader, W.S. Streifel, at 916-978-5625 or me at 703-487-5345.

cc: Regional Director, Region 5, U.S. Fish and Wildlife Service

Introduction

Background

The Pittman-Robertson Federal Aid in Wildlife Restoration Act and the Dingell-Johnson Federal Aid in Sport Fish Restoration Act (Acts)¹ authorize FWS to provide states Federal Assistance grants to enhance their sport fish and wildlife programs. The Acts allow FWS to reimburse states up to 75 percent of eligible costs incurred under the grants. They also specify that state hunting and fishing license revenues cannot be used for any purpose other than administration of the state fish and game agency.

Objectives

Our audit objectives were to determine whether the Department:

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

Scope

Audit work included approximately \$11.4 million of total reported outlays on FWS grants that were open during SFYs 2004 and 2005 (see appendix 1). We performed our audit at the Division's headquarters in Dover, Delaware, and visited five wildlife area offices, six wildlife management areas, five boating access sites, two field offices, and a maintenance yard (see appendix 2). We performed this audit 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 supporting 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 fishing license revenues solely for sport fish and wildlife program purposes. To the extent possible, we relied on the single audit work performed on Delaware to

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

avoid duplication of audit 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 September 4, 2002, we issued advisory report No. 2002-E-0010, “Final Advisory Report on Costs Claimed by the State of Delaware, Department of Natural Resources and Environmental Control, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1998 to June 30, 2000.” We followed up on the report’s single finding and determined it had been resolved and implemented.

We reviewed the state’s Comprehensive Annual Financial Reports for SFYs 2004 and 2005 and the Single Audit report for SFY2004. The Department was audited as a major program and the reports did not include any findings regarding Federal Assistance funds or programs.

Results of Audit

Audit Summary

We found the Department generally complied with applicable 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. Program income was reported and used in accordance with federal regulations.

We also identified the issues listed below that require attention by the FWS. We discuss these issues in more detail in the findings and recommendations section.

Duplicate license holders not removed. Duplicate license holders were not accounted for or removed from the annual license certifications.

Incorrect indirect cost rates charged. The indirect cost rates negotiated by the Department did not restrict the allocations for state central services to 3 percent of the state's annual Federal Assistance apportionments, as required under the Acts and regulations.

Findings and Recommendations

A. Duplicate License Holders Not Removed

FWS requires states to report the number of hunting and fishing license holders and certify the accuracy of their counts. For license years 2003 and 2004, the Division did not account for or eliminate duplicate license holders in its annual counts. As a result, Delaware certifications of license holders were incorrect.

The Code of Federal Regulations (50 C.F.R. § 80.10(c)(5)) prohibits including an individual more than once as a hunting or fishing license holder in annual certification counts. The state is responsible for certifying that it eliminated duplications.

A Division official stated that Delaware receives the minimum annual apportionment of grant funds, which would not be affected by eliminating potential duplicate counts of license holders. FWS, however, bases its apportionment of grant funds, in part, on the number of license holders. Although some states receive no less than a minimum apportionment, accurate license certifications are necessary to compute properly each state's apportionment.

Recommendation

We recommend FWS ensure the Division accounts for and eliminates duplicate license holders from its annual license certifications.

Department Response

The Division concurred with the finding and hired a seasonal employee who sampled hunting and fishing licenses in accordance with a statistically reliable protocol provided by FWS.

FWS Response

FWS concurred with the finding and will work with the Division to implement the recommendation in the corrective action plan.

OIG Comments

Based on the FWS response, we consider the recommendation resolved, but not implemented. While the Division has taken steps to identify duplicates in the current annual certification, additional information is needed in the corrective action plan verifying FWS reviewed and accepted the Department's survey results and outlining actions planned to address future certifications.

B. Incorrect Indirect Cost Rates Charged

The Division applied incorrect indirect cost rates to Federal Assistance grants for SFYs 2004 and 2005. States allocate administrative costs for state-provided central services as an indirect cost across multiple grants and programs. The Acts limit indirect costs that states can allocate for state central services to Federal Assistance grants. While the Division has an approved indirect cost rate, it has not negotiated a restricted rate to account for the limitation on state central services or established official written policies and procedures to ensure compliance with the limitation.

The Acts' limitation on indirect costs has been codified in 50 C.F.R. § 80.15(e), which requires administrative costs in the form of indirect costs for state central services to follow an approved cost allocation plan and not to exceed 3 percent of the annual Federal Assistance apportionment in any one year. In addition, Appendix E, 2 C.F.R. 225 § C.4(b) requires the state to request a special or restricted rate when federal statutes restrict reimbursement of certain indirect costs. A restricted rate eliminates prohibited costs from the indirect cost pool.

We believe the state needs to develop formal policies and procedures to ensure it is not requesting reimbursement for state central services costs exceeding 3 percent of the annual apportionment of Federal Assistance funds.

Recommendations

We recommend that FWS, before reimbursing the Division for indirect costs, work with the Department to:

1. establish official written policies and procedures to take and document steps ensuring compliance with the 3 percent limitation on state central services and
2. ensure the Division applies for and receives a restricted indirect rate if the calculations show that the 3 percent limitation will be exceeded.

Department Response

The Division stated that there is a protocol in place to track indirect costs relating to the 3 percent limitation and ensure that indirect costs recovered under Federal Assistance grants do not exceed the limitation. This protocol involves terminating cost recoveries during the grant year once the 3 percent limitation is reached.

FWS Response

FWS concurred with the finding and will work with the Division to implement the recommendation in the corrective action plan.

OIG Comments

Based on the FWS response, we consider the recommendations resolved, but not implemented. The state's response indicates that if it consistently applied the approved rate throughout the grant period, it would exceed the 3 percent limitation. Regulations and guidance require that if a state anticipates exceeding the 3 percent limitation, the state must apply for and receive a restricted rate. Additional information is needed in the corrective action plan concerning the specific actions taken or planned to resolve and implement the recommendations.

DELAWARE DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENTAL CONTROL
DIVISION OF FISH AND WILDLIFE
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2003 THROUGH JUNE 30, 2005

Grant Number	Total Grant Amount	Total Outlays
F-2-D-52	\$500,000	\$426,032
F-2-D-53	500,000	348,203
F-2-D-54	350,000	298,312
F-33-R-22	110,000	82,665
F-33-R-23	115,381	84,571
F-33-R-24	116,000	-
F-41-R-15	99,000	90,973
F-41-R-16	87,500	87,500
F-41-R-17	58,200	-
F-42-R-15	157,000	129,727
F-42-R-16	155,680	157,832
F-42-R-17	154,100	-
F-43-E-13	575,000	387,902
F-43-E-14	531,000	373,465
F-43-E-15	520,000	-
F-47-R-13	316,000	296,523
F-47-R-14	258,000	204,406
F-47-R-15	267,500	-
F-48-D-11	2,100,000	2,088,210
F-48-D-12	1,340,000	666,667
F-48-D-13	525,000	-
F-50-D-4	143,200	-
F-51-T-10	114,000	114,000
F-51-T-11	128,000	81,097
F-51-T-12	148,000	-
F-52-C-10	177,000	177,000
F-52-C-11	180,000	180,000
F-52-C-12	214,000	-
F-56-R-10	91,200	-
F-56-R-8	70,000	44,329
F-56-R-9	74,459	41,682
F-59-D-4	150,000	2,651
F-59-D-5	12,000	-
F-65-R-3	76,900	76,900
F-65-R-4	100,000	90,605
F-65-R-5	80,000	-
F-66-O-4	42,000	26,942
F-69-D	300,000	297,854

DELAWARE DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENTAL CONTROL
DIVISION OF FISH AND WILDLIFE
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2003 THROUGH JUNE 30, 2005

Grant Number	Total Grant Amount	Total Outlays
F-70-D-1	142,705	116,905
F-70-D-2	369,456	324,260
F-70-D-3	167,500	-
F-71-D-1	600,000	517,512
F-72-D-1	1,000,000	989,595
F-73-R-1	37,282	30,464
F-73-R-2	39,500	-
F-74-D-1	175,000	-
F-75-R-1	24,500	-
F-76-D-1	700,000	-
W-21-R-39	6,500	6,500
W-21-R-40	6,500	6,505
W-28-D-11	90,000	16,620
W-29-T-10	70,000	10,190
W-30-C-10	88,000	73,605
W-30-C-11	88,000	88,000
W-30-C-12	100,000	-
W-33-R-7	19,063	19,063
W-33-R-8	12,461	12,470
W-33-R-9	12,329	-
W-34-S-6	450,000	450,000
W-34-S-7	650,000	450,000
W-34-S-8	692,667	-
W-35-R-5	56,000	27,899
W-35-R-6	100,000	50,995
W-35-R-7	105,000	-
W-36-R-5	34,648	24,948
W-36-R-6	33,075	15,328
W-36-R-7	37,000	-
W-37-R-5	88,000	71,038
W-37-R-6	92,400	78,844
W-37-R-7	97,020	-
W-38-R-5	22,000	7,306
W-38-R-6	15,000	9,019
W-38-R-7	27,000	-
W-39-E	100,000	23,154
W-5-D-56	1,000,000	516,854
W-5-D-57	930,000	564,043
	<u>\$19,214,726</u>	<u>\$11,357,165</u>

DELAWARE DIVISION OF FISH AND WILDLIFE
SITES VISITED

Division of Fish and Wildlife Offices

Assawoman WA Office
Little Creek WA Office
Division of Fish and Wildlife Headquarters Dover, DE
Augustine WA Office
Ommelanden Range
Aquatic Resource Education Center

Wildlife Areas

Cedar Swamp WA
Woodland Beach WA
Norman G. Wilder WA
Industrial Forest Lands
Old Furnace WA

Boating Access

Massey Landing – Assawoman
Indian River – Assawoman
Woodland Beach – Sussex County
Ft DuPont Boat Ramp – New Castle County
Phillips Landing – Kent County

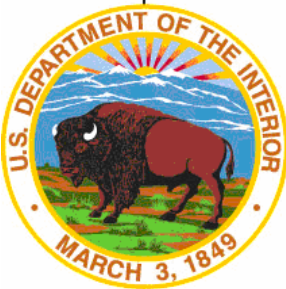
Other Sites

Fenwick Island
Port Penn

DELAWARE DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENTAL CONTROL
DIVISION OF FISH AND WILDLIFE

Recommendations	Status	Action Required
A and B	FWS concurs with findings; the recommendations are resolved, but not implemented. Additional information is needed.	Provide a corrective action plan that identifies the actions taken or planned to resolve the findings and implement the recommendations. The plan should also include the target date and the official responsible for implementation of each recommendation. Any recommendations that are not implemented at the end of 90 days (after January 15, 2007) 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



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