



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

AUDIT REPORT

**U.S. Fish and Wildlife Service Federal
Assistance Grants Administered
by the State of Oklahoma,
Department of Wildlife Conservation,
From July 1, 2003 Through June 30, 2005**

Report No. R-GR-FWS-0019-2005 October 2006



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230
Reston, Virginia 20191

October 23, 2006

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

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

Subject: Audit on the U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the State of Oklahoma, Department of Wildlife Conservation, From July 1, 2003 Through June 30, 2005 (No. R-GR-FWS-0019-2005)

This audit report presents the results of our audit of costs incurred by the State of Oklahoma (state), Department of Wildlife Conservation (Department), under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included total reported outlays of approximately \$26.1 million on FWS grants that were open during the state fiscal years (SFYs) ended June 30 of 2004 and 2005 (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 generally complied with applicable grant accounting and regulatory requirements for administering its Federal Assistance grants. We also questioned \$19,275 in costs (federal share) and identified issues concerning in-kind contributions, certification of license holders, and program income.

We provided a draft of the report to FWS and the Department for response. This report summarizes Department and FWS Region 2 responses after each recommendation, as well as our comments on the responses. We list the status of the recommendations in appendix 3.

Please respond in writing to the findings and recommendations included in this report by January 21, 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 regarding this report, please contact the audit team leader, Mr. Robert Leonard, at 916-978-5646 or me at 703-487-5345.

cc: Regional Director, Region 2, 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 restoration 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.

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 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 that totaled approximately \$26.1 million on 73 FWS grants that were open during SFYs ended June 30 of 2004 and 2005 (see appendix 1). We performed our audit at Department headquarters in Oklahoma City, Oklahoma. We visited four regional offices, four wildlife management areas, two fish hatcheries, and one research lab (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 performed other auditing procedures that we considered 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 hunting and fishing license revenues solely for its sport fish and wildlife program purposes. To the extent possible, we relied on the work of the certified

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

public accounting firm that performed the SFYs 2004 and 2005 Single Audits to 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 9, 2002, we issued audit report no. 2002-E-0012, “Costs Claimed by the State of Oklahoma Department of Wildlife Conservation, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1996 through June 30, 1998.” We followed up on all recommendations and found that they had been resolved and implemented.

Finley & Cook, PLCC issued single audit reports on the Department for SFYs 2004 and 2005. In our review of the single audit reports, we found that the Department Federal Assistance Sport Fish and Wildlife Restoration grants were considered major programs and were selected for compliance testing in both the SFY2004 and SFY2005 single audits. Neither report included any findings related to Department FWS Federal Assistance grants.

Results of Audit

Audit Summary

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

We also identified the findings listed below that require attention by the FWS, including \$19,275 in questioned costs (federal share). We discuss these findings in more detail in the Findings and Recommendations section.

Out of period costs. About \$25,700 of third party in-kind contributions under a Federal Assistance grant were not valid obligations of the grant period.

License certification weaknesses. The 2003 and 2004 license certifications did not include adjustments to eliminate all of the lifetime hunting and fishing licensees who no longer remain license holders.

Program income incorrectly reported. Program income in the amount of \$1,736 from the lease of a radio tower on lands funded under a Federal Assistance grant was not applicable to the grant.

Findings and Recommendations

A. Out of Period Costs

The Department claimed about \$258,900 of third party in-kind contributions under the Oklahoma Boating Access Facilities Grant F-45-D-19. States may use such in-kind contributions as their matching costs on Federal Assistance grants. However, \$25,700 (\$19,275 federal share) of the contributions were not valid obligations because the Muskogee City-County Port Authority had incurred construction costs prior to the effective date of the grant, without written approval by the FWS to do so. The construction costs on the Three Forks Harbor project (phase 1) were incurred in January and February 2004, outside of the grant period, which was from March 1, 2004 through February 28, 2005. As a result, we questioned the approximately \$25,700 of third party in-kind contribution costs that were outside the grant period.

The Code of Federal Regulations (Title 43 C.F.R. §12.63(a)) allows a grantee to charge to the grant only those costs resulting from obligations of the funding period, when a funding period is specified. Section 12.43 defines obligations as transactions, such as orders placed and goods and services received, in a given period that require payment by the grantee during the same or a future period. In addition, Title 2 C.F.R. Part 225,

Appendix B, item 31, states that costs incurred prior to the effective date of the award are allowable only with the awarding agency's written approval.

The Director disagreed with the finding and cited FWS guidance in an August 30, 2002 letter. The letter states that approved grant activities which "have not been accepted for payment because work is incomplete, substandard or otherwise not acceptable for payment at the end of a grant segment should be listed as a continuing activity in the subsequent documents until payment for the approved work is complete." We do not believe this letter authorizes expenditures prior to the start of a grant. Rather, the letter appears to allow for a portion of the incomplete work in one grant segment to be included in the subsequent grant segment. Alternatively, the Department could have requested FWS to amend the completion date of the previous grant segment (F-45-D-18).

The Federal Assistance Coordinator told us this condition should not occur in the future because the Department's most recent boating access grant (F-45-D-20) has 4-year grant period. He stated all the grant project work should be completed within this time frame.

Recommendations

We recommend that FWS require the Department to:

1. resolve the \$25,700 of questioned out of period costs (\$19,275 federal share) that were charged to grant F-45-D-19; and
2. ensure that costs claimed as third party in-kind contributions are incurred within the grant period.

Department Response

The Department stated that they continue to believe that the questioned out-of-period costs identified above are allowable costs because grant F-45-D-19 was a continuation of grant F-45-D-18. It stated that although the contractor services occurred during the grant F-45-D-18 period, the contractor submitted the invoice for payment after the grant F-45-D-18 period ended and the F-45-D-19 period began. It also stated that such submissions were an accepted practice in the administration of multi-year agreements. It further stated that they interpreted the effective date of the award to mean the receipt date FWS affixed to their Application for Federal Assistance because the application offers the Department the only opportunity to apply for pre-agreement costs.

FWS Response

FWS officials stated that costs incurred prior to the effective date can be approved as pre-agreement costs if the activities were necessary and reasonable for accomplishing the overall grant objectives. It stated the grant documentation did not include the pre-agreement cost requests due to an administrative error, and the region would have approved the questioned out-of-period costs as part of grant F-45-D-19 because the activities were eligible for accomplishing the grant objectives.

OIG Comments

Based on the FWS response, we consider these recommendations unresolved. Additional information is needed in the corrective action plan concerning the specific actions taken or planned to resolve the finding and implement the recommendations.

B. License Certification Weaknesses

The Department's annual hunting and fishing license certifications for license years ended June 30 of 2003 and 2004 did not include adjustments to eliminate all lifetime licensees who no longer remain license holders. The Department completed a death audit in 2001 for all lifetime license holders and subsequently reduced the June 30, 2001 certification by 1,980 licenses. The Department did not make any such adjustments for the 2003 and 2004 license certifications.

The 2003 and 2004 license certifications did include adjustments to eliminate "senior" lifetime license holders who may no longer be living. The Department's Administrative Services Chief reduced the total number of senior lifetime license holders by 3.1 percent in both the 2003 and 2004 certifications. The 3.1 percent adjustment factor used resulted from a 1994 survey that may not reflect current conditions.

The Code of Federal Regulations (Title 50 C.F.R. §§ 80.10 (a) and (b)) states that information concerning the number of persons holding paid state hunting and/or fishing licenses in the preceding year shall be furnished to FWS, and that the information shall be certified as accurate by the director of the state fish and wildlife agency. Also, Section 80.10 (c)(3) states that licenses valid for more than 1 year may be counted in each of the years for which they are valid provided that sampling or other techniques are used to determine whether the licensee remains a license holder in the year of certification. In addition, the Fish and Wildlife Service Manual (522 FW 2.7(1), Grantee Administration) recommends that surveys to determine and adjust for duplicate license holders be conducted every 5 years or sooner, if there is a change in the license structure.

Department officials stated they believed the death audits were required only every 5 years and that they had planned to complete another such audit in 2006, after which they would again reduce the number of lifetime license holders in the certifications. They also stated that they believed the use of the 3.1 percent adjustment factor to eliminate senior lifetime license holders who may no longer be alive each year was "conservative".

Because the state receives its apportionment of grant funds based in part on the number of license holders, we believe that accurate license counts are necessary to assure that each state receives its fair share of funds. The number of paid licenses reported by the Department could be overstated because the 2003 and 2004 certifications were not based on a current death audit or a current adjustment factor to eliminate those license holders who may no longer be alive.

The Director told us that he believed that appropriate audits and reductions were being made. To resolve the issue, he did propose that the death audits of lifetime licensees could be done every 3 years, instead of every 5 years.

Recommendations

We recommend that FWS require the Department to:

1. conduct a death audit in 2006 and reduce the number of lifetime license holders in the June 30, 2006 certification accordingly; and
2. conduct a new survey and, if necessary, revise the 3.1 percent adjustment factor currently being used to eliminate the senior lifetime license holders who may no longer be alive.

Department Response

The Department concurred with the audit recommendations. It stated that a death audit was conducted by an outside consultant in May 2006 for all lifetime license holders (including the senior lifetime license holders) and that the deceased individuals were removed from the number of license holders to be certified. It also stated that in lieu of using the 3.1 percent adjustment factor to eliminate senior lifetime license holders, they will now perform death audits of all lifetime license holders every 3 years instead of every 5 years.

FWS Response

FWS stated that the Department has complied with both report recommendations and believed that no further action was necessary.

OIG Comments

Based on the FWS response, we consider the recommendations resolved, but not implemented. While the Department has taken steps to eliminate those lifetime license holders who may no longer be alive from the 2006 certification, additional information is needed in the corrective action plan verifying FWS reviewed and accepted both the results of the Department's May 2006 death audit and the Department's plans to address future certifications.

C. Program Income Incorrectly Reported

The Department incorrectly reported program income from the lease of a radio tower on lands funded under the 2005 Northeast Region Wildlife Management Areas Grant W-139-M-21. The Department received five quarterly lease payments, totaling \$8,682, in June, September, and November of 2004 and in April and May of 2005. The Department reported the entire amount as program income under grant W-139-M-21, for which the grant period was July 1, 2004 through June 30, 2005. One payment should have been

applied in part to grant W-139-M-20 (for income of \$578 received for the lease of the radio tower in June 2004) and one payment should have been applied in part to W-139-M-22 (for income of \$1,158 received for the lease of the tower in July and August 2005). Thus, \$1,736 of the program income was outside the grant period.

The Code of Federal Regulations (Title 43 § 12.65 (b)) defines program income as gross income received by the grantee or sub-grantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. Also, Section 12.65 (g) states that, ordinarily, program income shall be deducted from total allowable costs to determine the net allowable costs. Grant W-139-M-21 states that program income will be accounted for using the deductive method.

Neither the Federal Assistance staff nor the accounting staff properly allocated the lease payments to the appropriate grant period. We believe this condition occurred because the Department's Miscellaneous Income Procedures do not specify the need for program income from grant supported activities to be recognized under the proper grant period.

As a result, program income and net allowable grant costs are incorrect for affected grants in 2004, 2005, and 2006 as follows:

- the program income for grant W-139-M-21 was overstated by \$1,736 and net allowable grant costs were understated by the same amount;
- the program income received for the 2004 grant (W-139-M-20) and 2006 grant (W-139-M-22) are understated by \$578 and \$1,158 respectively, resulting in an overstatement of the net allowable grant costs for the 2004 and 2006 grants by \$1,736.

Recommendations

We recommend that FWS require the Department to:

1. resolve the \$1,736 of program income improperly charged to grant W-139-M-21 and the resultant effect on net allowable grant costs for grants W-139-M-20 and W-139-M-22 and
2. revise its Miscellaneous Income Procedures to help preclude such errors from occurring in the future.

Department Response

The Department agreed that the quarterly payment in question should have been credited to grant W-139-M-20, but stated the payment was not received in time and was subsequently credited to the grant W-139-M-21. It also stated they reported all of the approximately \$8,700 as program income under grant W-139-M-21 because they did not have procedures available to credit payments against closed grants. It further stated that

although the amount of program income in question was outside the grant segment, all of the income was properly reported to the Northwest Region Wildlife Management Areas Grants.

FWS Response

FWS stated that they would work with the Department during the resolution phase to help preclude such errors from occurring in the future. It also stated that the resolution will be included in the corrective action plan.

OIG Comments

We consider the recommendations unresolved and unimplemented because the FWS did not address the audit recommendations. Additional information is needed in the corrective action plan concerning the specific actions taken or planned to resolve the finding and to implement the recommendations.

OKLAHOMA DEPARTMENT OF WILDLIFE CONSERVATION
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2003 THROUGH JUNE 30, 2005

Grant Number	Grant Amount	Reported Outlays	Questioned Costs	Federal Share
F-5-C-39	\$105,000	\$94,154		
F-5-C-40	105,000	98,273		
F-5-C-41	126,500	0		
F-43-D-18	2,300,000	2,159,407		
F-43-D-19	2,025,000	2,003,089		
F-43-D-20	2,975,000	0		
F-44-D-18	2,076,200	2,049,565		
F-44-D-19	2,669,000	2,572,242		
F-44-D-20	2,794,000	0		
F-45-D-18	1,471,200	1,453,045		
F-45-D-19	1,338,000	1,165,411	\$25,700	\$19,275
F-45-D-20	1,000,000	0		
F-46-D-17	356,667	259,386		
F-46-D-18	365,000	282,473		
F-46-D-19	450,005	0		
F-47-E-16	507,500	519,658		
F-47-E-17	490,000	395,415		
F-47-E-18	465,000	0		
F-50-R-10	128,196	98,210		
F-50-R-11	106,280	102,413		
F-50-R-12	87,104	0		
F-52-O-6	20,000	15,116		
F-52-O-7	20,000	5,547		
F-54-D-2	52,900	50,590		
F-54-D-3	58,956	42,649		
F-54-D-4	60,700	0		
F-55-R-2	66,667	66,667		
F-55-R-3	66,667	62,837		
F-56-R-2	65,333	65,333		
F-56-R-3	41,333	41,333		
F-57-R-1	13,333	13,333		
F-58-R-1	33,333	33,333		
F-58-R-2	37,333	37,024		
F-59-E-1	300,000	0		
F-60-D-1	1,288,491	0		
FW-28-O-1	92,000	0		

OKLAHOMA DEPARTMENT OF WILDLIFE CONSERVATION
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2003 THROUGH JUNE 30, 2005

Grant Number	Grant Amount	Reported Outlays	Questioned Costs	Federal Share
FWT-1-P-1	12,000	0		
W-12-C-44	94,000	102,319		
W-32-R-54	110,000	92,986		
W-32-R-55	105,400	95,846		
W-80-R-43	335,000	302,303		
W-80-R-44	323,000	320,389		
W-82-R-43	352,000	283,117		
W-82-R-44	306,668	271,071		
W-110-S-31	487,800	515,584		
W-110-S-32	500,000	696,058		
W-138-M-20	800,000	857,436		
W-138-M-21	940,000	975,816		
W-139-M-20	851,000	1,016,988		
W-139-M-21	983,000	1,066,816		
W-140-M-20	953,000	1,026,637		
W-140-M-21	1,000,000	1,169,414		
W-141-M-20	400,000	483,307		
W-141-M-21	490,000	511,163		
W-143-D-17	307,000	224,329		
W-143-D-18	365,000	380,894		
W-144-M-10	650,000	700,384		
W-144-M-11	740,000	800,284		
W-148-R-3	40,000	40,000		
W-148-R-4	33,333	33,333		
W-149-R-3	26,667	26,667		
W-151-R-2	42,667	42,667		
W-151-R-3	36,000	36,000		
W-154-R-1	18,600	16,341		
W-154-R-2	30,000	28,768		
W-154-R-3	30,000	0		
W-155-R-1	53,333	53,333		
W-155-R-2	66,667	66,667		
W-156-R-1	54,648	43,773		
W-156-R-2	133,200	0		
W-157-D-1	400,000	6,599		
W-158-R-1	80,000	0		
Total	\$36,400,781	\$26,073,099	\$25,700	\$19,275

OKLAHOMA
DEPARTMENT OF WILDLIFE CONSERVATION
SITES VISITED

Headquarters
Oklahoma City, OK

Regional Offices
Northeast Region - Porter, OK
South Central Region – Caddo, OK
Southeast Region - Caddo, OK
Southeast Region – Higgins, OK

Wildlife Management Areas
Beaver River WMA, Beaver, OK
Canton WMA, Canton, OK
Cooper WMA, Woodward, OK
Ft. Supply WMA, Woodward, OK

Fish Hatcheries
Durant State Fish Hatchery, Caddo, OK
Holdenville State Fish Hatchery, Holdenville, OK

Research Lab
Oklahoma Fisheries Research Lab, Norman, OK

**OKLAHOMA
DEPARTMENT OF WILDLIFE CONSERVATION
STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

Recommendations	Status	Action Required
A.1, A.2, C.1, and C.2	FWS and Department Management do not concur; the recommendations are not resolved and not implemented. Additional information is needed.	Provide a corrective action plan that identifies the actions taken or planned to resolve the finding and implement the recommendations. The plan should also include the target completion date and the official responsible for implementation of each recommendation. Any recommendations that are not implemented at the end of 90 days (after January 21, 2007) will be referred to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.
B.1 and B.2	FWS and Department Management Concurs; the recommendations are resolved, but not implemented. Additional information is needed.	

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