



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

AUDIT REPORT

**U.S. Fish and Wildlife Service
Federal Assistance Grants Issued
to the State of North Dakota,
Game and Fish Department,
From July 1, 2003 Through June 30, 2005**

Report No. R-GR-FWS-0006-2006 January 2007



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230
Reston, Virginia 20191

January 4, 2007

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
Issued to the State of North Dakota, Game and Fish Department,
From July 1, 2003 Through June 30, 2005 (No. R-GR-FWS-0006-2006)

This report presents the results of our audit of costs incurred by the state of North Dakota (State), Game and Fish Department (Department), under Federal Assistance grants awarded by the U.S. Fish and Wildlife Service (FWS). The audit included total reported outlays of approximately \$16.8 million on 27 FWS grants that were open during state fiscal years (SFYs) ended June 30 of 2004 and 2005 (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, in general, with applicable grant accounting and regulatory requirements. We also identified issues that require FWS attention, including program income from barter transactions, in-kind contributions, and drawdowns.

We provided a draft of the report to FWS and the Department for comment. We summarized the FWS and Department responses after each recommendation, as well as our comments on the responses. FWS stated they will consider the Department's comments when preparing the corrective action plan. We listed the status of each recommendation in Appendix 3.

Please respond in writing to the findings and recommendations included in this report by April 4, 2007. Your response should include information on actions taken or planned, targeted completion dates, and titles of officials responsible for implementation.

If you have any questions regarding this report, please contact the audit team leader, Mr. Lawrence Kopas, at 703-487-5358 or me at 703-487-5345.

cc: Regional Director, Region 6, 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 Federal Assistance 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. They 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.

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 Department fish and wildlife program activities; and
- reported and used program income in accordance with federal regulations.

Scope

Audit work included outlays totaling approximately \$16.8 million on 27 FWS grants that were open during SFYs 2004 and 2005 (see Appendix 1). We performed our audit at Department headquarters locations in Bismarck, North Dakota, and visited five regional offices, six wildlife management areas, and one shooting range (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. Our tests and procedures included:

- examining the evidence supporting selected expenditures charged to the grants by the Department;

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

- interviewing Department employees to ensure that personnel costs charged to the grants were supportable;
- reviewing transactions and supporting documentation related to purchases, other direct costs, drawdowns of reimbursements, in-kind contributions, and program income;
- conducting site visits to review equipment and other property; and
- determining 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 Office of the State Auditor that performed the SFYs 2003-2004 Single Audit, to avoid duplication of audit effort.

We also identified the internal controls over transactions recorded in the labor and license fee accounting systems and tested their operation and reliability. Based on the results of initial assessments, we assigned a level of risk to these systems and selected a judgmental sample of transactions for testing. We did not evaluate the economy, efficiency, or effectiveness of Department operations nor project the results of tests to the total population of recorded transactions.

Prior Audit Coverage

On September 10, 2002, we issued “Advisory Report on Costs Claimed by the State of North Dakota, Game and Fish Department, under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1997 To June 30, 1999,” Report No. 2002-E-0011. We followed up on the report recommendations and found that they had been resolved and implemented.

The state operates on a biennial (2-year) budget, currently SFYs 2005-2006. We reviewed the State’s most recent Comprehensive Annual Financial Report for SFYs 2003-2004 and the Single Audit report for SFYs 2003-2004. Our review of the Single Audit report found that the Department’s Federal Assistance Programs for Sport Fish and Wildlife Restoration grants were considered major programs and assessed a low risk. In addition, the North Dakota Office of the State Auditor is required to perform an audit of each state agency every 2-year period; the most recent audit for the Department was SFYs 2003-2004. These reports did not include any findings regarding the Department’s Federal Assistance grants or programs.

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. However, we identified the findings listed below and discuss them in more detail in the Findings and Recommendations section.

Unreported Program Income From Barter Transactions. The Department did not report program income generated from barter transactions on lands within the wildlife management areas (WMA) managed and maintained with Federal Assistance funds.

Inadequate Support for In-Kind Contributions. Volunteer instructor hours claimed as in-kind state match under the Hunter Education and Aquatic Education grants were not consistently certified by each instructor.

Drawdowns Made for Federal Reimbursements Without Adequate State Matching Share. On grants where the Department anticipated using in-kind contributions to provide all or part of its matching share of costs, the Department drew down (requested for reimbursement) its total expenditures to date without determining whether it had obtained the necessary in-kind match.

Findings and Recommendations

A. Barter Income

The Department did not report program income generated from barter transactions on lands within the WMA managed and maintained with Federal Assistance funds. The Department issues 50 permits each year in which farmers who lease tillable acreage of the WMA agree to leave a portion of their crop in the field for the benefit of wildlife, in lieu of paying for the use of the land. Since the crops serve as payment for use of the land, their value should be reported and accounted for as program income.

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. Section 12.65(g) states that, ordinarily, program income shall be deducted from total allowable costs to determine the net allowable costs. Federal agency regulations or the grant agreement may specify another alternative or combination of alternatives to account for program income. Also, as specified in FWS Director's Order 168, Exhibit 1, program income includes income generated during the grant period from

the harvest of assets—such as timber or hay—that contribute to grant objectives on lands purchased or managed with Federal Assistance funds.

A Department official told us that he did not report the value of the crops as program income because he was not aware that the barter arrangements were to be treated as program income. He also stated that he did not know how to value and report the income on the Financial Status Report (SF 269), which summarizes expenditure activity over the grant period. In addition, the Department does not have procedures to identify the barter transactions, including anticipated program income, or the appropriate accounting and reporting of this arrangement.

We believe that the value of the crops should be reported as program income since the Department receives crops in lieu of lease payments and lease payments are required to be reported as program income. Additionally, the FWS Director's Order considers harvest of assets, which we believe would include crops, to be considered income. The Department has contacted the Office of the State Auditor and the State Office of Management and Budget for assistance in resolving and implementing the issue of unreported program income from barter transactions.

Recommendations

We recommend that FWS:

1. resolve the issue of the unreported program income from the barter transactions that occurred during the audit period and
2. coordinate with the Department to establish procedures to (a) identify the barter transactions, including anticipated program income, along with the appropriate accounting and reporting of this arrangement, in the grant application; and (b) report the value of the crops received as program income on the SF 269.

Department Response

The Department estimated that the amount of unreported program income from barter transactions during the audit period was immaterial. However, it stated that it is developing a spreadsheet to document barter income. It intends to use the spreadsheet to record barter income during the next field season (2007) on the SF-269 and anticipated barter income in future grant applications.

FWS Response

FWS indicated they will consider the Department's comments when preparing the corrective action plan.

OIG Comments

Based on the FWS response, we consider the recommendations unresolved. Information is needed in the corrective action plan concerning the specific actions taken or planned to resolve and implement the recommendations and verifying that FWS reviewed and approved the actions planned by the Department. The plan should also include targeted completion dates and titles of officials responsible for implementation.

B. Inadequate Support for In-Kind Contributions

The Department claims volunteer instructor hours as in-kind contributions for the state matching share of costs on the Hunter Education and Aquatic Education grants. These hours are not certified by the instructors on a consistent basis. Therefore, all hours claimed as in-kind match may not be adequately supported.

Title 2 C.F.R. 225.55 C1(j), which outlines basic guidelines on cost principles, states that for a cost to be allowable under federal awards, the cost must be adequately documented. In addition, Title 43 C.F.R. § 12.64 (b)(6), which outlines requirements for matching or cost sharing records, states that, 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. Volunteer services may be counted as an in-kind state match.

Department officials were not aware of the requirement that the method used to allocate regular personnel costs also applied to its volunteer instructors. As such, they did not have procedures requiring that the instructor hours be certified by each individual instructor, as regular personnel hours are documented. The Department instead documented their volunteer instructor hours on forms titled Final Report (Hunter Education) and Event Reporting Form (Aquatic Education). These forms provide for the signature of the Chief Instructor and a listing of the individual volunteer instructors assisting in the course. Department officials said that the chief volunteer instructor certifies all instructor hours for his or her class and is aware of instructor hours through visual observation and discussions. The Department feels the hours claimed are accurate and were properly certified. Department officials said if FWS requires each volunteer instructor to certify their hours, the Department will comply.

A significant portion of the volunteer instructor hours claimed as in-kind match under the Hunter Education and Aquatic Education grants were not adequately supported by each volunteer, attesting to the hours spent. The Department claimed in-kind match totaling \$169,983 for the Hunter Education Grants (W-83-E-32, 33, and 35) and \$121,789 for the Aquatic Education Grants (F-41-E-17, 18, and 19). Tests of two of the Hunter Education grants found that 358 of the 440 hours claimed (81 percent) did not have the volunteer instructor signatures. Tests of the three Aquatic Education grants found that 319 of the 2,261 hours claimed (14 percent) did not have the volunteer instructor signatures.

Recommendations

We recommend that FWS:

1. resolve the inadequately supported in-kind matching share and
2. require the Department to establish and implement procedures requiring volunteer instructors to certify the hours they worked.

Department Response

The Department did not agree with the recommendations, but will work to implement them for the 2007 calendar year. The Department believes there were more than enough volunteer hours with adequate support to satisfy both the Hunter and Aquatic Educations' in-kind match requirements. In addition, the Department believes that the lead volunteer instructor has sufficient knowledge of the class to document the number of hours worked by the volunteer instructors. Also, the Department believes that obtaining the additional signatures would significantly increase the amount of paperwork and time it would take to receive documentation from the individual volunteers.

FWS Response

FWS indicated they will consider the Department's comments when preparing the corrective action plan.

OIG Comments

Based on the FWS response, we consider the recommendations unresolved. Information is needed in the corrective action plan concerning the specific actions taken or planned to resolve and implement the recommendations and verifying that FWS reviewed and approved the actions planned by the Department. The plan should also include targeted completion dates and titles of officials responsible for implementation.

C. Drawdowns Made of Federal Assistance Funds Without Adequate State Matching Share

On grants where the Department anticipated using in-kind contributions to provide all or part of its matching state share of costs, the Department requested reimbursement for (drew down) the federal share of total expenditures to date without determining whether it had expended the necessary state matching share.

Title 50 C.F.R. § 80.16 requires payments to be made for the federal share of allowable costs incurred by the state in accomplishing approved projects. Under this section, the costs—both federal and state matching share—must be incurred (expended or obligated) before the state may request reimbursement.

Department officials told us that drawdowns were made with the expectation that, by the end of the grants, the in-kind match requirements would be satisfied or an appropriate adjustment would be made. In addition, the officials said the Department has significant over-match from volunteer hours at the end of the grant period. It was the understanding of Department officials that drawing down the full amount quarterly was therefore acceptable. Costs for federal reimbursement and state matching share, however, must be incurred before they are claimed or drawdowns are made. Department officials plan to change procedures to ensure sufficient in-kind match is available before funds are drawn down.

The Department may have received reimbursement for the federal share of certain costs incurred, using as state match volunteer instructor hours that may not have been worked at the time of the drawdown.

Recommendations

We recommend that FWS:

1. determine whether the state had sufficient in-kind matching contributions and
2. require the Department to establish and implement procedures that ensure that sufficient in-kind match is available before funds are drawn down.

Department Response

The Department indicated that it will implement the recommendations by not drawing federal funds until the in-kind match of volunteer hours have been incurred, beginning with grants that start in January 2007. In addition, the Department stated it will draw federal funds based on the volunteer hours incurred for the period of the drawdown. Finally, the Department believes there was sufficient in-kind match for the Hunter and Aquatic Education programs at the end of the grant periods audited.

FWS Response

FWS indicated they will consider the Department's comments when preparing the corrective action plan.

OIG Comments

Based on the FWS response, we consider the recommendations unresolved. Information is needed in the corrective action plan concerning the specific actions taken or planned to resolve and implement the recommendations and verifying FWS reviewed and approved the data provided and actions planned by the Department. The plan should also include targeted completion dates and titles of officials responsible for implementation.

Appendix 1

NORTH DAKOTA GAME AND FISH DEPARTMENT FINANCIAL SUMMARY OF REVIEW COVERAGE JULY 1, 2003 THROUGH JUNE 30, 2005

Grant Number	Grant Amount	Reported Outlays	Questioned Costs	Federal Share
F-2-R-50	\$1,997,000	927,678		
F-2-R-51	1,980,000	1,805,934		
F-2-R-52	2,075,000	962,764		
F-30-DB-46	1,113,200	425,595		
F-30-DB-47	397,000	213,445		
F-30-DB-48	1,648,933	1,463,683		
F-30-DB-49	293,000	234,425		
F-30-DB-50	1,364,733	502,594		
F-30-DB-51	343,167	96,296		
F-38-D-18	465,000	95,000		
F-38-D-19	475,000	482,972		
F-38-D-20	675,000	332,203		
F-41-E-17	280,000	145,166		
F-41-E-18	280,000	226,174		
F-41-E-19	240,000	96,504		
FW-13-T-26	440,000	405,459		
FW-13-T-27	400,000	321,261		
W-23-D-58	1,542,265	1,643,126		
W-23-D-59	1,619,000	1,622,000		
W-67-R-44	2,017,000	1,884,207		
W-67-R-45	1,800,000	1,696,744		
W-83-E-31	409,061	320,603		
W-83-E-32	588,000	168,761		
W-83-E-33	355,000	373,867		
W-83-E-34	209,394	208,057		
W-83-E-35	355,000	173,407		
W-83-E-36	106,667	0		
Total	\$23,468,420	\$16,827,925	\$0	\$0

**NORTH DAKOTA
GAME AND FISH DEPARTMENT
SITES VISITED**

Headquarters

Division of Fisheries
Division of Wildlife
Airport Office
Bismarck Lab
Bismarck Shop

Regional Offices

Devils Lake
Dickinson
Jamestown
Riverdale
Williston

Wildlife Management Areas

Crown Butte Lake
Neu's Point
Ochs Point
Riverdale
Sweet Briar Lake
Trenton

Other

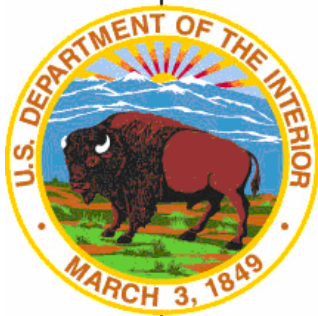
Minot Rifle and Pistol Club

Appendix 3

NORTH DAKOTA GAME AND FISH DEPARTMENT STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS

Recommendations	Status	Action Required
A.1, A.2, B.1, B.2, C.1, and C.2,	FWS did not indicate concurrence or non-concurrence with the findings or recommendations. The recommendations are therefore unresolved. Additional information is needed in the corrective action plan.	Provide a corrective action plan that identifies the actions taken or planned to resolve and implement the recommendations. The plan should also include the targeted completion date and the titles of official(s) responsible for implementation of each recommendation. We will refer any recommendations that are not implemented at the end of 90 days (after April 4, 2007) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

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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 703-487-5435

By Fax:

703-487-5402

By Internet:

www.doioig.gov

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