



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

AUDIT REPORT

**U.S. Fish and Wildlife Service
Federal Assistance Grants
Awarded to the State of Georgia,
Department of Natural Resources,
From July 1, 2003 Through June 30, 2005**

Report No. R-GR-FWS-0002-20006 January 2007

This report contains information that is exempt from public disclosure pursuant to exemption 2 of the Freedom of Information Act (FOIA), 5 U.S.C. § 552 (b)(2).



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230
Reston, Virginia 20191

January 11, 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 Awarded to the State of Georgia, Department of Natural Resources,
from July 1, 2003, Through June 30, 2005 (No. R-GR-FWS-0002-2006)

This report presents the results of our audit of costs incurred by the State of Georgia (State), Department of Natural Resources (Department), Coastal Resources and Wildlife Resources Divisions. The Department incurred the costs under the U.S. Fish and Wildlife Service (FWS) Federal Assistance grants. The audit included total reported outlays of approximately \$30.8 million on FWS grants that were open during 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 complied, in general, with applicable grant accounting and regulatory requirements. We questioned \$42,920 in costs (federal share) that pertained to in-kind contributions and identified issues that require FWS attention, including license revenues, lifetime licenses, control of personal property, and the Department's disaster recovery plan.

We provided a draft of the report to FWS and the Department for response. This report summarizes Department and FWS Region 4 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 April 11, 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 Chris Krasowski, the Federal Assistance Coordinator, or me at 703-487-5345.

cc: Regional Director, Region 4, 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's fish and wildlife 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 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

Audit work included reported outlays totaling approximately \$30.8 million on 56 FWS grants that were open during SFYs 2004 and 2005 (see Appendix 1). We performed our audit at Department headquarters in Atlanta, Georgia and visited four regional offices, four wildlife management areas, three boat ramps, two hatcheries, one waterfowl management area, one management office, one conservation education center, and one public fishing area (see Appendix 2). We performed this audit to supplement, not replace, the audits required by the Single Audit Act of 1984, as amended, and by 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. Our tests included:

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

- examining the evidence that supports selected expenditures charged to the grants by the Department;
- reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, in-kind contributions, and program income;
- interviewing Department employees to ensure that personnel costs charged to the grants were supportable;
- conducting site visits to review equipment and other property; and
- determining whether the Department used hunting and fishing license revenues solely for sport fish and wildlife program purposes.

The audit team 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 project the results of tests to the total population of recorded transactions, nor did we evaluate the economy, efficiency, or effectiveness of Department operations.

Prior Audit Coverage

On December 31, 2002, we issued a Report titled, “Final Advisory Report on Costs Claimed by the State of Georgia Department of Natural Resources, Wildlife Resources Division and Coastal Resources Division under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1997 to June 30, 1999” (No. 2003-E-0008). We followed up on all findings and recommendations in the report and determined that all recommendations have been resolved. The Department of Interior, Office of the Assistant Secretary for Policy, Management, and Budget is tracking three recommendations for implementation. Two recommendations relate to unreconciled differences between the Department’s real property records and those maintained by FWS Region 4. The reconciliation, which the Department completed during our fieldwork, is awaiting FWS Region 4 review. The third recommendation pertains to questioned costs.

We reviewed the State’s Comprehensive Annual Financial Reports for SFY 2005 and the Single Audit report for SFY 2004. The 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 guidelines and reported and used program income in accordance with federal regulations. However, we identified the issues listed below that require attention by FWS, including \$42,920 of questioned costs. We discuss these issues in more detail in the Findings and Recommendations section.

Questioned Costs: Unsupported In-Kind Contributions. We identified and questioned \$42,920 (federal share) of unsupported in-kind contributions.

License Revenue Expenditures Not Tracked. The Department cannot demonstrate that license revenues were used only for the administration of the state fish and wildlife agency.

Lifetime Licenses Inadequately Tracked. The Georgia State Assembly did not make annual appropriations for lifetime license fees to the Wildlife Endowment Fund, as required by state law, and did not appropriate the interest earned on those fees.

Inadequate Controls Over Personal Property. The Department's Asset Management listing was inaccurate and incomplete and not all Department personal property items were tagged.

[FOIA Exemption 2-high]

Findings and Recommendations

A. Questioned Costs: Unsupported In-Kind Contributions

The Department claimed that the state share of costs for grants F-75-1, F-75-2, F-76-1, and F-76-2 included third party in-kind contributions in the form of indirect costs waived or not billed to the contract by the contractors performing grant work. The Department could not provide adequate documentation that the contractor waived the indirect costs. As a result, we are questioning the in-kind contributions claimed that were based on the waived costs.

According to the Code of Federal Regulations (43 C.F.R. § 12.64 (b)(7)), third party contributions to a fixed-price contract may count towards satisfying a cost sharing or matching requirement if it results in cost savings to the grantee. In addition, third party in-kind contributions must be verifiable from the state's records and the records must show how the value placed on the contributions was derived (43 C.F.R. § 12.64 (b)(6)). To determine the amount of questioned costs for each grant, we:

- reduced the total grant outlays claimed by the amount of unsupported indirect costs;
- calculated the allowable federal share of grant costs by taking 75 percent of the revised grant outlays; and
- subtracted the revised allowable federal share from the original federal share claimed.

Based on our calculations, we questioned \$42,920 of costs (federal share) for all four grants.

Recommendations

We recommend that FWS:

1. resolve the \$42,920 of questioned costs and
2. ensure that the Department maintains adequate supporting documentation for in-kind contributions based on waived indirect costs.

Department Response

The Department indicated that the contractor submitted letters documenting the approved indirect cost rate for the project years. The Department calculated in-kind contributions based on the indirect cost rate and stated that the calculations demonstrate an overmatch of in-kind contributions. The Department also indicated it will maintain the supporting documentation on file to be referenced in all future project documents and invoices.

FWS Response

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

OIG Comments

While the Division has taken steps to obtain and maintain supporting documentation for the indirect cost rate, additional information is needed in the corrective action plan, including:

- documentation that the contractor waived the indirect costs that the Department calculated from the approved indirect cost rate;
- targeted completion dates and officials responsible for actions taken or planned; and
- verification that the FWS reviewed and approved the actions taken.

B. License Revenue Expenditures Not Tracked

The Department cannot provide documentation to demonstrate that license revenues were used only for the administration of the State fish and wildlife agency, as required under federal regulation. The Department deposits fees each year from the sale of hunting and fishing licenses with the State Treasurer so they may earn interest. The Georgia State Assembly appropriates funds annually for the State's fish and wildlife program. According to the Department, the annual appropriations include an amount equal to the license revenues collected the prior year, the interest earned, and additional funding. Appropriated funds are considered State funds, and associated expenditures are tracked as expenditures paid for with State funds. Expenditures of the license revenues are therefore not tracked.

Title 50 C.F.R. § 80.4 requires that license revenues be used only for the administration of the state fish and wildlife agency. License revenues includes: fees from the sale of hunting and fishing licenses; income from the sale, lease, or rental of real or personal property acquired or produced with license revenues; and interest earned on license revenues. A diversion of license revenues occurs when any portion of license revenues is used for any purpose other than the administration of the state fish and wildlife agency.

The Department explained that, according to Georgia statutes, revenues must be deposited with the State Treasurer to earn interest. Funds deposited with the State Treasurer can only be appropriated by the General Assembly. Since license revenues are not segregated from other appropriated funds, the Department cannot provide documentation to demonstrate how license revenues were expended, creating the potential for a diversion of license revenue. In addition, any assets purportedly acquired with license revenues may not be protected since the nexus between license revenues and associated expenditures cannot be established.

Recommendation

We recommend that FWS require the Department to take steps to ensure it can demonstrate that license revenues were used only for the administration of the State's fish and wildlife agency.

Department Response

The Division proposed to establish a separate budget code to identify and track hunting and fishing license revenues. It stated that the budget code will be established for FY2008 (July 1, 2007) with an amount equivalent to the previous year's earned license revenues plus accumulated interest, and that appropriate expenditures will be charged to the budget code.

FWS Response

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

OIG Comments

The Division indicated it has taken steps to ensure it can track license revenue expenditures in the future and that only appropriate expenditures will be charged to the budget code. Additional information is needed on what policies and procedures the Division will establish to ensure revenues associated with the budget code are expended only on the administration of the fish and wildlife agency. The corrective action plan should include this information, as well as target completion dates, titles of officials responsible for actions taken or planned, and verification that the FWS reviewed and approved of the planned actions.

C. Lifetime Licenses Inadequately Tracked

The Department sells Lifetime Sportsman Licenses and collects license fees from hunters and anglers for these licenses. FWS requires states to report the number of hunting and fishing license holders annually and to certify the accuracy of their counts. Since Georgia's lifetime licenses are multi-year licenses, the Department counts them in several annual license certifications. Fees from each lifetime license are deposited with the State Treasurer so they may earn interest. To meet federal regulations regarding license revenue, the state has developed procedures to ensure lifetime licenses continue to earn revenue beyond the year in which they were sold and that the revenue from license sales and subsequent interest earned is used only for state fish and wildlife activities. The State, however, has not followed these procedures consistently, leading to possible diversion of license revenue and making it unclear whether all lifetime licenses can be counted each year in the annual license certifications.

FWS uses the license certifications to determine, in part, the annual apportionment of Federal Assistance Program funds for each state. Title 50 C.F.R. § 80.10 specifies the requirements for annual license certifications. Sections (a) and (b) require states to report the number of hunting and fishing license holders annually to FWS and to certify the accuracy of their counts. Section (c)(2) specifies that only revenue-producing licenses may be counted. Section (3) indicates that licenses valid in multiple years may be counted each year in which 1) they are valid and 2) generate net revenue during the same period for which hunting or fishing privileges are granted. Furthermore, the provisions of 50 C.F.R. § 80.4 require that hunting and fishing license revenues (which includes interest, dividends, and other income earned on license revenues) be used only for the administration of the state fish and wildlife agency.

To comply with these requirements, the Georgia State Assembly passed Georgia Code 27-2-30. In this code, the Assembly recognized the need for lifetime licenses to generate annual income so they may be included in the apportionment formula for federal fish and wildlife funding. They:

- established the Wildlife Endowment Fund (Fund), declaring the intent to appropriate annually to the Fund an amount equal to that generated by the prior year's lifetime license sales and to prohibit the amounts appropriated from lapsing to the general fund; and

- required the appropriated amounts be spent only for the conservation and management of wildlife and fisheries resources and habitat acquisition.

We examined the Fund's Statement of Sales and Earnings and determined that not all license revenues were appropriated to the Fund on an annual basis. While license revenues for SFYs 2000 and 2004 were appropriated in the next fiscal year, as intended by code 27-2-30, license revenues for SFY1999 were not appropriated to the Fund until SFY2001 and license revenues for SFYs 2002 and 2003 were not appropriated to the Fund until SFY2005. Additionally, although the license revenues were deposited with the State Treasurer to earn interest, none of the interest earned was appropriated to the Fund. The Department could not explain why the Georgia General Assembly did not appropriate the funds annually as required by State law.

Since revenues from license sales were not deposited in a timely manner to the Fund, it is uncertain whether the associated lifetime licenses should have been counted in subsequent years' annual certifications. In addition, since the interest earned on license fees while on deposit with the State Treasurer was not deposited in the Fund, a potential diversion of license revenues may have occurred.

Recommendations

We recommend that FWS:

1. determine whether lifetime licenses should have been counted in the annual license certifications when the required appropriation from lifetime license revenues—including both fees and interest earned—did not occur at all or was delayed beyond the next fiscal year;
2. determine whether a diversion of license revenues has occurred; and
3. work with the Department to establish procedures to ensure all revenue from lifetime licenses, including fees and associated interest, are appropriated to the Fund in a manner that would allow the licenses to be included in the state's annual license certifications.

Department Response

The Division stated that in response to our finding and recommendations, it has calculated interest on lifetime licenses from FY1999 through FY2006 (June 30, 2006) from the time fees were collected until they were appropriated and deposited into their Wildlife Endowment Fund. The Division determined the total revenues from this interest and from lifetime license revenues not deposited since FY1999 to be \$969,856. It stated that it requested this amount through the 2007 Supplemental Budget Process, and indicated that the funds should be appropriated into the Fund by April 2007. It also stated that the revenues and interest will be requested in the same manner with all future budget requests.

FWS Response

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

OIG Comments

While the Division has taken steps to recover the revenues associated with the license certifications in question, additional information is needed in the corrective action plan documenting formal written procedures, as well as verification from the FWS that they reviewed and approved of the information provided and actions taken. The corrective action plan should also include information on targeted completion dates and titles of officials responsible for implementation of actions taken or planned.

D. Inadequate Controls Over Personal Property

Using the Department's Asset Management listing² generated by the Department's Property Section, we inspected personal property at 14 sites including the Wildlife and Coastal Resources Divisions headquarters offices in Social Circle and Brunswick, respectively, and at selected regional offices, wildlife management areas, hatcheries, and other sites (excluding boat ramps) listed in Appendix 2. With the assistance of the staff at each location, we inspected a sample of vehicles, equipment, and computer-related items and found that not all items were tagged and the inventory listing contained inaccurate and incomplete data.

According to 50 C.F.R. § 80.19, the state must maintain current and complete property records in accordance with requirements in the Fish and Wildlife Service Manual and OMB Circular A-102, Grants and Cooperative Agreements With State and Local Governments. In addition, the Department's Asset Management Procedures Manual requires that personal property be assigned responsibility to a specific person, that a numbered decal be affixed to the item, and that information such as decal number, description, and financial data be entered in the Asset Management System. Furthermore, physical inventories of all personal property must be performed yearly and any discrepancies (missing items, missing decals, and items not listed on the inventory) must be resolved.

The Department provided a personal property inventory listing for the Wildlife and Coastal Resources Divisions which identified 6,306 items valued at \$22.2 million, including vehicles, computers, and equipment. We selected a judgmental sample of 264 items valued at \$2.3 million to verify the items existed, had decals attached, and that the data in the inventory listing was accurate.

Of the items sampled:

² The Asset Management Procedures define personal property as items with an acquisition cost of \$999.99 or more and a useful life greater than 3 years and firearms regardless of cost.

- we could not find 3 items valued at \$5,657;
- 49 items valued at \$443,023 on the inventory listing had been transferred to other locations or surplussed;
- 11 items valued at \$117,126 were not tagged; and
- 1 item sampled was not listed on the inventory.

In addition, Coastal Resources staff provided a listing of 33 items valued at \$155,923 which were not on the Asset Management listing and for which no decals were provided. Wildlife Resources staff at two locations provided data for nine items which were missing decals and were not on the Asset Management listing (five items were valued at \$26,899; the value of the other four items could not be established).

We concluded that decals were missing because they fell off or were not provided to field personnel to install. The inventory records were inaccurate and incomplete because the Asset Manager did not make additions when items were acquired or corrections when information was provided by field personnel.

Recommendations

We recommend that FWS ensure the Department:

1. accurately updates the data in the Asset Management System and
2. replaces decals on items that do not have them attached.

Department Response

The Division stated that it has replaced property identification numbers on all items that were found unmarked during our audit. It also stated that items not found are being located and marked or will be eliminated from the inventory according to State procedures. It stated that all inventory items will be re-inspected and tagged by each region and that the Asset Management System will be updated within 30 days of receipt of the updated inventory reports.

FWS Response

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

OIG Comments

While the Division has taken steps to ensure proper identification of personal property and an updated inventory, further information is needed in the corrective action plan to verify that FWS reviewed and approved of the actions taken. The corrective action plan should also contain targeted completion dates and titles of officials responsible for implementation.

E. [FOIA Exemption 2-high]

Recommendation

[FOIA Exemption 2-high]

Department Response

[FOIA Exemption 2-high]

FWS Response

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

OIG Comments

[FOIA Exemption 2-high]

GEORGIA DEPARTMENT OF NATURAL RESOURCES
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2003 THROUGH JUNE 30, 2005

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Total (Unsupported)	Federal Share
F-16-40	\$16,000	\$16,000		
F-16-41	\$16,000	\$16,000		
F-24-31	\$458,512	\$553,956		
F-24-32	\$484,000	\$535,122		
F-41-19	\$891,820	\$923,895		
F-41-20	\$841,020	\$874,058		
F-42-18	\$21,336	\$21,334		
F-42-19	\$21,336	\$21,334		
F-44-16	\$362,880	\$372,643		
F-44-17	\$323,336	\$485,505		
F-61-9	\$303,583	\$230,898		
F-61-10	\$232,877	\$239,777		
F-62-9	\$999,846	\$847,279		
F-62-10	\$995,356	\$859,366		
F-65-6	\$171,000	\$211,184		
F-65-7	\$161,668	\$184,786		
F-68-2	\$381,168	\$404,461		
F-68-3	\$387,836	\$438,081		
F-69-2	\$147,168	\$203,944		
F-69-3	\$97,668	\$109,955		
F-70-2	\$264,168	\$292,295		
F-70-3	\$234,668	\$273,870		
F-71-2	\$1,201,168	\$1,247,942		
F-71-3	\$1,201,168	\$1,297,295		
F-72-2	\$547,500	\$675,364		
F-72-3	\$560,000	\$618,142		
F-73-2	\$166,312	\$220,470		
F-73-3	\$200,136	\$235,783		
F-74-2	\$738,696	\$804,180		
F-74-3	\$1,053,336	\$1,137,866		
F-75-1	\$90,308	\$90,308	\$39,488	\$16,901
F-75-2	\$94,352	\$94,350	\$41,284	\$17,696
F-76-1	\$33,120	\$33,120	\$9,273	\$3,974

**GEORGIA DEPARTMENT OF NATURAL RESOURCES
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2003 THROUGH JUNE 30, 2005**

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Total (Unsupported)	Federal Share
F-76-2	\$34,520	\$30,230	\$10,148	\$4,349
F-77-1	\$44,764	\$44,283		
FW-5-1	\$2,751,068	\$3,340,155		
FWT-1-1	\$1,642,382	\$275,652		
W-6-59	\$80,000	\$110,185		
W-6-60	\$120,000	\$125,353		
W-28-44	\$16,920	\$16,920		
W-28-45	\$19,660	\$19,660		
W-36-43	\$4,880,647	\$5,545,500		
W-36-44	\$4,429,364	\$4,332,370		
W-55-13	\$109,000	\$130,756		
W-55-14	\$114,782	\$112,577		
W-57-13	\$130,000	\$154,235		
W-57-14	\$130,000	\$120,376		
W-59-9	\$693,332	\$693,332		
W-59-10	\$677,333	\$677,333		
W-64-2	\$133,333	\$67,769		
W-64-3	\$133,333	\$58,211		
W-64-4	\$320,000	\$120,493		
W-66-2	\$107,311	\$108,596		
W-66-3	\$107,947	\$102,970		
W-67-2	\$25,460	\$47,925		
W-67-3	\$37,203	\$37,203		
	<u>\$30,421,701</u>	<u>\$30,826,647</u>	<u>\$100,193</u>	<u>\$42,920</u>

GEORGIA
DEPARTMENT OF NATURAL RESOURCES
SITES VISITED

Wildlife Resources Division Headquarters Office, Social Circle
Coastal Resources Division Headquarters Office, Brunswick

Regional Offices

Brunswick
Demeries Creek
Gainesville
Thomson

Wildlife Management Areas

Clybell
Dawson Forest
Oconee
Sapelo Island

Hatcheries

Buford
Richmond Hill

Other Sites

Altamaha Waterfowl Management Area
Charlie Elliott Conservation Education Center
McDuffie Public Fishing Area
Sapelo Island Management Office

Boat Ramps

Altamaha
Demeries Creek
McDuffie Public Fishing Area

**GEORGIA
DEPARTMENT OF NATURAL RESOURCES
STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

Recommendations	Status	Action Required
A.1, A.2, B, C.1, C.2, C.3, D.1, D.2, and E	FWS management concurs with the recommendations, but 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 dates and the title of officials responsible for implementation of each recommendation. Any recommendations that are not implemented at the end of 90 days (after April 11, 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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