

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

AUDIT REPORT

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

Report No. R-GR-FWS-0003-2006 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
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January 16, 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 Hawaii, Department of Land and Natural Resources, From July 1, 2003, Through June 30, 2005 (No. R-GR-FWS-0003-2006)

This audit report presents the results of our audit of costs incurred by the State of Hawaii (State), Department of Land and Natural Resources (Department) under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included total reported outlays of approximately \$11.7 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 the Department complied, in general, with applicable grant accounting and regulatory requirements. We questioned \$9,571 in costs (federal share) and identified weaknesses in the labor system, asset management system, hunting and fishing license certification process, and financial management system. In addition, we found that the Department did not have a Disaster Recovery Plan.

We provided a draft of the report to FWS and the Department for comment. This report includes a summary of Department and FWS Region 1 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 16, 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. Tim Horsma, at 916-978-5668 or me at 703-487-5345.

cc: Regional Director, Region 1, 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 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 claims totaling approximately \$11.7 million on 35 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 Honolulu, Hawaii, and visited three branch offices, six wildlife areas, one fish hatchery, one public fishing area, three motorboat access projects, and one conservation education facility (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. Accordingly, we tested records and performed other auditing procedures as we considered necessary under the circumstances. Our tests and procedures included:

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

- examining the evidence that supports selected expenditures charged to the grants by the Department;
- 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 sport fish and wildlife program purposes.

To the extent possible, we relied on the work of the certified public accounting firm that performed the SFYs 2004 and 2005 single audits to avoid duplication of audit effort.

We also identified 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 the Department operations.

Prior Audit Coverage

On November 12, 2002, we issued Advisory Report No. 2003-E-0003 “Costs Claimed by the State of Hawaii, Department of Land and Natural Resources, Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1998 through June 30, 2000.” We followed up on all significant findings in the advisory report and determined that the Department of Interior, Office of the Assistant Secretary for Policy, Management, and Budget is tracking two prior audit recommendations for implementation. Neither recommendation impacted the current audit of FWS Federal Assistance grants.

We reviewed the Department’s Single Audits for SFYs 2004 and 2005. The Sport Fish Restoration and Wildlife Restoration Programs were not selected for compliance testing in the SFY2004 Single Audit but the Wildlife Restoration Program was selected for compliance testing in the SFY2005 Single Audit. The SFYs 2004 and 2005 Single Audits did not contain any findings that would directly impact Department FWS Federal Assistance grants.

Audit Results

Audit Summary

We found the Department complied, in general, with select 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 that require attention by the FWS, including \$9,571 in questioned costs. We discuss these findings in more detail in the Findings and Recommendations section.

Questioned Costs. We questioned \$9,571 in claimed costs (federal share) which were not valid obligations of the grant period.

Unused Equipment Item. The Department claimed expenses for a trailer that was not used for grant purposes.

Labor Charges Allocated Inconsistently. The Department used inconsistent methods to allocate grant labor expenditures for sport fish and wildlife restoration grants. In addition, the Department did not equitably allocate overtime costs to sport fish restoration grants.

[FOIA Exemption 2-high]

Duplicate License Holders Not Removed From Certifications. The Department did not identify and eliminate duplicate license holders in its annual license certification for license years (LYs) 2003 and 2004.

Findings and Recommendations

A. Questioned Costs – Out-of-Period Costs – \$9,571

The Department claimed costs of \$12,761 which were not valid obligations of the grant period. Since the grant is based on a 75 percent federal and 25 percent state matching cost share, the federal portion questioned is \$9,571.

The Code of Federal Regulations (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.

The Department charged costs outside the grant period because they did not have a process in place for identifying and eliminating expenditures which were obligated during a prior or subsequent grant. We questioned the \$12,761 in costs claimed (\$9,571

federal share) that were incurred outside the grant period on grants F-11-D-28 (\$5,887), F-19-B-35 (\$1,670), W-21-HS-28 (\$43), W-22-G-10 (\$3,580), and W-23-NG-10 (\$1,581).

Recommendations

We recommend that FWS:

1. require the Department to review costs claimed on grants open during SFYs 2004 and 2005 to determine the extent of additional out-of-period costs included in requests for reimbursement,
2. resolve the \$9,571 of questioned costs and any additional amounts of out-of-period costs the Department identifies, and
3. require the Department to implement a process for identifying and eliminating grant charges for obligations of prior or subsequent periods.

Department Response

The Department stated that purchase orders for all reimbursable expenditure transactions in excess of \$500 were examined and, if an error in the period charged was obvious or possible, the vendor's invoice was reviewed. It stated that, in total, expenditures amounting to \$14,229 involving five transactions required an adjustment or allocation to FWS grants. It also stated that questioned costs (1) led to a reduction in the grant overmatch, (2) were removed from the cumulative total costs of the ongoing grant or (3) were returned by crediting a subsequent grant segment. Further, to identify out-of-period costs, the Department instructed its divisions to use a previously blank field in the accounting system to identify transactions for services that do not match the appropriation year charged.

FWS Response

FWS concurred with the audit recommendations and added that the Department had provided comments to recommendation 1, and support documentation addressing recommendations 2 and 3. FWS also stated that any outstanding issues will be addressed in the corrective action plan.

OIG Comments

While the Department indicated it has taken steps to identify and eliminate grant charges for obligations of prior or subsequent periods, additional information is needed in the corrective action plan verifying FWS reviewed and accepted the results of the Department's review and their resolution of out-of-period costs claimed for reimbursement. The corrective action plan should also include, for actions not yet taken, targeted implementation dates and titles of officials responsible for implementation.

B. Unused Equipment Item

The Department's Division of Forestry and Wildlife (DOFAW) claimed expenses of \$12,604 under grant W-22-G-6 for a trailer that was not used for grant purposes. Although the grant period was not in the scope of our review, we identified the trailer during our site visit equipment review.

The regulations (50 C.F.R. § 80.18(c)) require that in conducting activities funded under the Acts, the state is responsible for the accountability and control of all assets. It must assure that the assets serve the purpose for which they were acquired throughout their useful life. Title 43 CFR § 12.72 (c)(1) and (4) require that when equipment is no longer needed it may be used for other federally supported activity of the grantee; alternatively, subject to the approval of the awarding agency, it may be used as a trade in, or sold and the proceeds used to offset the cost of the replacement property.

According to a program official, the 22-foot trailer was purchased to transport a tractor/mower for use on wildlife management areas. Due to the size of the trailer, it could not be used because moving it required a larger truck than anticipated and staff did not possess the required transport license.

The official also stated that although physical inventories had been performed to verify the existence of the equipment, inventory procedures did not focus on verifying that the equipment was needed for grant purposes.

As a result, the trailer was not delivered to the wildlife management areas or utilized for grant purposes.

Recommendations

We recommend that FWS:

1. resolve the issue of the equipment item not used for grant W-22-G-6 purposes, and
2. require the Department to develop and implement policies and procedures related to its inventory to ensure that assets serve the purpose for which they were acquired.

Department Response

The Department stated that the DOFAW is in the early stages of purchasing a tractor/mower. Once that purchase is finalized, the specifications for a trailer can be determined and the unused trailer will either be used as a trade-in for the new trailer or sold. It also stated that disposal approval from FWS will be requested once the plans become more definitive. Further, to ensure that assets serve the purpose for which they were acquired, the Department will include a reminder in its instructions for the annual physical inventory review.

FWS Response

FWS concurred with the audit recommendations and added that the Department's proposals to implement the recommendations will be considered in the corrective action plan.

OIG Comments

The Department indicated it has taken steps to resolve the issue of the unused equipment item. It also indicated it has taken steps to develop and implement policies and procedures to ensure assets serve the purpose for which they were acquired. However, additional information is needed in the corrective action plan verifying FWS reviewed and accepted the Department's proposals, as well as targeted implementation dates and titles of officials responsible for implementation.

C. Labor Charges Allocated Inconsistently

The Department used inconsistent methods to allocate grant labor expenditures for sport fish and wildlife restoration grants. DOFAW used a methodology that included the employee's "actual" hourly rate (wildlife grants) from the State payroll system, while the Division of Aquatic Resources (DAR) used a "computed" hourly rate (fisheries grants) based on the number of work days in a month. In addition, the Department did not equitably allocate overtime costs to sport fish restoration grants.

The regulations (2 C.F.R. § 225 (which replaces OMB Circular A-87)), Appendix B.8.h.4 require, in part, that where employees work on multiple activities or cost centers, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects after-the-fact distribution of the activity of each employee. In addition, Appendix A, Part C, lists factors for determining whether costs are allowable. To be allowable under federal awards, costs must be necessary and reasonable, allocable and authorized, and adequately documented.

Federal Assistance grants to the Department were administered by both DOFAW and DAR. Both Divisions believed that the methods used to allocate labor costs were appropriate. In addition, DAR believed that it was equitable to charge overtime costs of a pay period to all activities worked on during that period.

As a result of the Department's inconsistent methodology for allocating grant labor expenditures, grants would be charged different amounts depending on whether an employee worked on a wildlife or sport fish grant. For example, we compared methods used by DOFAW and DAR to assess labor charges for seven permanent employees and found that the difference in hourly rates varied from 21 to 62 cents.

The FWS sport fish grants have been charged excessive amounts for labor expenditures. The Department allocates overtime to all activity codes charged during the month rather than the specific activity on which the overtime was worked. Overtime worked on a non-

FWS project could therefore be allocated, in part, to the FWS grant. For example, we reviewed a month of overtime labor charges to grant F-11-D-29 for three employees and found that the grant had been overcharged by \$1,069 due to the overtime charges.

Recommendations

We recommend that FWS require the Department to:

1. develop a consistent methodology for allocating grant labor expenditures,
2. determine the extent of excess overtime costs charged to sport fish restoration grants for FYs 2004 and 2005 and resolve such instances, and
3. develop and implement policies and procedures to ensure an equitable allocation of overtime costs to sport fish restoration grants.

Department Response

The Department stated that effective July 2006, grant payroll allocations for the DAR will be done consistently with the method used by the DOFAW. It also stated based on a review of two representative months (February and June 2005), it believed that any excess overtime costs due to the previous method used was immaterial. Further, the Department stated that with the implementation of the timesheet allocation method of the DOFAW, overtime charges will be equitably charged.

FWS Response

FWS concurred with the audit recommendations and added that the Department had submitted a Personal Services Cost Allocation Memo addressing recommendations 1 and 3, and provided an analysis addressing recommendation 2. FWS also stated that it will address any outstanding issues in the corrective action plan.

OIG Comments

While the Department indicated it has taken steps to ensure that labor charges are allocated consistently, additional information is needed in the corrective action plan verifying FWS reviewed and accepted the Department's methodology for allocating grant labor charges and that the policies and procedures implemented ensure an equitable allocation of overtime costs to sport fish restoration grants.

D. [FOIA Exemption 2-high]

Recommendation

[FOIA Exemption 2-high]

Department Response

[FOIA Exemption 2-high]

FWS Response

[FOIA Exemption 2-high]

OIG Comments

[FOIA Exemption 2-high]

E. Duplicate License Holders Not Removed From Certification

FWS requires states to report the number of hunting and fishing license holders and certify the accuracy of their counts. The Department did not identify and eliminate duplicate license holders in its annual license certification for LYs 2003 and 2004. Inclusion of duplicate license holders may have resulted in an inaccurate number of licenses certified by the Department for LYs 2003 and 2004.

The regulations (50 C.F.R. § 80.10 (c)(5)) state that an individual shall not be counted more than once as a hunting or fishing license holder. The state is responsible for certifying that it eliminated duplications.

The Department's procedures for determining the total number of licenses sold did not include procedures to identify and eliminate duplicate sales. Instead, the Department relied exclusively on end-of-year sales reports from the license sales database to generate sales and revenue data for the annual certification. The information in the report was insufficient to eliminate duplicate sales because it generated only gross sales and revenue data for all license types sold during the license year. The only adjustment that was made to the sales data was the elimination of senior hunting and fishing license types from the final certification.

FWS 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 that FWS require the Department to develop and implement a methodology to eliminate duplicate license holders in its annual license certifications.

Department Response

The Department stated that it had developed a procedure to retrieve data from license holder databases and identify duplicate holders, and that this procedure would result in a more accurate certification.

FWS Response

FWS concurred with the audit recommendation and stated that the Department had submitted proposals which would be considered in the corrective action plan.

OIG Comments

While the Department indicated it has taken steps to develop a methodology to eliminate duplicate license holders in its annual license certification, additional information is needed in the corrective action plan verifying FWS reviewed and accepted the Department's plan for ensuring the accuracy of the license certifications. The corrective action plan should also include targeted implementation dates and titles of officials responsible for implementation.

Appendix 1

HAWAII DEPARTMENT OF LAND AND NATURAL RESOURCES FINANCIAL SUMMARY OF REVIEW COVERAGE July 1, 2003 through June 30, 2005

Grant Number	Grant Amount	Reported Outlays	Questioned Costs	Federal Share
F-11-D-28	\$348,000	\$382,776	\$5,887	\$4,415
F-11-D-29	348,000	353,154		
F-12-D-28	883,334	811,570		
F-12-D-29	891,834	838,419		
F-13-C-28	45,000	46,056		
F-13-C-29	47,000	61,023		
F-14-R-28	403,000	471,342		
F-14-R-29	403,000	413,253		
F-15-T-28	32,000	14,368		
F-15-T-29	32,000	32,660		
F-16-T-28	80,000	80,049		
F-16-T-29	80,000	86,472		
F-17-R-28	1,064,000	840,195		
F-17-R-29	1,109,000	878,410		
F-18-AE-17	240,000	294,189		
F-18-AE-18	240,000	297,821		
F-19-B-27	360,000	128,580		
F-19-B-28	350,000	0		
F-19-B-29	200,000	99,300		
F-19-B-31	260,000	81,500		
F-19-B-32	1,100,000	1,176,843		
F-19-B-33	250,000	193,741		
F-19-B-34	60,000	19,210		
F-19-B-35	130,000	45,445	1,670	1,252
F-19-B-36	80,000	0		
F-19-B-37	28,000	24,455		
F-19-B-38	60,000	0		
FW-1-DE-1	1,147,000	86,744		
W-21-HS-27	900,598	719,542		
W-21-HS-28	544,500	413,091	43	32
W-22-G-8	813,196	859,589		
W-22-G-9	813,797	814,956		
W-22-G-10	813,997	516,643	3,580	2,685
W-23-NG-9	284,806	394,294		
W-23-NG-10	286,878	260,778	1,581	1,186
TOTAL	\$14,728,940	\$11,736,468	\$12,761	\$9,571

**HAWAII DEPARTMENT OF LAND AND NATURAL RESOURCES
SITES VISITED**

Headquarters

Department of Land and Natural Resources, Honolulu, Hawaii

Branch Offices

Hawaii (East) Branch Office, Hilo

Hawaii (West) Branch Office, Kamuela

Maui Branch Office, Wailuku

Wildlife Management Areas / Facilities

Waiakea Forest Reserve

Kipuka Ainahou Nene Sanctuary

Kaohe Game Management Area

Puu Anahulu Game Management Area

Kula Forest Reserve

Kahaha Pond Wildlife Sanctuary

Fish Hatchery and Public Fishing Area

Wailoa Fisheries Research Station

Waiakea Public Fishing Area

Motor Boat Access and Conservation Projects

Pohoiki Boat Ramp and Loading Dock, Hilo

Manele Small Boat Harbor, Lanai

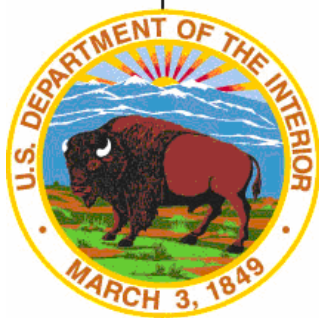
Kahului Boat Launch Facility, Kahului

Conservation Education Facility, Waimea

**HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

Recommendations	Status	Action Required
A.1, A.2, A.3, B.1, B.2, C.1, C.2, C.3, D.1, and E.1	FWS management concurs with the recommendations, but additional information is needed as outlined in the “Actions Required” column.	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 titles of officials responsible for implementation of each recommendation, as well as verification that FWS reviewed and approved of actions taken or planned by the state to implement the recommendations. Any recommendations that are not implemented at the end of 90 days (after April 16, 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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