



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

# **AUDIT REPORT**

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

**Report No. R-GR-FWS-0004-0006**

**February 2007**



# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230  
Reston, Virginia 2019

February 23, 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 Report on the U.S. Fish and Wildlife Service Federal Assistance Program Grants Awarded to the State of Missouri, Department of Conservation, From July 1, 2003, Through June 30, 2005 (No. R-GR-FWS-0004-2006)

This report presents the results of our audit of costs incurred by the State of Missouri, Department of Conservation (Department), under the U.S. Fish and Wildlife Service (FWS). FWS provided the grants to the State under the Federal Assistance Program for State Wildlife and Sport Fish Restoration (Federal Assistance Program). The audit included total reported outlays of approximately \$45.6 million on 31 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 fishing and hunting license revenue and the reporting of program income.

We found the Department complied, in general, with applicable grant accounting and regulatory requirements. However, we questioned \$482,471 in costs (federal share), including \$5,005 for costs claimed which were either ineligible for reimbursement or were for work not completed and \$477,466 of duplicate salary charges. We also developed findings on the reporting of program income and personal property management.

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

Please provide us with your written response to the recommendations included in this report by May 24, 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, Peter Rich at 703-487-5354, or me at 703-487-5345.

cc: Regional Director, Region 3, U.S. Fish and Wildlife Service

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## Introduction

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### Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts)<sup>1</sup> established the Federal Assistance Program for State Wildlife Restoration and Sport Fish Restoration. Under the Federal Assistance Program, FWS provides grants to states to restore, conserve, manage, and enhance their sport fish and wildlife resources. The Acts and federal regulations contain provisions and principles on eligible costs and allow FWS to reimburse the states up to 75 percent of the eligible costs incurred under the grants. The Acts also require that state hunting and fishing license revenues be used only for the administration of the State's fish and game agency. Finally, federal regulations and FWS guidance require states to account for any income they earn using grant funds.

### Objectives

The objectives of our audit were to determine if the Department:

- claimed the costs incurred under the Federal Assistance Program grants in accordance with the Acts and related regulations, FWS guidelines, and the 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 claims totaling approximately \$45.6 million on 31 FWS grants that were open during SFYs 2004 and 2005 (see Appendix 1). We performed our audit at Department headquarters in Jefferson City, Missouri, and visited 13 wildlife or fishery related locations (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 the Office of Management and Budget Circular A-133.

### Methodology

We performed our audit in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States. We tested records and conducted other auditing procedures as we considered necessary under the circumstances. Our tests and records included:

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<sup>1</sup> 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 Missouri State Auditor's Office 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 in these systems 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 June 11, 2003, we issued our advisory report, "Costs Claimed by the State of Missouri, Department of Conservation, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1997 through June 30, 1999," Report No. 2003-E-0022. We also reviewed the Missouri Comprehensive Annual Financial Reports and Single Audit Reports for SFYs 2004 and 2005. We followed up on all relevant findings in the reports and determined that they had all been considered resolved. One recommendation relating to records retention had not yet been implemented.

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## Results of Audit

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### Audit Summary

We found that the Department complied, in general, with selected grant agreement provisions and requirements of the Acts, regulations, and FWS guidance. However, we discovered several conditions that resulted in the findings listed below, including \$482,471 (federal share) in questioned costs. We discuss these findings in further detail in the Findings and Recommendations Section.

**Questioned Costs.** The Department claimed and was reimbursed \$5,005 for direct costs which were either ineligible for reimbursement or were for work not completed. Additionally, the Department incorrectly charged \$477,466 in personnel salaries to four grants as both direct and indirect costs.

**Unreported Program Income.** The Department did not report all program income for barter transactions and boat rental fees generated under its Federal Assistance Program grants.

**Insufficient Personal Property Management.** Some items were missing from the personal property inventory or not tagged. Additionally, the inventory listings contained some inaccurate data.

### Findings and Recommendations

#### A. Questioned Costs — \$482,471

##### 1. Ineligible Expenses — \$5,005

FWS reimbursed the Department \$3,130 (federal share) for costs that were ineligible for reimbursement under Hunter Education Grant W-95-E-3. Specifically, the Department incorrectly charged the grant for binoculars, highlighters, and lanyards that were not used for grant related purposes. FWS also reimbursed the Department for \$1,875 (federal share) under Aquatic Education Grant F-42-E-19 for postage to mail a questionnaire as part of a survey that was not performed. The total ineligible costs for the two grants were \$5,005.

The Code of Federal Regulations (50 C.F.R. 80.15) defines allowable costs as those which are reasonable, necessary to accomplish approved project purposes, and comply with the cost principles of OMB Circular A-87 (recently codified as 2 C.F.R. 225). Appendix A, Section C.3 of the Circular specifies that a cost is allocable only if it provides a benefit to the grant. Appendix A, Section E defines direct costs as those that can be identified specifically with a particular final cost objective, such as cost of materials acquired, consumed, or expended to meet grant objectives.

The questioned charges occurred because the Department made accounting errors and inadvertently charged the wrong grants. We are questioning the \$5,005 in reimbursed costs for ineligible and unallocable costs.

### **Recommendation**

We recommend that the FWS resolve the \$5,005 in questioned costs.

### **Department Response**

Department officials concurred with the recommendation and indicated the Federal Aid coordinator took action effective January 2007. They indicated documentation for grant W-95-E-3 was revised to use excess allowable costs in place of the \$3,130 in ineligible costs. Department officials also indicated that they credited the \$1,875 in ineligible costs back to the Aquatic Education Program under a subsequent grant.

### **FWS Response**

FWS management concurred with the recommendation and stated that they would work with the Department in developing a corrective action plan to address the recommendation.

### **OIG Comments**

While FWS management concurs with the recommendation and the Department indicated action was taken to address the recommendations, additional information is needed in the corrective action plan, including verification that FWS officials reviewed and approved of actions taken or planned by the State. The plan should also contain the completion dates and titles of officials responsible for implementation of the actions taken (or planned).

## **2. Salaries Charged as Both Direct and Indirect Costs — \$477,466**

The Department incorrectly charged personnel salaries to Federal Assistance Program grants as both a direct and indirect cost. The Department calculates proposed indirect cost rates 2 years in advance of the fiscal year in which they will be used. The Department directly charged to the grants some personnel salaries that were already included in the indirect cost rates for SFYs 2004 and 2005. The duplicate charges totaled \$477,466 (federal share) during the audited grant periods as shown in the following table:

**Table 1. Salaries Charged as Both Direct and Indirect Costs**

<b>Grant</b>	<b>Charges SFY 2004</b>	<b>Charges SFY 2005</b>	<b>Total</b>	<b>Federal Share</b>
F-42-E-19 and F-42-E-20	\$650	\$386	\$1,036	\$777
F-50-D-6 and F-50-D-7	\$13,316	\$22,792	\$36,107	\$27,080
W-93-D-9 and W-93-D-10	\$278,242	\$304,930	\$583,173	\$437,380
W-95-E-3 and W-95-E-4	\$7,879	\$8,427	\$16,306	\$12,229
	<u>\$300,087</u>	<u>\$336,534</u>	<u>\$636,622</u>	<u>\$477,466</u>

OMB Circular A-87 (recently codified as 2 C.F.R. 225), Appendix A, Section D(2) states that because there is no universal rule for classifying costs as either direct or indirect, it is essential that each cost be treated consistently in like circumstances either as a direct or an indirect cost. In addition, Attachment A, Section C.1 of the Circular states that to be allowable under federal awards, costs must be necessary and reasonable for proper and efficient performance and administration and be allocable to the federal award under provisions of the Circular. It further states in Attachment A, Section C.1.j. that costs must be adequately documented.

Department officials told us that to account for the duplicate charges they were deducting the cost of the duplicate salaries for prior grant periods from the indirect cost rate calculations for the next accounting period. This accounting treatment, however, misallocates costs between different accounting periods and impacts grants that have already been closed.

### **Recommendations**

We recommend that FWS coordinate with the Department to:

1. resolve the \$477,466 in questioned costs for direct charges billed to the grants for personnel in the indirect pool, and
2. develop policies and procedures to ensure personnel charges are charged only once to the grant.

### **Department Response**

Department officials concurred with the recommendations and stated they addressed the \$477,466 in questioned costs by crediting the amount back to Federal Assistance Program grants, effective January 2007. Department officials also indicated that, beginning in SFY2006, they modified the process used to charge salaries to correct the issue discussed in the finding. They stated that all key personnel who are included in the indirect costs calculation are tagged with a special identifier in the payroll system, and that this tag will prevent these

employees' hours from being charged directly to any grants. The Federal Aid Coordinator was the official responsible for implementation.

### **FWS Response**

FWS management concurred with the recommendations and stated that they would work with the Department in developing a corrective action plan to address the recommendations.

### **OIG Comments**

While FWS management concurs with the recommendations and the Department indicated action was taken to address the recommendations, additional information is needed in the corrective action plan, including verification that FWS officials reviewed and approved of actions taken (or planned) by the State. The plan should also contain the (targeted) completion dates and titles of officials responsible for implementing the actions taken (or planned).

## **B. Unreported Program Income**

Grantees are permitted to earn program income with funds generated from grant-related activities, but they must account for it under an approved method. The Department earned program income but did not identify on grant applications or report on the financial status report (SF-269) all of the program income generated from grant-related activities. The unreported income was from activities conducted under grants W-93-D-9 and W-93-D-10 and included boat rentals on conservation area waters and barter agreements on conservation area lands. Under the barter agreements, the Department received services such as crops for wildlife, mowing, and bush hogging in lieu of lease payments for use of the conservation area lands.

Title 43 C.F.R. § 12.65 defines program income as gross income the grantee receives that is directly generated by a grant supported activity; it includes income from services performed and the sale of commodities. Part 12.65(g) requires grantees to deduct program income from total grant costs to determine the net costs, on which the federal share of the grant is then based (deductive method). With FWS approval, grantees may add program income to the project funds (additive method) or use it to meet the cost sharing or matching requirement of the grant agreement (cost-sharing or matching method). Also, FWS Director's Order 168, Exhibit 1, (recently incorporated into Service Manual Part 522 FW 19.4 and Exhibit 1) defines program income as income generated during the grant period that contribute to grant objectives on lands either purchased or managed with Federal Assistance Program funds.

A Department official stated that the Department did not identify the boat rental fees in the associated wildlife grant agreement as program income because Department personnel did not believe it was a grant-related activity. Since boating is an approved and accepted recreational activity at a facility that is operated and managed under a Federal

Assistance Program grant, the associated rental fees should be classified as program income, in accordance with the regulations. For SFYs 2004 and 2005 we identified \$94,793 of boat rental fees associated with grant W-93-D-9 (\$46,783) and grant W-93-D-10 (\$48,010).

We were also told that the Department did not report the value of its barter agreements as program income because they did not have a mechanism in place to collect and track these costs. Nevertheless, we believe that the value of those crops and services should be identified in the grant agreement and reported as program income. We believe the lease payments not received due to the barter agreements should be reported as outlays on the grant. Since the Department did not have an accounting procedure in place to value the barter services received, we were unable to quantify the unreported program income or associated outlays in this area.

### **Recommendations**

We recommend that the FWS:

1. resolve the issue of the unreported program income from boat rentals that occurred during SFYs 2004 and 2005;
2. ensure the Department identifies and reports as program income the revenues from boat rental fees on conservation areas managed with Federal Assistance Program funds; and
3. coordinate with the Department to (a) establish procedures to identify the barter transactions, along with the appropriate accounting and reporting of this agreement, in the grant application, and (b) appropriately report the value of crops received on the SF-269.

### **Department Response**

Department officials concurred with the recommendations and revised the grant documentation to include boat rentals as additional program income, effective January 2007. Department officials offset the additional program income with excess allowable costs reported on the grants. Officials also agreed to include boat rental fees as program income on the SF-269 for future grants. The Federal Aid Coordinator was the official responsible for implementation.

During SFYs 2004 and 2005, the Department did not have an effective mechanism in place to track barter transactions; Department officials therefore indicated that it was impossible for them to go back, after the fact, and determine what barter services were supplied and their corresponding value. The Department indicated that they have established procedures to track and report barter services received currently and in the future.

## **FWS Response**

FWS management concurred with recommendations one and two. FWS did not comment on recommendation three other than to note that a Federal-State Joint Policy Task Force is studying the issue of reporting barter transactions. FWS stated that they would work with the Department in developing a corrective action plan to address the recommendations.

## **OIG Comments**

We revised the draft report recommendations based on the Department's and FWS's responses. In the draft, we included a combined recommendation to resolve the issue of program income received for both boat rental fees and barter transactions. In this final report, we established separate recommendations for boat rentals and barter transactions because (1) the assessment by Department officials that they were unable to determine retrospectively what barter services were supplied and their corresponding value seems reasonable, and the barter income would have been offset by lease revenue not received; (2) Department officials indicated that they are taking action to address the issue of reporting barter income now and in the future; and (3) members of the Federal-State Joint Policy Task Force are studying the issue of reporting barter transactions.

While FWS management concurs with the recommendations one and two and Department officials indicated action was or is being taken to address these recommendations, additional information is needed in the corrective action plan on these recommendations, including verification that FWS officials reviewed and approved of actions taken or planned by the State, targeted completion dates, and titles of officials responsible for implementing the actions taken or planned.

FWS did not comment on recommendation three. We therefore consider the recommendation unresolved. FWS should provide a response to the recommendations indicating concurrence or non-concurrence. If the FWS concurs, officials should provide a plan that identifies the actions taken or planned to implement the recommendation, targeted completion date(s), the title of official(s) responsible for implementation, and verification that FWS officials reviewed and approved of actions taken or planned by the State. If FWS does not concur, officials should provide the reasons for the non-concurrence.

### **C. Insufficient Personal Property Management**

We examined personal property managed under the Department's personal property management system for tracking equipment purchased with Federal Assistance Program funding. We found some property items were missing, not tagged, or improperly disposed of, resulting in inaccurate inventory listings.

Title 50 C.F.R. § 80.19 requires the state to maintain current and complete property records in accordance with requirements in the Fish and Wildlife Service Manual and

OMB Circular A-102. Additionally, the Department's Business Policy Manual Inventory Section requires that property items with an original acquisition cost or fair market value of at least \$1,000 be identified by a unique numbered property tag and added to the Department's centralized inventory. Certain other sensitive or vulnerable items—such as firearms and digital cameras—must be similarly identified, regardless of cost. The Manual also states that any property item with some salvage value that has been replaced or is no longer needed must be transported to a Department maintenance shop for proper disposal. The Manual further requires that disposition and transfer of property be documented and reported to the state's Federal Assistance Coordinator if the property was purchased with Federal Assistance funding.

Using the Department's inventory listing, we examined property at nine sites<sup>2</sup> and the Department headquarters in Jefferson City. The inventory listing, generated from the Fleetwave Asset Management System maintained by the Department's Administrative Services Division, identified 151 equipment items valued at \$241,519 purchased between 1951 and 1999 with Federal Assistance Program funds. With the help of the Department's staff at each location, we inspected a judgmental sample of 75 items valued at \$127,578. Of the items sampled, we found:

- five items valued at \$4,785 that were not properly tagged,
- a freezer valued at \$5,236 for which the Department did not follow its equipment disposal procedures, and
- 32 firearms valued at \$9,983 and six other items (gun safe, two skeet machines, portable trap machine, rabbit trap, and projection microscope) valued at \$15,831 that were not coded as having been purchased with Federal Assistance Program funds.

Additionally, we could not locate eight items valued at \$11,289.

### **Recommendation**

We recommend that FWS ensures that the Department accurately updates the missing data in the Fleetwave Asset Management System, tags untagged items, and accounts for the missing items.

### **Department Response**

Department officials concurred with the recommendation and stated that effective January 2007:

- all items have been tagged,

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<sup>2</sup> Regional offices at St. Charles, Columbia, and Cape Girardeau; Resource Science Center; Busch Shooting Range; and Whetstone, Duck Creek, Otter Slough, and Ten Mile Pond Conservation Areas.

- the disposed-of freezer was deleted from the inventory system,
- the 32 firearms and five other items have been corrected on the property inventory to reflect the appropriate federal fund codes, and
- one of the six items identified as improperly coded, the rabbit trap, was not purchased with Federal Assistance Program funds.

Department officials also indicated that of the eight items that could not be found, two items were located and two items were sold in 2006 and have now been removed from the inventory. The remaining items, valued at \$7,085, have not yet been located. Of these items, Department officials consider one item, valued at \$1,510, lost. Department officials indicated they likely disposed of or replaced the remaining three items.

### **FWS Response**

FWS management concurred with the recommendation and stated that they would work with the Department in developing a corrective action plan to address the recommendation.

### **OIG Comments**

FWS management concurs with the recommendation and the Department indicated action was or is being taken to address the recommendation. We do note, however, that Department officials should update their inventory to include the status of all missing items. Additional information is also needed in the corrective action plan, including verification that FWS officials reviewed and approved of actions taken or planned by the State. The plan should also contain targeted completion dates and titles of officials responsible for implementing the actions taken or planned to resolve and implement the recommendation.

## Appendix 1

### MISSOURI DEPARTMENT OF CONSERVATION FINANCIAL SUMMARY OF REVIEW COVERAGE JULY 1, 2003, THROUGH JUNE 30, 2005

<b>Grant No.</b>	<b>Grant Amount<sup>3</sup></b>	<b>Reported Outlays</b>	<b>Questioned Costs</b>	<b>Federal Share</b>
F-1-R-53	\$175,271	\$118,243		
F-1-R-54	\$324,391	\$290,385		
F-42-E-19	\$1,053,249	\$1,027,410	\$3,150	\$2,362
F-42-E-20	\$978,140	\$852,603	\$386	\$289
F-46-D-10	\$445,300	\$401,189		
F-46-D-15	\$650,000	\$665,539		
F-46-D-18	\$150,000	\$157,824		
F-46-D-19	\$266,492	\$274,861		
F-46-D-20	\$80,000	\$83,138		
F-46-D-21	\$316,600	\$489,759		
F-46-D-22	\$1,261,986	\$1,124,448		
F-46-D-23	\$251,690	\$250,892		
F-46-D-24	\$73,115	\$104,953		
F-46-D-25	\$239,925	\$237,013		
F-46-D-26	\$335,929	\$383,073		
F-46-D-27	\$144,078	\$3,139		
F-46-D-28	\$106,404	\$0		
F-46-D-29	\$171,278	\$3,828		
F-49-D-5	\$679,353	\$586,234		
F-49-D-6	\$1,034,783	\$965,674		
F-50-D-6	\$4,916,872	\$4,425,612	\$13,316	\$9,987
F-50-D-7	\$4,254,789	\$4,580,180	\$22,792	\$17,094
F-51-L-1	\$463,000	\$462,875		
F-52-D-1	\$1,667,000	\$1,695,444		
W-100-L-1	\$0	\$0		
W-52-L-2	\$0	\$0		
W-93-D-10	\$9,248,346	\$10,990,920	\$304,930	\$228,698
W-93-D-9	\$8,560,112	\$11,069,157	\$278,242	\$208,682
W-95-E-3	\$1,495,782	\$2,083,348	\$12,053	\$9,040
W-95-E-4	\$1,561,019	\$2,250,755	\$8,427	\$6,320
W-96-L-2	\$0	\$0		
	<b>\$40,904,904</b>	<b>\$45,578,495</b>	<b>\$643,295</b>	<b>\$482,472</b>

<sup>3</sup> No Federal Assistance Program funding or expenditures were associated with grants W-100-L, W-52-L-2 and W-96-L-2.

**MISSOURI DEPARTMENT OF CONSERVATION  
SITES VISITED**

**Regional Offices**

St. Louis Regional Office, St. Charles  
Central Regional Office, Columbia  
Southeast Regional Office, Cape Girardeau

**Conservation Areas**

Whetstone Conservation Area  
Eagle Bluffs Conservation Area  
Duck Creek Conservation Area  
Otter Slough Conservation Area  
Ten Mile Pond Conservation Area

**Combined Areas**

August A. Busch Memorial Conservation Area and Shooting Range  
Blind Pony Conservation Area and Hatchery

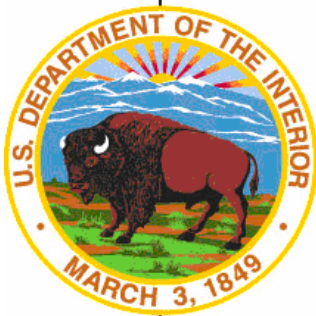
**Other Areas**

Resource Science Center  
Jackson Field Office  
Lexington Riverfront Park Access Ramp

**MISSOURI  
DEPARTMENT OF CONSERVATION  
STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

<b>Recommendations</b>	<b>Status</b>	<b>Action Required</b>
A.1, A.2.1, A.2.2, B.1, B.2, and C	FWS management concurred with the recommendations, but additional information is needed.	Additional information is needed in the corrective action plan, including the actions taken or planned to implement the recommendations, targeted completion date(s), the title of official(s) responsible for implementation, and verification that FWS officials reviewed and approved of actions taken or planned by the State. We will refer recommendations not resolved and/or implemented at the end of 90 days (after May 24, 2007) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.
B.3	Unresolved	FWS should provide a response to the recommendation indicating concurrence or non-concurrence. If the FWS concurs, provide a plan that identifies the actions taken or planned to implement the recommendation, targeted completion date(s), the title of official(s) responsible for implementation, and verification that FWS officials reviewed and approved of actions taken or planned by the State. If FWS does not concur, provide the reasons for the non-concurrence. We will refer recommendations not resolved and/or implemented at the end of 90 days (after May 24, 2007) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

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