



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

AUDIT REPORT

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

Report No. R-GR-FWS-0026-2005

June 2007



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230
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June 5, 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 Arizona, Department of Game and Fish, From July 1, 2003, Through June 30, 2005 (No. R-GR-FWS-0026-2005)

This report presents the results of our audit of costs incurred by the State of Arizona, Department of Game and Fish (Department), under grants awarded by the U.S. Fish and Wildlife Service (FWS). FWS provided the grants to the State under the Federal Assistance Program for State Wildlife Restoration and Sport Fish Restoration (Federal Assistance Program). The audit included claims totaling approximately \$33 million on six Federal Assistance Program grants that were open during the 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. However, we questioned costs totaling \$911,540 (federal share) and developed findings related to in-kind contributions, program income, and indirect costs.

We provided a draft of the report to FWS and the Department for response. We summarized Department and FWS Region 2 responses after each recommendation, as well as our comments on the responses. FWS stated they concur with the findings and recommendations and support the concepts proposed by the Department to resolve the findings and implement the recommendations. We list the status of each recommendation in Appendix 3.

Please respond in writing to the findings and recommendations included in this report by September 3, 2007. Your response should include information on actions taken or planned, targeted completion dates, and titles of the officials responsible for implementation.

If you have any questions regarding this report, please contact the Federal Assistance Coordinator, Mr. Chris Krasowski at 703-487-5375 or me at 703-487-5345.

cc: Regional Director, Region 2, U.S. Fish and Wildlife Service

Introduction

Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts)¹ established the Federal Assistance Program for State Wildlife Restoration and Sport Fish Restoration. Under the Federal Assistance Program, FWS provide grants to States to restore, conserve, manage, and enhance their sport fish and wildlife restoration programs. 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 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

Our audit objectives were to determine whether the Department:

- incurred the costs claimed under 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

The audit work included claims totaling approximately \$33 million on six FWS grants that were open during the SFYs ended June 30 of 2004 and 2005 (see Appendix 1). We performed our audit at Department headquarters in Phoenix, AZ. We also visited five wildlife areas, one fish hatchery, and one shooting range (see Appendix 2). We performed this audit to supplement, not replace, the audits required by the Single Audit Act Amendments of 1996 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 necessary under the circumstances. Our tests and procedures included:

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

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

- 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.

To the extent possible, we relied on the work of the Arizona Office of the Auditor General's Single Audit for SFY2004, 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 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 January 23, 2003, we issued our advisory report "Costs Claimed by the State of Arizona, Department of Game and Fish, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1998 through June 30, 2000." We followed up on all recommendations in the report and determined that the Department of the Interior, Office of the Assistance Secretary for Policy, Management and Budget considered them resolved and implemented.

We reviewed Arizona's Comprehensive Annual Financial Report and single audit report for SFY2004. The Sport Fish Restoration and Wildlife Restoration Programs were selected for compliance testing in the SFY2004 single audit report. The SFY2004 single audit report did not contain any findings that would directly impact FWS Federal Assistance grants.

Results of Audit

We found that the Department complied, in general, with applicable grant agreement provisions and requirements of the Acts, regulations, and FWS guidance. However, we discovered several conditions that resulted in the findings listed below. We discuss the findings in more detail in the Findings and Recommendations Section.

Questioned Costs. We questioned \$911,540 in costs (federal share), which were unallowable, overstated (or understated), out-of-period, or improperly claimed.

Inadequate Support for In-kind Contributions. Volunteer hours the Department used as the State matching share of grant costs were not certified, as required.

Improperly Reported Program Income. The Department reported program income using a method that was different from that specified in the grant agreement.

Potential for Diversion of License Revenue. The method used by the Department to account for indirect costs creates the potential for a diversion of license revenue.

Findings and Recommendations

A. Questioned Costs

We summarize questioned costs in the table below, and then discuss them in detail.²

	Grant FW-100-P-11	Grant FW-100-P-12	Total	Federal Share
Unallowable PIPP Costs	\$289,233	\$302,090	\$591,323	\$396,057
Overstated or Understated Equipment Costs	149,754	148,834	298,588	200,064
Out-of Period Costs	162,385	241,680	404,065	269,931
Improperly Claimed Leave Payout Costs	47,267	0	47,267	32,142
Improperly Charged Direct Costs	6,000	6,000	12,000	8,040
Overstated Costs	0	7,000	7,000	4,620
Improperly Charged Bookkeeping Costs	1,009	0	1,009	686
	\$655,648	\$705,604	\$1,361,252	\$911,540

Table 1. Summary of Questioned Costs by Category and Grant

² Based on the Department response to the draft report, we recalculated the questioned costs. For comprehensive grant agreement FW-100-P-11, the federal share is 68 percent federal and FW-100-P-12 is 66 percent.

1. Unallowable Costs Incurred Under the Performance-Based Incentive Program — \$396,057

The Department claimed costs incurred for activities that are not allowable under the grants. The Department performed these activities under the authority of its Performance-Based Incentive Program Plan (PIPP), which involves establishing projects or programs to promote the efficiency and effectiveness of the State Government. Managers believed that PIPP activities benefited the Department and the Federal Assistance Program grants and, therefore, that charges related to PIPP programs and projects were allowable. They did not assess whether individual charges related to PIPP programs or projects were allowable under or allocable to the grants.

Charging PIPP activities to Federal Assistance grants is not necessarily prohibited. However, the Department claimed costs for enforcing laws related to boaters, obtaining funding from alternative sources, and increasing agency marketing effectiveness. For example, the Department received reimbursement from Federal Assistance Program grant funds of \$1,585 for a law enforcement activity implemented under the PIPP. Regulations specifically prohibit federal reimbursement for such activities. The Department also claimed costs for increasing building and lighting efficiency and for improving the helicopter procurement and billing process. Since such activities benefit more than one program, they would normally be charged as indirect costs and not be charged directly to a Federal Assistance Program grant.

The Code of Federal Regulations (50 C.F.R. §§ 80.15, 80.16, respectively) specify that:

Allowable costs are costs that are necessary and reasonable for accomplishment of approved project purposes and are in accordance with the cost principles of OMB Circular A-87 [recently codified at 2 C.F.R. § 225].

Payments shall be made for the Federal share of allowable costs incurred by the State in accomplishing approved projects.

In addition, 50 C.F.R. § 80.6 specifically prohibits federal reimbursement for both law enforcement activities conducted by the State to enforce the fish and game regulations and for public relations activities conducted to promote the State fish and game agency. Finally, OMB Circular A-87, Attachment E, states, “Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective....”

We could not determine the allowability or allocability of each PIPP-related transaction cost charged to Federal Assistance Program grants because of the number of individual transactions within projects. Therefore, we questioned the total claimed PIPP costs of \$591,323 (\$396,057 federal share) for SFYs 2004 (\$289,233) and 2005 (\$302,090).

Recommendations

We recommend that FWS:

1. resolve the questioned cost of \$396,057,
2. require the Department to analyze the PIPP transactions to determine which projects and activities supporting the claimed PIPP payments are allowable under and allocable to Federal Assistance Program grants, and
3. require the Department to establish procedures for determining which PIPP projects and activities are allowable under and allocable to Federal Assistance Program grants.

Department Response

Department officials do not concur with the recommendations. They emphasized that they do not base PIPP payments on individual tasks an employee performs, and therefore do not allocate the payments by task. Rather, they base PIPP payments charged to Federal Assistance Program grants on the amount of time an employee who receives a PIPP payment spent working on the grant throughout the year. Therefore, officials believe that they allocate costs associated with the PIPP compensation program appropriately to all Department funding sources.

FWS Response

FWS Region 2 management concurs with the finding and recommendations and supports the concepts proposed by the Department to resolve and implement the recommendations.

OIG Comments

We understand the State's assertion that because they based PIPP payments on overall employee performance and not specific tasks, they can allocate the payments to Federal Assistance Program grants. However, the State measures employee performance based on specific types of activities. Federal regulations and FWS policy prohibit some of these activities from being charged to the grants. While the employees to whom the State paid PIPP payments did charge some of their time under Federal Assistance Program grants, the performance indicators measured and used to justify the payments were in some cases for activities unallowable under federal regulations. For example, one measure of performance that resulted in a PIPP payment (\$1,389 of which was reimbursed under a grant) involved enforcing laws prohibiting off-highway vehicle and boat users from operating the vehicles while under the influence. Such law enforcement activities are not allowable uses of grant funds. The Department also received reimbursement of \$1,715 to pay for a PIPP award justified based on a performance measure for outreach activities. The activities involved increasing the effectiveness of employees at marketing Department achievements through

the media. Such marketing activities are also unallowable charges under the grants.

The Department may only request reimbursement for PIPP payments that are justified using performance measures for activities that are allowable charges to the grants under Federal laws and regulations and FWS guidance.

FWS Region 2 management concurs with the recommendations, but additional information is needed in the corrective action plan, including the actions taken or planned; targeted completion dates; titles of the officials responsible for implementation; and verification that FWS headquarters officials reviewed and approved of actions.

2. Overstated or Understated Equipment Costs — \$200,064

The Department charged grants for equipment using rates that it developed based on the prior year's actual operating costs. This method is acceptable if the Department accounts for any overstatement or understatement of costs by adjusting the current grant to reflect actual costs or adjusting the following year's rate to account for over-recovery or under-recovery of costs. However, we found the Department did not take either of these steps. Therefore, the Department may have overstated or understated equipment costs for SFYs 2004 and 2005.

As covered in Finding A.1 above, 50 C.F.R. § 80.15 defines allowable costs, and 50 C.F.R. § 80.16 addresses payments for the federal share of allowable costs. In addition, OMB Circular A-87, Attachment A, Section C, states that — to be allowable under federal awards — costs must be allocable to the awards and adequately documented.

The Department had not established a procedure to ensure that the amounts recovered for equipment at fiscal year-end reflected the actual equipment costs for the fiscal year. We were unable to determine whether the Department overstated or understated costs, and are, therefore, questioning claimed equipment costs of \$298,588 (\$200,064 federal share) for SFYs 2004 (\$149,754) and 2005 (\$148,834).

Recommendations

We recommend that FWS require the Department to:

1. resolve the questioned costs of \$200,064,
2. adjust the equipment charges to FWS grants for SFYs 2004 and 2005 based on actual costs incurred, and
3. develop and implement policies and procedures to ensure that charges made to grants for equipment reflect actual costs.

Department Response

Department officials concur with the audit finding. They propose to resolve the questioned costs by amending the SFYs 2004 and 2005 Financial Status Report (SF-269). The amendment will reduce the equipment charges to the grant. The Department plans to offset those reduced charges with other eligible costs it incurred that were not previously charged to the grants. Officials indicated that they would work with FWS Federal Assistance Program personnel before reconciling the equipment charges. In addition, officials indicated that they developed and implemented procedures, which include a process to ensure that they charge actual equipment costs to grants. The Special Services Division, Office of Finance and Accounting, Finance and Accounting Branch Chief developed the procedures.

FWS Response

FWS Region 2 management concurs with the recommendations and supports the concepts proposed by the Department to resolve the findings and implement the recommendations.

OIG Comments

FWS Region 2 management concurs with the recommendations, but additional information is needed in the corrective action plan, including verification that FWS headquarters officials reviewed and approved of actions taken by the Department. The plan should also contain the actions taken or planned, including documentation on the new procedure for charging equipment and actions taken to reconcile the questioned costs; targeted completion dates; and titles of the officials responsible for implementation.

3. Out-of-Period Costs — \$269,931

The Department claimed costs of \$404,065 (\$269,931 federal share) that were incurred outside the grant periods of two grants. These costs consisted of labor and fringe benefits, unexpended advances, and grazing lease costs.

Specifically, on grants FW-100-P-11 and FW-100-P-12, which ended on June 30 of 2004 and of 2005, respectively, the Department claimed the following out-of-period costs.

- **\$365,089** in labor and fringe benefits charged for pay periods that included days outside the grant period. The incorrectly charged pay periods were those that ended July 4, 2003 (reflecting \$146,530 in out-of-period costs on grant FW-100-P-11) and July 2, 2004 (\$218,559 in out-of-period costs on grant FW-100-P-12).

- **\$37,336** for unexpended advance payments to the U.S. Post Office for future services on grants. The advance payments resulted in unexpended advance balances at the end of the grant periods, including \$15,855 for FW-100-P-11 and \$21,481 for FW-100-P-12.
- **\$1,640** for grazing lease costs billed in March 2005 that were for leasing fees for the period July 1, 2005, through March 14, 2006. The grant period of FW-100-P-12 ended June 30, 2005.

We summarize the questioned out-of-period costs in the table below.

	Grant Number FW-100-P-11	Grant Number FW-100-P-12	Total	Federal Share
Labor and fringe	\$146,530	\$218,559	\$365,089	\$243,889
Unexpended Advances	15,855	21,481	37,336	24,959
Grazing leases	0	1,640	1,640	1,083
	\$162,385	\$241,680	404,065	\$269,931

Table 2. Questioned Out-of-Period Costs by Grant

Title 43 C.F.R. § 12.63(a) prohibits a grantee from charging costs that result from obligations incurred outside of the funding period.

The Department charged out-of-period costs because it did not have procedures in place to identify and eliminate such expenditures.

Recommendations

We recommend that FWS:

1. resolve the questioned costs of \$269,931 and
2. require the Department to establish policies and procedures to prevent claiming costs incurred outside of the grant period.

Department Response

Department officials did not agree with the finding regarding labor and fringe benefit charges outside the grant period. However, they plan to amend the Financial Status Report for both SFYs 2004 and 2005 to:

- charge only labor and fringe benefit costs incurred within each grant period for each fiscal year and
- reduce charges to the grants for the advance payments and grazing leasing costs.

The officials indicated they would offset the reduced charges for out-of-period costs with other eligible costs that the Department incurred and were not previously charged to the grants. In addition, officials indicated that the Director's Office of Funds and Planning, Funds Planning Manager, implemented a written policy and procedure to ensure that labor and fringe benefit costs are charged within the grant period.

FWS Response

FWS Region 2 management concurs with the recommendations and supports the concepts proposed by the Department to resolve the findings and implement the recommendations.

OIG Comments

FWS Region 2 management concurs with the recommendations, but additional information is needed in the corrective action plan, including verification that FWS headquarters officials reviewed and approved of actions taken by the Department. The plan should also contain the actions taken or planned, including documentation on the new procedure for charging equipment and actions taken to reconcile the questioned costs; targeted completion dates; and titles of the officials responsible for implementation.

4. Improperly Claimed Leave Payout Costs — \$32,142

The Department improperly claimed \$47,267 (\$32,142 federal share) as a direct cost for unused annual leave payments on grant FW-100-P-11.

According to OMB Circular A-87 (since codified as 2 C.F.R. § 225), Attachment B.8.d(3), an agency that uses the cash basis of accounting should recognize the cost of leave in the period the leave is taken and paid. To be allowable in the year of payment, unused leave paid to retiring and departing employees must be allocated as a general administrative expense to all activities of the agency.

The Department used the cash basis of accounting but did not allocate leave payouts as a general administrative expense to all activities. Rather, it charged such payouts directly to the grant.

Recommendations

We recommend that FWS:

1. resolve the questioned cost of \$32,142 and
2. require the Department to establish policies and procedures to prevent leave payouts from being claimed as direct charges to Federal Assistance Program grants.

Department Response

Department officials plan to amend the Financial Status Report for both SFYs 2004 and 2005 to deduct the charges for improperly claimed leave payout. The officials plan to offset the reduced charges with other eligible costs that the Department incurred and were not previously charged to the grants. In addition, officials stated the Director's Office of Funds and Planning established a Departmental policy and procedure to comply with OMB Circular A-87, Attachment B.8.d(3).

FWS Response

FWS Region 2 management concurs with the recommendations and supports the concepts proposed by the Department to resolve the findings and implement the recommendations.

OIG Comments

FWS Region 2 management concurs with the recommendations, but additional information is needed in the corrective action plan, including verification that FWS headquarters officials reviewed and approved of actions taken by the Department. The plan should also contain the actions taken or planned, including documentation on the new procedure for charging equipment and actions taken to reconcile the questioned costs; targeted completion dates; and titles of the officials responsible for implementation.

5. Improperly Charged Direct Costs — \$8,040

The Department must have an indirect cost rate approved by an authorized agency for each year it claims indirect costs. It prepares an indirect cost rate proposal, which it submits to the agency for approval. The Department improperly claimed \$12,000 (\$8,040 federal share) as direct costs for the development of its indirect cost rate proposal. In addition, according to Department officials, the Department used indirect cost rates on programs other than those funded by Federal Assistance Program grants.

The preparation and development of an indirect cost rate proposal is normally treated as an indirect cost since it is used for the recovery of indirect costs. OMB Circular A-87, Attachment E (recently codified as 2 C.F.R. § 225), supports this treatment. As stated previously, this Circular defines indirect costs as those that are incurred for common or joint purposes and that benefit more than one cost objective.

Recommendations

We recommend that FWS:

1. resolve the questioned costs of \$8,040 and

2. ensure the Department charges development of future indirect cost rate proposals as an indirect cost.

Department Response

Department officials plan to amend the SFYs 2004 and 2005 Financial Status Reports to reduce the amounts charged to the grants for development of the indirect cost rate proposal. The officials plan to offset the reduced charges with other eligible costs that the Department incurred and were not previously charged to the grants. In addition, officials indicated the Department established a policy and procedure to comply with OMB Circular A-87, Attachment E, effective in SFY2007.

FWS Response

FWS Region 2 management concurs with recommendations and supports the concepts proposed by the Department to resolve the findings and implement the recommendations.

OIG Comments

FWS Region 2 management concurs with the recommendations, but additional information is needed in the corrective action plan, including verification that FWS headquarters officials reviewed and approved of actions taken by the Department. The plan should also contain the actions taken or planned, including documentation on the new procedure for charging equipment and actions taken to reconcile the questioned costs; targeted completion dates; and titles of the officials responsible for implementation.

6. Overstated Costs — \$4,620

The Department did not credit grant FW-100-P-12 for the \$7,000 received (\$4,620 federal share) from the disposal of a vehicle originally purchased with Federal Assistance Program funds.

The requirements for disposal of property are included in 43 C.F.R. § 12.72(e)(2). This regulation allows grantees to sell items of equipment that grant funds purchased. It also requires that grantees credit the awarding agency for the agency's share of the current market value or sale price of the equipment.

The Department Operating Manual, Section E, Chapter 2, provides the procedures and policies that implement the federal requirement. However, the Department had not followed the procedure related to the disposition of monies from asset sales. As a result, the Department had not credited grant FW-100-P-12 for the \$7,000 received from the disposal of equipment purchased with Federal Assistance funds. It, therefore, overstated reported costs on the grant.

Recommendations

We recommend that FWS:

1. resolve the questioned costs of \$4,620 and
2. ensure the Department complies with its procedures on the sale of equipment.

Department Response

Department officials plan to amend the Financial Status Report for SFY2005 to credit the amount received for the vehicle. In addition, officials indicated the Director's Office of Funds and Planning, in conjunction with the Special Services Division, Finance and Accounting Office will monitor compliance with the Departmental policy relating to this issue.

FWS Response

FWS Region 2 management concurs with the recommendations and supports the concepts proposed by the Department to resolve the findings and implement the recommendations.

OIG Comments

FWS Region 2 management concurs with the recommendations, but additional information is needed in the corrective action plan, including verification that FWS headquarters officials reviewed and approved of actions taken by the Department. The plan should also contain the actions taken or planned, targeted completion dates, and titles of the officials responsible for implementation.

7. Improperly Charged Bookkeeping Costs — \$686

The Department has treated bookkeeping services inconsistently with other accounting expenditures. The Department factored accounting expenditures such as bookkeeping into its indirect cost rate proposal. The Department also claimed direct costs of \$1,009 (\$686 federal share) for bookkeeping services.

Regulations require that costs be treated consistently to be allowable under federal awards (see OMB Circular A-87 (recently codified as 2 C.F.R. § 225), Attachment A, Section C(1)(f), Factors affecting allowability of costs). In other words, once a cost has been allocated to a federal grant as indirect, a cost claimed for the same purpose in a like circumstance may not be assigned to the grant as a direct cost.

Therefore, we question the costs for bookkeeping services. The Department would have already recovered these costs through the indirect cost rate.

Recommendations

We recommend that FWS:

1. resolve the questioned costs of \$686 and
2. ensure departmental staff are aware of and follow the requirements of 2 C.F.R. § 225.

Department Response

Department officials plan to amend the Financial Status Report SF-269 for SFY2004 to reduce the amount charged to the grants for bookkeeping services. Officials did not comment on recommendation 2.

FWS Response

FWS Region 2 management concurs with the recommendations and supports the concepts proposed by the Department to resolve the findings and implement the recommendations.

OIG Comments

FWS Region 2 management concurs with the recommendations, but additional information is needed in the corrective action plan, including the actions taken or planned; targeted completion dates; titles of the officials responsible for implementation; and verification that FWS headquarters officials reviewed and approved of actions taken.

B. Inadequate Support for In-kind Contributions

Under Federal Assistance Program grants, FWS may reimburse a State up to 75 percent of grant expenditures, provided the State expends the required matching share of grant costs. When a State uses third party in-kind contributions to meet its matching share, regulations require that the contributions be verifiable from grantee records and that, to the extent feasible, the grantee support volunteer services by the same method used to support regular personnel costs (see 43 C.F.R. § 12.64(b)(6)). The Department used volunteer hours to provide its State matching share, but did not require each volunteer to certify his or her hours claimed, although it does require employees to certify their hours claimed.

We tested volunteer hours claimed under grant FW-100-P-12 for performing hunter education in May and June of 2005. Of the 519 hours reported, we found that 359 were not certified by a signature of the volunteer involved. On grants FW-100-P-11 and -12, the Department claimed in-kind matching volunteer hours totaling \$183,417 and \$203,569, respectively. For the in-kind match related to the grant's hunter education project, the Department documented the volunteer hours on a form titled "Hunter Education Instructor Activity Report." This form provides space for a listing of the

individual volunteer instructors who assist in the course and a single signature for the chief instructor.

Department officials were not aware of the requirement to provide certified time sheets for volunteer hours. They stated that they did not comply with this regulatory requirement because their methodology has not been questioned in the past.

Recommendation

We recommend that FWS require the Department to establish and implement procedures for volunteers to certify the hours they work.

Department Response

Department officials indicated they established a Departmentwide policy and procedure on the use and documentation of volunteer hours. In addition, they indicated that an individual staff member is responsible solely for monitoring and data collection of volunteer hours. They added that any volunteers hours utilized for the State match will be properly documented.

FWS Response

FWS Region 2 management concurs with the recommendation and will consider the finding resolved and implemented when they review the revised Department procedures to verify the procedures ensure the volunteers certify the hours they work.

OIG Comments

FWS Region 2 management concurs with the recommendation, but additional information is needed in the corrective action plan, including verification that FWS headquarters officials reviewed and approved of actions taken by the Department. The plan should also contain the actions taken or planned, including documentation of the policy and procedure established to address the recommendation; targeted completion dates; and titles of the officials responsible for implementation.

C. Improperly Reported Program Income

The Department improperly reported program income in two instances. First, aircraft operated using Federal Assistance Program grant funds were rented to other agencies, but the rental fees were not reported as program income. The Department used the aircraft rental income to offset grant expenditures by crediting reported grant outlays in an amount equal to the rental revenues. As a result, the Department did not report aircraft revenues totaling \$74,425 on grant FW-100-P-11 or \$109,698 on grant FW-100-P-12.

Second, the Department received program income from a shooting range but did not use the grant agreement-specified method of reporting it. Instead of using the additive method to report this income, the Department mistakenly used the deductive method.

According to Title 43 C.F.R. § 12.65(b), program income is gross income the grantee receives that is generated by a grant supported activity or earned during the grant period only as a result of the grant agreement. Grantees ordinarily deduct program income from total allowable costs to determine the net allowable costs (deductive method). The grantor may allow the grantee to use program income to 1) meet the cost sharing or matching requirement or to 2) add to the project funds (additive method).

We are not questioning the costs related to the reporting of program income. The Department credited current-year grant expenditures with the aircraft revenues, and expended the shooting range program income on grant activities.

Recommendations

We recommend that FWS require the Department to:

1. report aircraft rental revenues that are directly supported by the grant as program income and
2. report program income in compliance with the grant agreement.

Department Response

Department officials indicated that they will report aircraft rental revenues that are supported by the grant as program income. In addition, they plan to implement a quality review process to ensure they report program income properly.

FWS Response

FWS Region 2 management concurs with the recommendations and supports the concepts proposed by the Department to resolve the finding and implement the recommendations.

OIG Comments

FWS Region 2 management concurs with the recommendations, but additional information is needed in the corrective action plan, including verification that FWS headquarters officials reviewed and approved of actions taken by the Department. The plan should also contain the actions taken or planned, targeted completion dates, and titles of the officials responsible for implementation.

D. Potential for Diversion of License Revenue

The Department used license fee revenues — in part — to pay indirect costs and received reimbursement from Federal Assistance Program grant funds for the expenses. Because the Department originally financed the costs with license revenue, the reimbursements should have been treated as license revenue and expended in accordance with applicable regulations. However, the Department deposited the reimbursement into a fund called

the Indirect Cost Recovery Fund. There are no limitations on allowable uses of this Fund, which created the possibility of a diversion of license revenue.

Title 50 C.F.R. § 80.4 states that hunting and fishing license fee revenues must not be diverted from administration of the State fish and wildlife agency. Section 80.4(a)(4) states that when license revenues originally funded project costs, Federal Assistance project reimbursements for those costs should be treated as license revenue.

The Arizona General Accounting Office (GAO) required the Department to transfer all federal grant indirect cost reimbursements to the Indirect Cost Recovery Fund. However, it did not establish regulations limiting their use when funded with license revenues. We found that all uses of the Indirect Cost Recovery Fund were for administration of the Department. Nevertheless, without regulations, the possibility exists that the Fund may be used for other types of activities.

Recommendation

We recommend that FWS require the Department to work with the Arizona GAO to establish regulations that ensure reimbursements for indirect costs that were originally funded with license fees are used only for Department administration.

Department Response

Department officials plan to seek assistance from the Arizona GAO to establish a policy and procedure to ensure reimbursements for indirect costs originally funded with license fees are used for the administration of the Department. In the interim, officials indicated the Funds Planning Manager will document a policy and procedure utilizing the Arizona GAO Accounting Manual standards.

FWS Response

FWS Region 2 management concurs with the recommendation and supports the concepts proposed by the Department to resolve and implement the recommendation. FWS will work with the Department to develop procedures to preclude such findings in the future. The resolution and documentation will be included in the Corrective Action Plan.

OIG Comments

FWS Region 2 management concurs with the recommendation, but additional information is needed in the corrective action plan including the actions taken or planned; targeted completion dates; titles of the officials responsible for implementation; and verification that FWS headquarters officials reviewed and approved of actions.

Appendix 1

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

Grant Number	Grant Amount	Claimed	Questioned Costs	Federal Share
FW-100-P-11	\$15,247,003	\$15,672,213	\$655,648	\$445,841
FW-100-P-12	15,750,617	15,173,756	705,604	465,699
F-19-D-17*	1,115,459	812,176		
F-19-D-18	1,097,351	900,512		
F-19-D-19*	1,120,505	428,389		
F-19-D-20*	1,126,053	345,706		
	\$35,456,988	\$33,332,752	\$1,361,252	\$911,540
*Interim Financial Status Report (SF-269)				

**ARIZONA DEPARTMENT OF GAME AND FISH
SITES VISITED**

Headquarters

Phoenix, Arizona

Wildlife Areas

Arlington

Base Meridian

Cluff Ranch

Raymond Ranch

Robbins Butte

Fish Hatcheries

Page Springs

Shooting Range

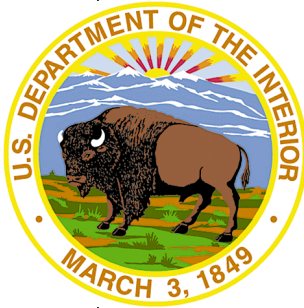
Ben Avery

Appendix 3

ARIZONA DEPARTMENT OF GAME AND FISH STATUS OF AUDIT FINDING AND RECOMMENDATIONS

Recommendations	Status	Action Required
A1.1, A1.2, A1.3, A2.1, A2.2, A2.3, A3.1, A3.2, A4.1, A4.2, A5.1, A5.2, A6.1, A6.2 A7.1, A7.2, B, C.1, C.2, and D	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 the official(s) responsible for implementation, and verification that FWS officials reviewed and approved of actions taken or planned by the Department. We will refer the recommendations if not resolved and/or implemented at the end of 90 days (after September 3, 2007) 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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