



**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 Washington,
Department of Fish and Wildlife,
From July 1, 2004, Through June 30, 2006**

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

July 2007



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230
Reston, Virginia 20191

July 27, 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 Program Grants Awarded to the State of Washington, Department of Fish and Wildlife, From July 1, 2004, Through June 30, 2006 (No. R-GR-FWS-0002-2007)

This report presents the results of our audit of costs incurred by the State of Washington (State), Department of Fish and Wildlife (Department), under grants awarded by the U.S. Fish and Wildlife Service (FWS). The 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 claims totaling approximately \$34.5 million on the grants awarded for State fiscal years (SFYs) 2005 and 2006 (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 reporting of program income.

We found that the Department complied, in general, with applicable grant accounting and regulatory requirements. However, we questioned \$211,339 (federal share) and developed findings related to in-kind contributions and program income.

We provided a draft of the report to FWS and the Department for response. We summarized Department and FWS Region 1 responses after each recommendation, as well as our comments on the responses. FWS stated they would work with the Department when preparing the corrective action plan. We list the status of each recommendation in Appendix 3.

Please respond in writing to the findings and recommendations included in this report by October 25, 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 established the Federal Assistance Program for State Wildlife 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 hunting and fishing license revenues be used only for the administration of the State fish and wildlife 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 if 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

Audit work included claims totaling approximately \$34.5 million on 43 FWS grants that were open during SFYs 2005 and 2006 (see Appendix 1). We performed our audit at Department headquarters in Olympia, WA, and visited four wildlife areas (WLAs) and two fisheries-related locations (see Appendix 2). We performed this audit to supplement, not replace, the audits required by the Single Audit Act Amendments of 1996 and by Office of Management and Budget Circular A-133.

Methodology

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

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

- examining the evidence that supports selected expenditures charged to the grants by the Department;
- reviewing transactions and supporting documentation related to purchases, other direct costs, drawdowns of reimbursements, and 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;
- determining whether the Department used hunting and fishing license revenues solely for sport fish and wildlife program purposes; and
- determining whether the State passed required legislation assenting to the provisions of the Acts.

To the extent possible, we relied on the work of the State Auditor, which helped us 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 assessment, we assigned a level of risk to these systems and selected a judgmental sample of transactions recorded in those systems for testing. We did not project the results of tests to the total population of recorded transactions or evaluate the economy, efficiency, or effectiveness of Department operations.

Prior Audit Coverage

On March 31, 2004, we issued, “Audit Report, U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the State of Washington, Department of Fish and Wildlife from July 1, 2000, through June 30, 2002” (Report No. R-GR-FWS-0029-2003). We followed up on all recommendations in the report and found that the Department of Interior, Office of the Assistant Secretary for Policy, Management and Budget (PMB) considered all but one resolved and implemented.

The unresolved recommendation relates to the method the Department used to charge certain overhead costs to the grants. As reported in the prior audit, employee fringe benefit costs, including annual and sick leave, were incorrectly charged during the month the leave was taken rather than when it was earned. We recommended that the Department charge employee leave in accordance with how employees earn the leave or to develop a system to charge and allocate leave using an overhead cost pool.

In their response to our draft report, the Department indicated they are in the process of modifying Departmental systems and processes. The modified systems and processes will charge leave to federal projects when employees earn the leave. FWS indicated they will

monitor the Department's progress in implementing our recommendation and that the targeted implementation date is May 2008. We referred all recommendations from our prior audit to PMB for tracking, so the Department and FWS should report to PMB the actions taken.

We reviewed Washington's Comprehensive Annual Financial Report and Single Audit Report for SFY2005. The Department's Federal Assistance Programs were not selected for compliance testing in the SFY2005 single audit. Further, the SFY2005 Single Audit Report did not contain any findings that would directly impact the Department's Federal Assistance Program grants.

Results of Audit

Audit Summary

We found that the Department complied, in general, with applicable grant agreement provisions and requirements of the Acts, regulations, and FWS guidance. However, we identified several conditions that resulted in the findings listed below, including \$211,339 (federal share) in questioned costs. We discuss these findings in more detail in the Findings and Recommendations section.

Questioned Costs. We questioned as unsupported \$282,362 in costs claimed as the State matching share of costs under the Department's aquatic education grants. Of this amount, we calculated a federal share of \$211,339.

Unreported Program Income. The Department had not reported all program income generated on lands within the WLAs managed with Federal Assistance Program funds. The Department earned the unreported program income from barter transactions and from a timber harvest.

Findings and Recommendations

A. Questioned Costs: Unsupported In-Kind State Matching Share — \$211,339

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. The Department used third-party in-kind (non-cash) contributions of \$143,998 on Aquatic Education Grant F-91-AE-19 and \$179,029 on Aquatic Education Grant F-91-AE-20 to meet the State matching requirement. The contributions consisted of volunteer hours. The Department did not comply with all applicable regulations in claiming the value of these hours as its matching share of expenditures under the grant.

When a State uses third party in-kind contributions to meet its matching share of expenditures, 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 (43 C.F.R. § 12.64(b)(6)). The regulations (43 C.F.R. § 12.64 (c)(2)) also state that when an employer other than the grantee donates the services of an employee in the normal line of work, the grantee should value the services at the employee's regular rate of pay. The grantee should not include the employee's fringe benefit rate and overhead costs in the valuation.

We tested the support for the hours claimed as in-kind match and found that the Department maintained adequate support for event volunteers. The Department's remaining claimed in-kind match consisted primarily of teacher and elementary school student classroom hours, for which the Department did not have adequate support. The Department did not value teacher's hours at the employee's regular rate of pay, exclusive

of the employee's fringe benefit rate and overhead costs, as required under federal regulations. Additionally, the hours claimed were based on estimated rather than actual hours volunteered. Finally, with the exception of event volunteers, the Department's method for documenting volunteer hours claimed as in-kind match did not require each volunteer to certify his or her hours claimed, although the Department does require its employees to certify their hours worked.

As a result, we are questioning the following costs as unsupported:

	Grant Number F-91-AE-19	Grant Number F-91-AE-20	Total
Claimed	\$143,998	\$179,029	\$323,027
Supported Hours for Event Volunteers	\$17,046	\$23,619	\$40,665
Questioned as Unsupported	\$126,952	\$155,410	\$282,362
Federal Share	\$94,781	\$116,558	\$211,339

Table 1. Summary of Questioned Costs by Grant

Department employees were not aware of the requirement to provide certified timesheets for its volunteer hours. Additionally, according to Department officials, the FWS approved the teacher and student volunteer hours to be used as the State matching share. However, we questioned as unsupported the entire amounts of teacher and student hours claimed because we were not provided data on the teacher's regular rates of pay, the hours were based on estimated rather than actual hours, and each volunteer was not required to verify his or her hours volunteered.

Subsequent to our audit fieldwork, Department officials told us that they agreed with the finding and were in the process of providing support to FWS to resolve this issue.

Recommendations

We recommend that FWS:

1. resolve the \$211,339 of in-kind matching costs questioned as unsupported,
2. require the Department to establish and implement procedures requiring volunteers to certify their claimed in-kind hours worked, and
3. require the Department to establish and implement procedures to value in-kind hours claimed for paid teachers' classroom hours in accordance with applicable federal regulations.

Department Response

Department officials propose using a “results-based” approach to support the in-kind contributions claimed. The contributions involved teachers and students rearing fish eggs in the classroom. The officials determined, in consultation with experienced hatchery staff, that each project completed by a classroom takes a baseline of 40 hours. They also indicated that the hourly rate for the staff position that is responsible for rearing fish eggs is \$21.77. For each completed project, they therefore calculated in-kind match of \$870.80 (40 hours multiplied by \$21.77 per hour). Department officials reported 439 completed projects for grants F-91-AE-19 and F-91-AE-20 by counting the number of classrooms that returned planting records, for a total of \$382,280 in in-kind contributions.

FWS Response

FWS management concurred with the recommendations and stated that the Department’s response to recommendation one is reasonable and applicable. They stated that the Department did not directly address recommendations two and three, but that they will address any outstanding issues in the corrective action plan.

OIG Comments

FWS regional management concurred with the recommendations and the Department indicated action was taken to address recommendation one. Additional information is needed in the corrective action plan, including:

- actions taken or proposed to address recommendations two and three;
- targeted completion dates;
- titles of officials responsible for the actions taken or planned to resolve and implement the recommendations; and
- verification that FWS headquarters officials reviewed and approved of actions taken or planned by the State to address recommendations one, two, and three.

B. Unreported Program Income

Federal regulations allow grantees to earn income as a result of grant-supported activities, but the grantee must account for the income in an approved manner. The Department did not report all of the program income it generated on lands within WLAs managed and maintained with Federal Assistance Program funds, as required under federal regulations. The Department earned the unreported program income through barter transactions and a “salvage” sale of timber that burned during a wildfire on forested land in the WLA.

According to 43 C.F.R. § 12.65(b), program income is gross income a grantee receives that is generated by a grant supported activity or earned only as a result of the grant

agreement. Under Section 12.65(g), grantees normally deduct program income from the total allowable costs to determine the net allowable costs. The grantor may allow the grantee to use an alternative to account for program income. Also, as specified in the FWS Manual (522 FW 19, Exhibit 1), program income includes income generated during the grant period from the harvest of assets—such as timber or hay—that contribute to grant objectives on lands purchased or managed with Federal Assistance Program funds. The Manual (522 FW 19.8) also specifies that an excess program income balance may be applied, as appropriate, to a subsequent grant that has purposes consistent with the grant that generated the excess program income.

The Department entered into barter arrangements to support activities conducted under grants W-94-D-22 and W-94-D-23. The Department issued agreements in which farmers who lease tillable acreage of a WLA left a portion of their crop in the field for the benefit of wildlife, in lieu of paying for the use of the land. Since the crops serve as payment for use of the land, their value should be reported and accounted for as program income. A Department official told us that he did not report the value of the crops as program income because he was not aware that the barter arrangements were to be treated as such. The official also stated that he did not know how to value and report the income on the Financial Status Report (SF-269), which summarizes expenditure activity over the grant period. Finally, he stated that the Department does not have procedures to identify barter transactions, or to account for and report this type of arrangement.

In addition, the Department received income from the sale of timber after a wildfire on the William T. Wooten WLA, which is managed and maintained with funds provided under grants W-94-D-22 and W-94-D-23. Although the Department reported as program income the portion of revenue that was received from the timber sale and then disbursed in 2006, it had not reported on the grant's SF-269 about \$2.1 million in program income that had not yet been disbursed. It had not been disbursed because the Department could not expend all of the program income it earned on the grant during the grant period.

Department officials did include in the final amendment to the grant agreement narrative related to the additional program income from the timber harvest, and similar narrative in a performance report that they prepared for the FWS on grant activities. However, program income should be reported on the SF-269. Department officials stated that earning program income under one grant period that is disbursed after the grant period ends is unique, and they were not aware of the specific reporting requirements on the SF-269 for such an arrangement.

Although we recognize the difficulty in valuing barter income and the unique situation regarding program income that is not disbursed during the grant period, proper reporting of all program income will help ensure that these revenues are used to benefit program purposes.

Subsequent to our audit fieldwork, Department officials told us that they agreed with the finding and were in the process of providing support to FWS to resolve this issue.

Recommendations

We recommend that FWS:

1. resolve the issue of the unreported program income from the barter transactions that occurred during the audit period;
2. require the Department to report on the SF-269 the unreported program income from the timber harvest on the William T. Wooten WLA; and
3. coordinate with the Department to establish procedures to (a) identify the barter transactions and the appropriate accounting and reporting of this arrangement in the grant application, and (b) appropriately report the value of the crops received.

Department Response

Department officials concurred with the recommendations. They revised the SF-269 for grant W-94-D-23 so it now includes all program income from the timber harvest. In addition, officials indicated they will report all future program income earned from barter transactions.

FWS Response

FWS regional management concurred with the recommendations and stated that the Department has addressed recommendations one and two by submitting the revised SF-269. However, the Department did not yet issue a policy. FWS will address any outstanding issues in the corrective action plan.

OIG Comments

The Department submitted a revised SF-269 for grant W-94-D-23 to address the unreported program income from the timber sale, but did not indicate that the revision includes program income from barter transactions. FWS should determine whether the revised SF-269 adequately addresses recommendation one.

Additionally, while FWS management concurs with the recommendations and the Department indicated action was or is being taken to address them, additional information is needed in the corrective action plan, including:

- targeted completion dates,
- titles of officials responsible for the actions taken or planned to resolve and implement the recommendations, and
- verification that FWS headquarters officials reviewed and approved of actions taken or planned by the State.

**WASHINGTON DEPARTMENT OF FISH AND WILDLIFE
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2004 THROUGH JUNE 30, 2006**

Grant Number	Grant Amount	Costs Claimed¹	Questioned Costs	
			Total (Unsupported)	Federal Share
F-43-D-48	\$83,851	\$30,407		
F-43-D-49	62,823	20,229		
F-84-B-19	1,111,005	1,111,005		
F-84-B-20	1,088,000	1,088,000		
F-85-B-15	422,040	89,746		
F-91-AE-19	575,992	574,262	\$126,952	\$94,781
F-91-AE-20	716,117	716,117	155,410	116,558
F-97-R-17	52,231	51,022		
F-97-R-18	52,231	52,231		
F-97-R-19	54,074	54,060		
F-112-R-11	2,042,920	2,014,651		
F-112-R-12	2,214,700	2,033,037		
F-112-R-13	3,245,302	2,985,640		
F-122-B-3	88,374	68,324		
F-123-D-3	949,865	742,493		
F-123-D-4	985,865	470,883		
F-124-D-3	1,708,651	1,700,714		
F-124-D-4	1,708,651	1,687,359		
F-125-D-2	297,724	197,852		
F-125-D-3	436,559	436,559		
F-125-D-4	440,439	439,211		
F-126-R-2	47,907	31,970		
F-126-R-3	57,939	53,737		
F-126-R-4	47,733	47,733		
F-127-R-1	1,086,552	1,027,794		
F-127-R-2	1,076,007	1,076,007		
F-127-R-3	1,376,504	1,358,141		

¹ Represents total outlays shown on the financial status reports (SF-269).

**WASHINGTON DEPARTMENT OF FISH AND WILDLIFE
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2004, THROUGH JUNE 30, 2006**

Grant Number	Grant Amount	Costs Claimed¹	Questioned Costs	
			Total (Unsupported)	Federal Share
F-129-E-1	245,636	200,459		
FW-2-T-22	585,401	585,401		
FW-2-T-23	617,230	608,587		
W-41-D-54	673,650	673,650		
W-41-D-55	600,000	600,000		
W-42-L-53	255,130	255,130		
W-42-L-54	255,129	255,129		
W-83-HS-34	709,343	712,145		
W-83-HS-35	836,403	765,822		
W-94-D-22	1,812,701	1,812,661		
W-94-D-23	2,252,052	2,252,052		
W-96-R-13	2,417,422	2,415,092		
W-96-R-14	2,921,448	2,921,448		
W-98-E-3	153,220	94,250		
W-98-E-4	106,666	95,824		
W-98-E-5	66,666	66,666		
Totals	\$36,538,153	\$34,473,500	\$282,362	\$211,339

¹ Represents total outlays shown on the financial status reports (SF-269).

**WASHINGTON DEPARTMENT OF FISH AND WILDLIFE
SITES VISITED**

Headquarters

Olympia

Wildlife

Asotin Wildlife Area
Klickitat Wildlife Area
Mt. St. Helens Wildlife Area
William T. Wooten Wildlife Area

Fisheries

Region 5, Vancouver
Eells Springs Hatchery, Shelton

Appendix 3

WASHINGTON DEPARTMENT OF FISH AND WILDLIFE STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS

Recommendations	Status	Action Required
A.1, A.2, A.3, B.1, B.2, B.3	FWS management concurs with the recommendations but additional information is needed, as outlined in the "Action Required" column.	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 headquarters 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 October 25, 2007) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

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