



**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 New Jersey,  
Department of Environmental Protection,  
Division of Fish and Wildlife,  
From July 1, 2004, Through June 30, 2006**

**Report No. R-GR-FWS-0010-2007**

**December 2007**



# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230  
Reston, VA 20191

December 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 on the U.S. Fish and Wildlife Service Federal Assistance Program Grants Awarded to the State of New Jersey, Department of Environmental Protection, Division of Fish and Wildlife, From July 1, 2004, Through June 30, 2006 (No. R-GR-FWS-0010-2007)

This report presents the results of our audit of costs incurred by the State of New Jersey (State) Department of Environmental Protection (Department), Division of Fish and Wildlife (Division), 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 \$16.9 million on 31 grants that were open during State fiscal years (SFYs) ended June 30 of 2005 and 2006 (see Appendix 1). The audit also covered Division 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 Division complied, in general, with applicable grant accounting and regulatory requirements. We also identified issues that require FWS attention, including \$80,116 of unreported program income and inadequate management of land and equipment.

We provided a draft report to the FWS and the Division for response. We summarized the Division and the FWS Region 5 responses after each recommendation, as well as our comments on the responses. FWS concurred with our recommendations and stated they would consider the Division's comments in their 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 March 4, 2008. 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 Mr. Tom Nadsady, the team lead, or me at 703-487-5345.

cc: Regional Director, Region 5, 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 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 if the Department:

- claimed the costs incurred 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 \$16.9 million on the 31 grants that were open during SFYs 2005 and 2006 (see Appendix 1). We report only on the conditions that existed during this audit period. We performed our audit at Division headquarters in Trenton, NJ, and visited 1 fish hatchery, 16 wildlife management areas (WMAs), 2 regional offices, 1 fishing lake, and 1 game farm (see Appendix 2). We performed this audit to supplement, not replace, the audits required by the Single Audit Act Amendment 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and

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<sup>1</sup> 16 U.S.C. §§ 669 and 777, as amended, respectively.

conclusions based on our audit objectives. We tested records and conducted auditing procedures as necessary under the circumstances. We believe that the evidence obtained from our tests and procedures provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our tests and procedures included:

- examining the evidence that supports selected expenditures charged to the grants by the Department;
- reviewing transactions related to purchases, direct costs, indirect 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 inspect equipment and other property;
- determining whether the Division 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 relevant work of the State of New Jersey Office 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 assessments, we assigned a level of risk to these systems and selected a judgmental sample of transactions recorded in them for testing. We did not project the results of the tests to the total population of recorded transactions or evaluate the economy, efficiency, or effectiveness of Department operations.

## **Prior Audit Coverage**

On March 15, 2005, we issued “U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the State of New Jersey Department of Environmental Protection, Division of Fish and Wildlife from July 1, 2001 to June 30, 2003” (Report No. R-GR-FWS-0010-2004). We followed up on the status of the 21 recommendations in the report and found 12 of the recommendations are considered resolved but unimplemented. As identified below, the open recommendations relate to the following areas:

- improving controls to ensure grants are not improperly charged for labor and non-labor costs and that in-kind contributions are adequately supported;

- ensuring the Division properly reports program income;
- recovering proceeds from the sale of vehicles that were originally purchased with Federal Assistance Program funds;
- improving equipment management; and
- improving the payroll system to ensure the Division correctly charges payroll costs to the grants.

Our current audit scope included the areas covered in the prior audit. Where conditions exist that need improvement, we reported them in the Findings and Recommendations section of this report. We repeat one prior audit recommendation to improve controls over equipment. The remaining findings in this report differ significantly enough from those reported in the prior audit to warrant new recommendations. The new recommendations do not eliminate the need for the State and FWS to document and report the status of the prior audit recommendations to the Department of Interior, Office of the Assistant Secretary for Policy, Management and Budget.

We reviewed the State's most recent SFY2005 Comprehensive Annual Financial Report and Single Audit Report. Our review of the Single Audit Report found that the Division's Sport Fish and Wildlife Program grants were not considered major programs and were assessed a low risk. In addition, we reviewed the results of the Department's property audit for SFY2006. The audit reported that \$112,686 worth of Division equipment that was listed on the Department inventory could not be found.

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## Results of Audit

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### Audit Summary

We found that the Division 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. We discuss the findings in more detail in the Findings and Recommendations section.

**Unreported Program Income.** The Division did not report all the program income it earned from activities on lands managed with Federal Assistance Program funds.

**Inadequate Land Management.** The Division needs to improve its land records and determine whether several non-wildlife uses of land purchased with federal funding are appropriate.

**Inadequate Equipment Management.** We found several untagged equipment items that were not located on the Division's inventory and one mistagged item.

### Findings and Recommendations

#### A. Unreported Program Income

Grantees are permitted to earn income as a result of grant activities, but must account for the income in a manner approved by the FWS. The Division earned income from commercial activities and agricultural leases on WMAs operated and maintained with Federal Assistance Program funds. The funds were provided under Statewide Development Grants FW-63-D-20 and FW-63-D-21, which supported the operation and maintenance of the Division's WMAs and work at its two hatcheries. The Division earned revenues of \$136,116 from the commercial activities and an unknown amount from agricultural leases. The Division did not report all of this income to FWS.

The Code of Federal Regulations (43 C.F.R. § 12.65) defines program income as gross income a grantee receives that is "directly generated by a grant-supported activity." Grantees may earn such "program" income from grant-related activities, but federal regulations (50 C.F.R. § 80.14(c)) require grantees to report such income to FWS. The FWS Manual, Section 522.19, Exhibit 1 provides further clarification on the types of activities the FWS considers program income. It includes in its list income from fees charged for using facilities purchased or managed with Federal Assistance Program funds, income they receive from contractor provided services, and other income that is directly generated by a grant-supported activity.

#### Commercial activities

On the areas maintained with grant funding, the Division earned in SFYs 2005 and 2006:

- \$77,937 from leases for communication towers, house rentals, a hydroelectric plant and marinas;
- \$40,462 from the sale of horseback riding permits;
- \$15,138 from dog trials; and
- \$1,203 from special rent and \$1,376 from clubhouse rent.

The Division earned \$80,116 of this revenue during the grant period for FW-63-D-20, but did not report any of this income to FWS on the grant's financial status report (SF-269), which summarizes expenditure activity for the grant. Additionally, the Division identified \$28,575 in anticipated program income in the FW-63-D-21 grant agreement. However, the State accounting system identified \$56,000 in income earned from leases, horseback riding permits, field trials, and special and clubhouse rent while grant FW-63-D-21 was active.

#### Agricultural leases

The Division also failed to report all barter transactions that occurred on lands within the WMAs managed and maintained with Federal Assistance Program funds under grants FW-63-D-20 and FW-63-D-21. The barter transactions allow farmers to grow crops on WMAs in exchange for leaving a portion of the crops for wildlife. The gross value of the crops is barter income and should be reported as program income.

We also identified problems with the reporting of program income in our 2004 audit. A Division official told us they did not estimate program income for FW-63-D-20 because they were still writing the corrective action plan to address the prior audit. They did not have enough time to make the changes to the 2005 grant documents. They have not yet submitted the SF-269 to FWS for grant FW-63-D-21. A Division official told us that she did not report the value of the crops as program income because she was not aware that the barter arrangements were to be treated as such.

Division management agreed with the finding, and they are currently working with FWS to identify what types of income should be reported. Proper identification and reporting of program income will help the Division and FWS to ensure the program income is used for the purposes of the grant agreement, as required.

#### **Recommendations**

The FWS should work with the Division to:

1. determine whether the \$80,116 earned on areas managed under FW-D-20 is program income, and, if so, a) revise the SF-269, b) ensure the income was used as required, and c) resolve any portion of the program income that was not used appropriately;

2. determine what portion of the \$56,000 identified in the accounting system as income from various activities on the WMAs should be reported as program income on the SF-269 for FW-D-21, and ensure the Division accounts for and uses it appropriately; and
3. establish procedures that ensure the Division reports on the financial status reports those barter arrangements that support grant objectives.

### **Division Response**

#### **Commercial activities**

Division officials agree with the finding that they did not report all program income. They note that we identified unreported program income in a finding in the prior audit (No. R-GR-FWS-0010-2004). They indicated that they did not have sufficient time to implement actions in the corrective action plan from the first audit before this audit began. Officials have been working with the FWS Regional Office to resolve the problem and have developed a proposal for resolution that is awaiting FWS approval.

#### **Agricultural leases**

Division officials believe the recommendation related to barter should be considered closed, noting that FWS officials indicated in October 2007 that FWS would develop a new policy that requires States to disclose barter transactions on financial status reports, but not to report them as program income.

### **FWS Response**

The FWS Region 5 concurred with the recommendations and stated that the Division's response will be considered in the preparation of the corrective action plan.

### **OIG Comments**

FWS regional officials concurred with recommendations A.1, A.2, and A.3, and Division officials developed a proposal for the reporting of program income from commercial activities. However, Division officials did not adequately address the recommendation to establish procedures to ensure barter agreements would be reported on financial status reports.

For these three recommendations, the corrective action plan should also include:

- action(s) taken or planned by the State,
- targeted completion dates,



- titles of the officials responsible for the implementation, and
- verification the FWS headquarters officials reviewed and approved of actions taken.

## **B. Inadequate Land Management**

Federal Regulations (50 C.F.R. § 80.19) require each State to maintain complete property records and to follow the records requirements in the Federal Aid Manual and OMB Circular A-102. Under 50 C.F.R. § 80.18(c), the Division is responsible for controlling all assets and assuring they serve the purpose for which acquired. To test the Division's compliance with these requirements as they pertain to land, we reviewed four sets of land records: those contained in the State Department of Treasury Land and Building Asset Management System (LBAMS), those contained in a database maintained by the Division, those maintained by FWS, and supporting documentation maintained by the Division. The supporting records include documents such as land acquisition maps, appraisals, deeds, correspondence, and accounting transactions. We also visited several WMAs and other sites.

We identified the following problems with the land records:

- There is a difference between the total acres recorded in LBAMS as Division land and the acres recorded in the Division database. The LBAMS includes 58,947, or 23 percent, fewer acres than those in the Division database.
- There are differences between FWS records, the Division database, and supporting records. We reviewed information for six FWS grants that the State used to purchase land and found:
  - The Division database identifies land purchased at Oyster Creek, Ocean County, under FWS grant F-55 as a State-funded purchase.
  - The Division database failed to identify 9 of the 193 tracts of land purchased with funding from the FWS grants as purchased with Federal Assistance Program funds.

During our site visits, we also identified the following uses of land purchased with grant funds.

- At the Assunpink WMA, the Division issued a permit for the use of 10 acres of land for a model airplane facility.
- Greenwood WMA contains a Federal Aviation Administration (FAA) facility for which there is no lease.

- There are 16 billboards on WMAs, which is a commercial non-wildlife use of the WMAs. The Department of Environmental Protection (DEP) Commissioner developed a draft policy for managing billboards on DEP property. It recommends removing billboards on all WMAs except Greenwood and Absecon.

The FWS manual (522 FW 22.6(B)) authorizes States to allow commercial activities on land acquired with Federal Assistance Program funds. The manual (522 FW 22.7) also specifies that the State fish and wildlife agency has the primary responsibility for ensuring commercial activities do not interfere with the purposes for which they were acquired and that the FWS may review or inspect the activities to ensure compliance.

A Division official told us the differences among land records maintained by the State, Division, and FWS generally result from lack of personnel to perform adequate monitoring of land management activities, in particular due to additional lands they must monitor that were purchased under the State's Green Acres program. He also told us the lack of a lease for the FAA facility was an inadvertent oversight. He added that 12 of the 16 billboards were on the land when it was acquired and were never removed and 4 were added after the land was acquired. Finally, it was suspected that the deed to the property upon which the model airplanes are flown allowed this activity.

If the State does not have the most accurate and recent information on all of the Division's land, it may understate the value of State assets in its Comprehensive Annual Financial Report. Additionally, without accurate records the Division cannot ensure accountability and control of land purchased with Federal Assistance Program funds. Finally, the Division must ensure that non-wildlife activities on the land do not interfere with the original purpose for which land was acquired.

### **Recommendations**

The FWS should work with the Division to ensure it:

1. reconciles its land records with the State LBAMS and with FWS records;
2. determines whether the use of lands for model airplanes and the FAA station interfere with the purposes for which the land was acquired and should be allowed to continue; and
3. determines whether the billboards should be removed to comply with State policy, when the policy is finalized.

### **Division Response**

Division officials agree with the finding and noted that the differences between the State LBAMS and the Division records will be an ongoing problem since there is no staff available to update LBAMS regularly. It stated that the Division has made progress reconciling its records to those of the FWS Region 5.

The Division stated it would research historical records regarding model airplane use at Assunpink WMA. It has initiated contact with the FAA regarding the lease for the station and stated it would probably take several months to complete and that Department lawyers are working on a resolution to the billboards on WMAs.

### **FWS Response**

The FWS Region 5 concurred with our recommendations and stated that the Division's response will be considered in the preparation of the corrective action plan.

### **OIG Comments**

FWS Region 5 concurred with the recommendations, and Division officials indicated they are taking actions to address the recommendations. We note that while we understand the State has staffing shortages, accurate land records are an important internal control to ensure the State maintains control over its lands.

The corrective action plan should include:

- the action(s) taken or planned,
- targeted completion dates,
- titles of the officials responsible for the implementation, and
- verification the FWS headquarters officials reviewed and approved of actions taken.

## **C. Inadequate Equipment Management**

As discussed in the land management finding above, federal regulations (50 C.F.R. §§ 80.18(c) and 80.19) require the State to maintain control of its assets and keep accurate records on them. In addition, Department Policy and Procedure No. 1.17 requires physical assets (defined as anything costing over \$1,000) to be tagged with a sticker. It also directs the Division to assign an employee to perform duties of the Division Inventory Control Coordinator. To test compliance with these policies, we reviewed the Department's equipment inventory and physically inspected a sample of equipment during site visits. We found several conditions the Division should address to improve controls over its equipment.

We found in our last audit (Report No. R-GR-FWS-0010-2004) that the Department did not identify the source of funding for equipment listed on the inventory. We determined the same condition existed during our current audit. While the inventory contains sufficient information to trace the source of funding for each piece of equipment to a separate database, it does not allow for easy identification of the funding source. The

Department therefore cannot readily ensure its equipment is being used for the originally intended purposes, as required under 50 C.F.R. § 80.18(c).

Additionally, we judgmentally tested 32 items with a value of \$462,768<sup>2</sup> from the Department's inventory. We determined by tracing an identification number associated with the equipment to the funding source (contained in a separate database) that the 32 items were purchased either with license revenue or an unknown source of funds. We verified all the items were located at their recorded location and were being used for their intended purposes, but we noted a problem with one item's identification in the inventory. At the Hackettstown Hatchery, the identification tag on a fertilizer sprayer was marked "129627." The hatchery maintained an inventory that assigned that number to a seeder. The Department's inventory assigned that number to a Storr tractor.

We also found four additional items in the field that the Department did not list on its inventory. Specifically,

- At Collier's Mill WMA:
  - Two fuel tanks and two pumps (plumbed together as a unit) did not have identification tags, and we could not find them on the Department's inventory list.
  - A Ford 5000 tractor and a Ford 4000 tractor did not have identification tags, and we could not find them on the Department's inventory list.
- At the Whitingham WMA, a safe marked "FN Security USA" did not have a State inventory identification tag and was not listed on the Department inventory.

A Division official stated the deficiencies listed above result from the lack of a designated Inventory Control Coordinator and inventory control procedures.

Finally, we note that in 2006, the State's General Services office conducted a physical inventory of the Division's equipment, and the office identified \$112,686 worth of equipment that was listed on the Department inventory but was missing. The Division had not located these assets at the time of our audit. While only one missing item was purchased with Federal Assistance Program funding, the missing equipment indicates that the Department has inadequate controls over its assets.

Without adequate controls, the Division cannot ensure that assets purchased with Federal Assistance Program funds are utilized solely for fish and wildlife purposes. We repeat one open recommendation below from our prior audit, pertaining to identifying the funding source for equipment, and make two new recommendations. Implementation of the repeat recommendation will be tracked under the audit follow-up process for the prior report.

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<sup>2</sup> The total Division inventory totaled \$10.4 million and included 1,438 items.

### **Repeat Recommendation**

We recommend that FWS require the Division to modify the official equipment inventory listing to include the amount or percentage of Federal Assistance [Program] participation in each equipment item (Recommendation E.3. from Report No. R-GR-FWS-0010-2004).

### **New Recommendations**

The FWS should work with the Division to ensure the Division:

1. designates an Inventory Control Coordinator and
2. establishes inventory control procedures.

### **Division Response**

The Division agrees with the finding and noted that an employee has been designated as the inventory control coordinator and will establish and update inventory control procedures.

### **FWS Response**

The FWS Region 5 concurred with the recommendations and stated that the Division's response will be considered in the preparation of the corrective action plan.

### **OIG Comments**

FWS Region 5 concurred with the recommendations, and the Division's designation of an Inventory Control Coordinator and establishment of inventory control procedures should adequately address the audit recommendations. However, additional information is needed in the corrective action plan including:

- the action(s) taken or planned,
- targeted completion dates,
- titles of the officials responsible for the implementation, and
- verification the FWS headquarters officials reviewed and approved of actions taken (including documentation on procedures developed).

## Appendix 1

**NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION  
DIVISION OF FISH AND WILDLIFE  
FINANCIAL SUMMARY OF REVIEW COVERAGE  
JULY 1, 2004 THROUGH JUNE 30, 2006**

<b>Grant Number</b>	<b>Grant Amount</b>	<b>Claimed Costs</b>
F-15-R-46	\$1,068,768	\$1,512,436
F-15-R-47	1,268,800	1,274,944
F-15-R-48	1,068,800	843,112
F-48-R-18	216,500	226,911
F-48-R-19	200,000	151,511
F-48-R-20	200,000	166,975
F-50-D-19	800,000	800,037
F-50-D-20	800,000	800,019
F-50-D-21	800,000	800,648
F-52-E-17	170,000	189,605
F-52-E-18	175,000	192,195
F-52-E-19	180,000	202,781
F-52-E-20	180,000	173,787
F-69-D-12	304,564	447,259
F-69-D-13	304,564	732,765
F-69-D-14	327,200	643,628
F-69-D-15	358,939	72,759
F-72-D-1	604,000	143,777
FW-49-C-33	129,000	234,162
FW-49-C-34	130,000	253,956
FW-49-C-35	130,000	209,688
FW-56-T-30	325,000	311,847
FW-56-T-31	325,000	257,342
FW-63-D-20	1,480,267	2,340,790
FW-63-D-21	1,690,842	1,645,481
FW-69-R-8	65,929	137,136
FW-69-R-9	65,929	85,971
W-50-S-33	773,333	649,286
W-50-S-34	773,333	715,653
W-68-R-9	1,013,333	939,279
W-68-R-10	1,013,333	940,685
	<u>\$16,942,434</u>	<u>\$18,096,425</u>

**NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION  
DIVISION OF FISH AND WILDLIFE  
SITES VISITED**

**Headquarters**

Trenton

**Regional Offices**

Northern Regional Office for Land Management at  
Whitingham WMA

Southern Regional Office at Winslow WMA

**Wildlife Management Areas**

Assunpink East  
Assunpink West  
Berkshire Valley  
Buckshutem  
Clark Pond  
Collier's Mill  
Columbia  
Greenwood  
Manchester  
Port Republic  
Sedge Island  
Sparta Mountain  
Turkey Swamp  
Van Nest  
White Lake  
Winslow

**Other**

Hackettstown Hatchery  
Oyster Creek (a future boat ramp), Ocean County  
Prospertown Lake  
Rockport Game Farm, Hackettstown

## Appendix 3

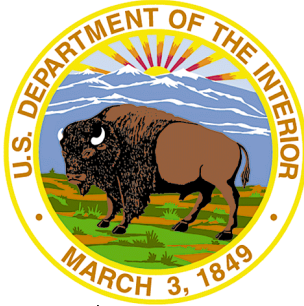
**NEW JERSEY  
DEPARTMENT OF ENVIRONMENTAL PROTECTION  
DIVISION OF FISH AND WILDLIFE**

**STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

<b>Recommendations</b>	<b>Status</b>	<b>Action Required</b>
A.1, A.2, A.3, B.1, B.2, B.3, C.1 and C.2	FWS management concurs with the recommendations, but additional information is needed as outlined in the “Actions 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 titles of official(s) responsible for implementation of each recommendation, and verification that FWS 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 March 4, 2008) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.



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