



**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 Iowa,  
Department of Natural Resources,  
From July 1, 2004, Through June 30, 2006**

**Report No. R-GR-FWS-0012-2007**

**January 2008**



# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230  
Reston, Virginia 20191

January 25, 2008

### 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 Iowa, Department of Natural Resources,  
From July 1, 2004, Through June 30, 2006 (No. R-GR-FWS-0012-2007)

This report presents the results of our audit of costs incurred by the State of Iowa (State), Department of Natural Resources (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 \$30,532,951 on 24 grants that were open during State fiscal years (SFYs) ended June 30 of 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 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 \$293,377 (federal share) and developed findings related to in-kind contributions, unreported program income, and the certification of hunting and fishing licenses.

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

Please respond in writing to the findings and recommendations included in this report by April 24, 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 the audit team leader, Mr. Zane Michael, or me at 703-487-5345.

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

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## Introduction

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### Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts)<sup>1</sup> established the Federal Assistance Program for State Wildlife Restoration and Sport Fish Restoration. Under the Federal Assistance Program, FWS provides grants to States to restore, conserve, manage, and enhance their sport fish and wildlife resources. The Acts and federal regulations contain provisions and principles on eligible costs and allow FWS to reimburse 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 \$30,532,951 on the 24 grants that were open during SFYs 2005 and 2006 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at Department headquarters in Des Moines, IA, and visited three wildlife management units, six wildlife management areas, one fish hatchery, two fish research stations, and two other sites (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.

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

## **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 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, 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;
- 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 of Iowa Office of Auditor of State, 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 these systems 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 July 29, 2004, we issued “U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the State of Iowa, Department of Natural Resources from July 1, 2000, through June 30, 2002” (Report No. R-GR-FWS-0022-2003). Based on the Corrective Action Plan provided to us by the Fish and Wildlife Service, we determined that all recommendations were

resolved and implemented. We did not refer any recommendations to the Department of the Interior, Office of Policy, Management and Budget for tracking.

We reviewed Iowa's Comprehensive Annual Financial Reports and Single Audit Reports for the SFYs ended June 30 of 2005 and 2006. None of these reports contained any findings that would directly impact the Department's Federal Assistance Program grants or programs under the grants. In addition, the Department's Sport Fish Restoration and Wildlife Restoration Programs were not selected for compliance testing in either the SFY2005 or 2006 Single Audits.

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## Results of Audit

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### 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 questioned costs totaling \$293,377. We discuss the findings in more detail in the Findings and Recommendations section.

**Questioned Costs.** The Department did not have adequate support for some costs used to meet the requirement that the State expend 25 percent of grant costs using non-federal funds. As a result, we questioned \$293,377 in costs.

**Unreported Program Income.** The Department did not account for all program income earned from activities on lands managed with Federal Assistance Program funds.

**Counts of Lifetime License Holders Potentially Over-Reported.** The Department may have included ineligible lifetime licenses in its 2004 certification of the number of license holders in the State. Over-reporting the number of license holders could lead the State to receive a larger apportionment of Federal Assistance Program funds than it is entitled to receive.

### Findings and Recommendations

#### A. Questioned Costs — \$293,377

Under the provisions of the Department's hunter education grants (W-114-S-36 and W-114-S-37), the Department must expend 25 percent of grant costs using non-federal funds. Department officials used the value of volunteer instructor hours (in-kind contributions) to provide this "State matching share" of costs on its hunter education program grants. The officials claimed \$189,889 as in-kind matching contributions for Grant W-114-S-36 and \$201,280 for Grant W-114-S-37.<sup>2</sup> The Department did not have adequate support for these in-kind hours claimed.

The Department recorded hours volunteered on instructor report forms (report forms). To comply with the Code of Federal Regulations (C.F.R.), each volunteer should have certified his or her hours worked, because Department employees certify their timesheets. Specifically, 43 C.F.R. §12.64(b)(6) requires States to adequately document third-party in-kind contributions that are used to meet the matching requirement and, to the extent feasible, to support volunteer services "by the same methods that the organization uses to support the allocability of regular personnel costs." However, according to a Department

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<sup>2</sup> Department officials reported that they accumulated \$425,064 of in-kind contributions for grant W-114-S-36 and \$426,953 for grant W-114-S-37, and claimed a portion of these contributions as the required State matching share.

employee, the Department required only conservation officers to sign the report forms. We were told that the conservation officers do not even always attend the classes. The Department did not have a policy or procedures to require signatures on the report forms from volunteer instructors or the Chief Firearms instructor, who supervised the classes.

We were unable to review all supporting documentation to determine whether the Department had adequate support for the hours claimed or for the hours recorded in excess of those needed for the State match. Reviewing all support would have been prohibitively time-consuming because it was on microfilm that included 99 State counties and it contained information on more than the hunter education grants. However, for SFY2005, we judgmentally selected and reviewed report forms for 5 of 99 counties in Iowa that covered various reporting periods. We confirmed that volunteer instructors did not sign the time reporting sheets. We also found inconsistencies in how the conservation officers were signing the report forms, including:

- a conservation officer signature that was preprinted and
- report forms missing the conservation officer signature.

Unless officials can provide adequate support for the in-kind contributions, they must use the actual costs incurred and reported as cash outlays to meet the State matching requirement. We therefore questioned 25 percent of cash outlays that were claimed for federal reimbursement.

<b>Grant Number</b>	<b>Federal Share Claimed (Reimbursement for Cash Outlays)</b>	<b>Cash Outlays Necessary to Meet State Matching Requirement (Questioned Costs)</b>	<b>Revised Allowable Federal Share</b>
<b>W-114-S-36</b>	\$569,668	\$142,417	\$427,251
<b>W-114-S-37</b>	\$603,839	\$150,960	\$452,879
<b>Total</b>		<b>\$293,377</b>	

**Table 1. Questioned Costs**

The Department needs to strengthen its process over in-kind contributions claimed to meet the State matching share of costs on its hunter education program grants.

## **Recommendations**

We recommend FWS require the Department to:

1. provide additional documentation to support the in-kind contributions for SFYs 2005 and 2006 or, if they cannot, resolve the questioned federal share of \$293,377; and
2. develop written policy and procedures that require volunteer instructors to sign their timesheets.

### **Department Response**

Department officials did not concur with the recommendations. They agreed that some of the reports were not properly signed by a conservation officer. However, they do not believe that the costs should be questioned because of the missing signatures. The Department has documentation to demonstrate that the classes were held, students were trained, and the number of hours spent on the courses by instructors. Officials stated they are addressing the problem by creating a new electronic records system that will require each instructor to certify the hours listed on the reporting form. Officials indicated the Hunter Education coordinator will consult with the FWS to ensure the system meets applicable requirements.

### **FWS Response**

FWS regional officials concurred with the recommendations and stated that they would work with the State to develop a corrective action plan that will resolve all of the findings.

### **OIG Comments**

While FWS management concurs with the recommendations and Department officials indicated they are taking action to correct the problem in the future, additional information is needed in the corrective action plan. The plan should include:

- the specific actions taken or planned to resolve and implement each recommendation,
- targeted completion dates,
- titles of officials responsible for implementing the actions taken or planned to resolve and implement each recommendation, and
- verification that FWS officials reviewed and approved of actions taken or planned by the Department.

## **B. Unreported Program Income**

Federal regulations allow grantees to earn income from activities funded with grant monies, but require that they account for the income in an approved manner. The Department did not report all program income generated on lands within the wildlife management areas that were managed and maintained with Federal Assistance Program funds under grants FW-43-D-37 and FW-43-D-38. The Department earned the unreported program income through barter transactions.

The Department engaged on an annual basis in barter transactions under 350 agriculture leases. Under one type of barter transaction, the farmers agree to leave a portion of their



crop in the field for the benefit of wildlife, in lieu of paying cash for the use of the land. The Department did not report the value of any of the crops left for wildlife as program income on the financial status reports (SF-269) for the affected grants. Under a second type of barter transaction, the farmers' payments for use of the land also included both cash and services. The services performed by the farmers were intended to improve and maintain wildlife habitats. The Department reported on the SF-269 only the cash received, not the value of services. The Department should have reported both.

Under 43 C.F.R. § 12.65, program income is defined as *gross* income received by the grantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period (emphasis added). The regulations also require a grantee to report the program income in the method specified by the grantor. The FWS Manual (522 FW 19.4, Exhibit 1) requires grantees to report income they receive from contractor-provided services that support grant objectives on lands purchased or managed with Federal Assistance Program funds. Exhibit 1 specifically mentions income from agriculture producers and the harvest of assets—such as timber or hay—as potential program income.

Agency staff did not report program income earned or received from barter transactions during the period of our review for crops because they were not aware such arrangements were generating barter income for the Department. We were also told that the value of the barter for the services provided was not reported as program income because the Department was not aware of how much barter was occurring at the wildlife areas.

We believe the value of crops and services received in lieu of lease payments should be reported as program income. Any associated costs should be reported as outlays, rather than deducted from the gross value of the services. Although we recognize the difficulty in valuing barter income, proper reporting of all program income will help ensure that these revenues are used to benefit program purposes.

## **Recommendations**

We recommend that FWS:

1. resolve the issue of the unreported program income from the barter transactions that occurred during the audit period; and
2. coordinate with the Department to establish procedures to (a) identify the barter transactions and the appropriate accounting and reporting of this arrangement in future grant applications, and (b) appropriately report the value on future SF-269s.

## **Department Response**

Department officials concurred with the recommendations. To address the recommendations, they proposed amending the financial status reports and discontinuing barter practices when the current lease agreements expire. Officials indicated that staff from the Department of Budget and Finance will amend the financial status reports by

March 31, 2008. Program staff will amend the grant narrative to ensure bartering ceases, as the lease agreements expire.

### **FWS Response**

FWS regional officials concurred with the recommendations and stated that they would work with the State to develop a corrective action plan that will resolve all of the findings.

### **OIG Comments**

The Department has provided corrective actions it plans to take, targeted completion dates, and titles of officials responsible for implementation. When FWS submits the corrective action plan, it should contain this information, as well as verification that FWS officials reviewed and approved of actions taken or planned by the Department.

## **C. Counts of Lifetime License Holders Potentially Over-Reported**

FWS requires States to report the number of hunting and fishing license holders annually and to certify the accuracy of their counts. The Department includes in its counts the number of lifetime hunting and fishing licenses it sold. Since Iowa's lifetime licenses are multi-year licenses, the Department counts them in several annual license certifications. Department records showed that there were 117,651 (33,879 hunting and 83,772 fishing) lifetime license holders included in the 2004 license certification. Regulations specify that for a license to be eligible for inclusion in the annual count, it must earn net revenue or meet other specific criteria for eligibility. The lifetime licenses that the Department included in its 2004 certification may not have all earned revenue in that year or been otherwise eligible to be counted.

One way for lifetime licenses to earn revenue in multiple years—and be eligible for inclusion in the certifications for multiple years—is for the revenue to be kept as principle to earn interest. The Department uses one trust fund, the Fish and Wildlife Fund, for recording fish and wildlife expenditures and revenue, including lifetime license revenues. A review of the trust fund account shows that there was approximately a \$4 million dollar carry forward balance into SFY2005. We could not determine from the information the Department provided if the carry forward balance contained sufficient principal from earlier sales of lifetime licenses to generate net revenue (interest) for the years in which they were counted on the certification, or whether the Department spent the initial revenue (principle) earned.

Under 50 C.F.R. § 80.10 (c)(2), licenses which do not return net revenue to the State shall not be included in the certification. Specifically, the regulations state: “To qualify as a paid license, the fee must produce revenue for the State. Net revenue is any amount returned to the State after deducting agent or seller fees and the cost for printing, distribution, control or other costs directly associated with the issuance of each license.” The regulations do state that licenses valid for multiple years may be counted when the

net revenue earned “is commensurate with the period for which hunting or fishing privileges are granted.”

The Department believed that the revenue earned for lifetime license holders exceeded the expenses associated with those license holders in the current and future periods in which the holders were being included in the certification. However, the Department had not performed an analysis to demonstrate that all lifetime license holders generated net revenue (interest) for the years they were counted, or that the original fee charged was commensurate with the period for which the licenses were counted.

The annual apportionment of grant funds to each State depends, in part, on the number of license holders in each State. The license certification was potentially overstated, which could have resulted in a higher apportionment to the Department.

### **Recommendations**

We recommend that FWS require the Department to:

1. demonstrate that either that there were sufficient lifetime license funds available to generate net revenues for the lifetime license counted in the FY2004 annual certification or that the original fee charged is commensurate with the period for which the license was counted, or to revise the certification; and
2. develop policies and procedures to ensure all lifetime licenses they count in future certifications are eligible licenses.

### **Department Response**

Department officials did not concur with the recommendations. The Department issues lifetime hunting and fishing licenses to residents 65 or older for \$51. Lifetime licenses are counted in the Department’s annual certification based on actuary tables averaging 12 years. The Department believes that it earns net revenue on lifetime licenses sold since the cost for printing is less than \$1 and a typical lifetime license is used in the certification for an average of 12 years.

### **FWS Response**

FWS regional officials concurred with the recommendations and stated that they would work with the State to develop a corrective action plan that will resolve all of the findings.

### **OIG Comments**

While FWS management concurs with the recommendations, additional information is needed in the corrective action plan, including:

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

## Appendix 1

### IOWA DEPARTMENT OF NATURAL RESOURCES FINANCIAL SUMMARY OF REVIEW COVERAGE JULY 1, 2004, THROUGH JUNE 30, 2006

<b>Grant Number</b>	<b>Grant Amount</b>	<b>Claimed Costs</b>	<b>Questioned (Federal Share, Unsupported)</b>
F-118-D-17	\$780,580	\$914,913	
F-118-D-18	\$348,000	\$67,420	
F-125-E-17	\$516,309	\$579,541	
F-125-E-18	\$524,989	\$562,176	
F-160-R-9	\$1,136,700	\$1,115,407	
F-160-R-10	\$1,189,500	\$1,142,565	
F-165-D-2	\$2,810,666	\$1,818,955	
F-171-D-1	\$1,441,733	\$495,789	
F-173-D-1	\$100,000	\$86,645	
F-174-D-1	\$30,000	\$28,217	
F-175-D-1	\$200,000	\$276,058	
F-176-D-1	\$2,238,165	\$2,368,753	
F-176-D-2	\$2,248,430	\$2,602,944	
F-177-D-1	\$3,000,000	\$0	
F-178-D-1	\$90,000	\$50,253	
F-179-D-1	\$200,000	\$158,213	
F-180-D-1	\$200,000	\$160,179	
FW-43-D-37	\$6,683,000	\$6,652,261	
FW-43-D-38	\$7,016,000	\$7,086,925	
FW-47-L-3	\$550,000	\$1,289,017	
W-114-S-36	\$767,613	\$994,732	\$142,417
W-114-S-37	\$916,324	\$1,030,792	\$150,960
W-115-R-31	\$425,700	\$499,564	
W-115-R-32	\$411,275	\$551,632	
<b>TOTALS</b>	<b>\$33,824,984</b>	<b>\$30,532,951</b>	<b>\$293,377</b>

## Appendix 2

### IOWA DEPARTMENT OF NATURAL RESOURCES SITES VISITED

#### Headquarters

Des Moines

#### Wildlife Management Units

Bays Branch  
Missouri River  
Otter Creek

#### Wildlife Management Areas

Badger Lake  
Bays Branch  
Dudgeon Lake  
McCord Ponds  
Otter Creek Marsh  
Round Lake

#### Fish Hatchery

Manchester

#### Fish Research Stations

Cold Springs  
Manchester

#### Other

Kozta Access Area  
Lake Icaria

## APPENDIX 3

### IOWA DEPARTMENT OF NATURAL RESOURCES STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS

Recommendations	Status	Action Required
A.1, A.2, B.1, B.2, 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 title of official(s) responsible for implementation, and verification that FWS officials reviewed and approved of actions taken or planned by the State. We will refer recommendations not resolved and/or implemented at the end of 90 days (after April 24, 2008) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

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