



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

## **Audit Report**

**U.S. Fish and Wildlife Service  
Wildlife and Sport Fish Restoration Program  
Grants Awarded to the State of Rhode Island,  
Department of Environmental Management,  
Division of Fish and Wildlife,  
From July 1, 2005, Through June 30, 2007**

**Report No.  
R-GR-FWS-0013-2008**

**July 2009**



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
12030 Sunrise Valley Drive, Suite 230  
Reston, VA 20191

July 22, 2009

## AUDIT REPORT

### Memorandum

To: Director  
U.S. Fish and Wildlife Service

From: Suzanna I. Park *Suzanna I. Park*  
Director of External Audits

Subject: Audit on U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Rhode Island, Department of Environmental Management, Division of Fish and Wildlife, From July 1, 2005, Through June 30, 2007 (No. R-GR-FWS-0013-2008)

This report presents the results of our audit of costs claimed by the State of Rhode Island (State), Department of Environmental Management (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 Wildlife and Sport Fish Restoration Program (the Program). The audit included claims totaling approximately \$15.8 million on 46 grants that were open during State fiscal years (SFYs) ended June 30 of 2006 and 2007 (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. However, we questioned costs totaling \$28,078 and found that hunting and fishing license certifications were inaccurate; the indirect cost restrictive rate analysis was not performed; and the equipment records management system was inadequate.

Subsequent to our field work, on March 10, 2009, a fire at the Round Top Field Headquarters destroyed everything in the compound, including equipment purchased with Program funds. The Division was not insured against the equipment loss, estimated at \$365,286 (federal share \$273,965). While this loss occurred outside of our audit period, we believe that the equipment loss may have a significant impact on the ability of the Division to successfully perform future Program operations. Therefore, we suggest that the FWS monitor this issue.

We provided a draft report to FWS for a response. We summarized the Department and FWS Region 5 responses and provided our comments on the responses after 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 October 20, 2009. 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, Lawrence Kopas, 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 Wildlife and Sport Fish Restoration Program. Under the 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 Division:

- claimed the costs incurred under the 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 \$15.8 million on the 46 grants that were open during SFYs 2006 and 2007 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at Department headquarters in Providence, RI, and Division headquarters in Wakefield, RI, and visited two field offices, two wildlife management areas, one hatchery, six boating access facilities, a marine laboratory, and a target 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 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 conclusions based on our audit objectives. We tested records and conducted auditing procedures

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

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 Division;
- reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, in-kind contributions, and program income;
- interviewing Department and Division employees to ensure that personnel costs charged to the grants were supportable;
- conducting site visits to inspect equipment and other property;
- determining whether the Department used hunting and fishing license revenues solely for administration of the Department; and
- determining whether the State passed required legislation assenting to the provisions of the Acts.

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 the Division's operations.

## **Prior Audit Coverage**

On May 19, 2005, we issued "Final Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the State of Rhode Island, Department of Environmental Management, Division of Fish and Wildlife, from July 1, 2001, through June 30, 2003" (No. R-GR-FWS-0023-2004). 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 considered them to be resolved and implemented.

In addition, we reviewed the Comprehensive Annual Financial Reports and Single Audit Reports of the State of Rhode Island for SFYs 2006 and 2007. None of these reports contained any findings related to the Department's administration of the Wildlife and Sport Fish Restoration Program.

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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, including questioned costs totaling \$28,078. We discuss the findings in more detail in the Findings and Recommendations section.

- **Questioned Costs.** We questioned \$28,078 because the Department used fringe benefit rates to calculate the value of in-kind contributions received during the grant period that exceeded actual rates used to compensate employees performing similar work.
- **Free Licenses and Potential Duplicates Counted in the License Certification.** The Division included free licenses in its certified count of hunting and fishing license sales and did not take steps to eliminate duplicate license holders from the count.
- **Compliance with the 3 Percent Limitation on State Central Services Not Ensured.** The Division had not adopted procedures to ensure it limited allocations for State central services to 3 percent of the State's annual apportionment of Program funds.
- **Inadequate Equipment Records Management System.** The Division did not ensure that equipment acquired with Program funds or license revenues was accurately recorded and reconciled with the State's accounting system or the Department's personal property inventory system.

### Findings and Recommendations

#### A. Questioned Costs - \$28,078

Under the Wildlife and Sport Fish Restoration Program, States must use "State matching" (non-federal) funds to meet at least 25 percent of the costs incurred in performing projects under the grants. The State's matching share of costs for aquatic resources education and hunter education programs was partially composed of non-cash ("in-kind") contributions consisting of volunteer labor.

As with costs claimed for reimbursement under the grant, the Department must support the value of the contributions claimed. The Department calculated the value of labor hours worked by multiplying wage rates (which included fringe benefits) by the hours the volunteer instructors donated. However, we found that the Department applied fringe benefit rates for in-kind services that were consistently higher than the actual rates used to calculate its employees' fringe benefits.

The Code of Federal Regulations (C.F.R.) provides general documentation requirements for in-kind contributions and guidance on calculating the value of the contributions. According to 2 C.F.R. § 225, Appendix A, Subsection C.1.j, which outlines basic guidelines on cost principles, costs must be adequately documented to be allowable under federal awards. Furthermore, 43 C.F.R. § 12.64(c) states that unpaid services provided to a grantee by individuals will be valued at rates consistent with those ordinarily paid for similar work in the grantee's organization, and a reasonable amount for fringe benefits may be included in the valuation.

This issue arose because Department management was unaware that the fringe benefit rates used to calculate the value of in-kind contributions were not consistent with rates ordinarily used to compensate employees performing similar work. As a result, the Division overstated the value of its in-kind contributions on the grant agreements listed below, resulting in \$28,078 in questioned costs (federal share).

Description	Grant Numbers and Amounts			Total
	F-42-E-20	W-31-S-32	W-31-S-33	
Original Federal Share Claimed	\$225,947	\$226,224	\$246,934	
Total Grant Outlays	328,900	301,634	329,246	
Less: Unsupported In-Kind Contributions	28,361	16,571	20,145	
Revised Grant Outlays	300,539	285,063	309,101	
Allowable Federal Share	75%	75%	75%	
Allowable Federal Amount	225,404	213,797	231,826	
<b>Federal Share Questioned Costs</b>	<b>\$543</b>	<b>\$12,427</b>	<b>\$15,108</b>	<b>\$28,078</b>

## Recommendations

We recommend that FWS:

1. resolve the questioned costs totaling \$28,078, and
2. ensure the Department uses fringe benefit rates to calculate the value of in-kind services that are consistent with rates ordinarily used to compensate employees performing similar work.

## Department Response

Department officials will develop a fringe benefit rate at the beginning of each SFY based on actual costs and use that rate for the in-kind contribution match.

## FWS Response

FWS Regional officials reviewed and accepted the State's response and proposed actions to be taken. FWS will work closely with State personnel in the development and

implementation of a corrective action plan that will resolve and implement all of the audit findings and recommendations.

### **OIG Comments**

Based on the Department and FWS responses, additional information is needed in the corrective action plan, including:

- the specific actions taken or planned to address the recommendations;
- targeted completion dates;
- titles of officials responsible for the specific actions taken or planned; and
- verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

#### **B. Free Licenses and Potential Duplicates Counted in the License Certification**

States provide a certified count of hunting and fishing license holders to FWS each year. According to federal regulations, only licenses that earn net revenue to the State may be certified. Based partly on that information, FWS determines the amount of grant funding to provide annually to each State. However, we found that:

- the Division's certified count included free licenses issued to residents over the age of 65 and to persons regarded as "100 percent permanently disabled"; and
- the Division did not take steps to prevent the double-counting of individuals who purchased more than one license in a single year.

According to 50 C.F.R. § 80.10(c)(2), licenses which do not return net revenue to the State shall be excluded from the annual certification to FWS. Net revenue is any amount returned to the State after deducting costs directly associated with the issuance of each license. Furthermore, 50 C.F.R. § 80.10(c)(5) prohibits an individual holding more than one license to hunt or fish to be counted more than once as a hunting or fishing license holder.

These problems occurred because (1) Division management was not aware that free licenses should not be included in the annual certification and (2) the Division did not have a system in place to identify and eliminate duplicate license holders. As a result, the Division's annual apportionments of grant funds may be larger than they should be. Specifically, for the license year ended February 28, 2007, the Division issued 695 fishing and 260 combination licenses for free that were counted in its certification. The actual number of licenses could be overstated even further due to the Division's inability to remove duplicate license holders.



## **Recommendations**

We recommend that FWS require the Division to:

1. remove the free licenses and resubmit the certification for the license year ending February 28, 2007, and
2. develop policies and implement procedures to eliminate free licenses and duplicate license holders from the final counts certified annually to FWS.

## **Department Response**

The Department agreed with the finding and will remove the free licenses in future reports for 2008 and beyond. In addition, the Division will work with the office of licensing to develop policies and procedures to eliminate any free and duplicate licenses from the final counts certified annually to FWS.

## **FWS Response**

FWS Regional officials reviewed and accepted the State's response and proposed actions to be taken. FWS will work closely with State personnel in the development and implementation of a corrective action plan that will resolve and implement all of the audit findings and recommendations.

## **OIG Comments**

Based on the Department and FWS responses, additional information is needed in the corrective action plan, including:

- the specific actions taken or planned to address the recommendations;
- targeted completion dates;
- titles of officials responsible for the specific actions taken or planned; and
- verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

### **C. Compliance with the 3 Percent Limitation on State Central Services Not Ensured**

States allocate administrative costs for State-provided central services as an indirect cost across multiple grants and programs. The Acts limit indirect costs that States can allocate to Program grants for State central services. However, the Department did not perform an analysis to determine whether restricted indirect cost rates should be developed. Furthermore, neither the Department nor the Division had written policies or had implemented procedures to ensure compliance with the limitation requirement.

FWS issued guidance on September 6, 2005, to ensure consistent compliance among the States with the requirements of 50 C.F.R. § 80.15(e) and 2 C.F.R. § 225, Appendix E, Subsection E.1. Under this guidance, if the State does not have a restricted rate, it must establish procedures and document steps to ensure that when developing the indirect cost rate, State central services costs are limited to 3 percent of the State's annual apportionment of Program funds.

The restrictive rate analysis was not conducted because Department personnel did not receive guidance on how to perform the calculations after the retirement of the individual originally assigned this task. In addition, when the State Budget Office provided the Department with expenditure information needed for the analysis, it did not notate which expenditures related to the Program grants as opposed to other federal grants. We were therefore unable to determine whether the 3 percent limit for State central services costs was exceeded in either SFY 2006 or 2007. As a result, the Division could have received excess reimbursement for indirect costs.

### **Recommendations**

We recommend that FWS require the Department to:

1. develop policies and implement procedures to ensure that common services costs are limited to no more than 3 percent of the annual apportionment of Wildlife and Sport Fish Restoration Program funds to the Division; and
2. determine whether the 3 percent limitation was exceeded for SFYs 2006 and 2007, and resolve any excess reimbursements.

### **Department Response**

The Department concurred with recommendation C.1, stating that it will develop a policy and implement procedures to ensure that the common services costs are limited to no more than 3 percent of the annual apportionment of Wildlife and Sport Fish Restoration Program funds.

In addition, the Department concurred with recommendation C.2, stating that it has performed the necessary calculations for the 3 percent limitation of statewide cost allocation for SFYs 2006 and 2007, and is in contact with FWS regional officials to discuss the implementation of the recommendation.

### **FWS Response**

FWS Regional officials reviewed and accepted the State's response and proposed actions to be taken. FWS will work closely with State personnel in the development and implementation of a corrective action plan that will resolve and implement all of the audit findings and recommendations.

## **OIG Comments**

Based on the Department and FWS responses, additional information is needed in the corrective action plan, including:

- the specific actions taken or planned to address the recommendations;
- targeted completion dates;
- titles of officials responsible for the specific actions taken or planned; and
- verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

### **D. Inadequate Equipment Records Management System**

The Division did not ensure that equipment acquired with the Program funds or license revenues was accurately recorded in databases maintained by the State, Department, and Division. Specifically, the Division's equipment records were not reconciled with the State's accounting system or the State's personal property inventory system. We also identified this issue in our prior audit.

According to the State of Rhode Island, Department of Administration's *Fixed Assets Control and Tracking System (FACTS) Policies and Procedures Manual*, the State is required to maintain adequate records to support the disposition of grant funds. Even though Division management stated that they had occasionally reconciled their equipment records with the State fixed asset system, we noted that (1) no staff person was assigned to maintain the equipment inventory records due to recent staff shortages, and (2) no formal process was in place to require a regular reconciliation. Inadequate controls over equipment place it at greater risk of being lost or used for unauthorized purposes.

### **Recommendation**

We recommend that FWS require the Division to implement a process to regularly reconcile their records with (1) the State accounting system and (2) FACTS.

### **Department Response**

The Department concurs with the recommendation. However, a Department official added that due to the continuous drain of personnel, existing work/projects must be prioritized. The Department will work with personnel at the Department of Administration to reconcile these systems.

### **FWS Response**

FWS Regional officials reviewed and accepted the State's response and proposed actions to be taken. FWS will work closely with State personnel in the development and implementation of a corrective action plan that will resolve and implement all of the audit findings and recommendations.

### **OIG Comments**

Based on the Department and FWS responses, additional information is needed in the corrective action plan, including:

- the specific actions taken or planned to address the recommendation;
- targeted completion dates;
- titles of officials responsible for the specific actions taken or planned; and
- verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

**STATE OF RHODE ISLAND  
DIVISION OF FISH AND WILDLIFE  
FINANCIAL SUMMARY OF REVIEW COVERAGE  
JULY 1, 2005, THROUGH JUNE 30, 2007**

<b>Grant Number</b>	<b>Grant Amount</b>	<b>Claimed Costs</b>	<b>Questioned Costs (Federal Share)</b>
<b>F-10-D-54</b>	\$495,786	\$464,381	
<b>F-10-D-55</b>	491,921	509,265	
<b>F-20-R-46</b>	180,750	176,261	
<b>F-20-R-47</b>	186,990	200,338	
<b>F-20-R-48</b>	212,533	182,431	
<b>F-26-R-40</b>	250,267	170,287	
<b>F-26-R-41</b>	217,733	214,938	
<b>F-26-R-42</b>	179,200	223,132	
<b>F-42-E-19</b>	305,417	314,910	
<b>F-42-E-20</b>	311,450	328,900	\$543
<b>F-42-E-21</b>	269,600	289,457	
<b>F-48-R-18</b>	192,346	102,188	
<b>F-48-R-19</b>	192,346	115,338	
<b>F-48-R-20</b>	133,876	7,850	
<b>F-59-D-14</b>	1,099,583	1,188,270	
<b>F-59-D-15</b>	1,190,000	1,271,330	
<b>F-59-D-16</b>	1,092,000	1,131,364	
<b>F-60-R-13</b>	144,554	100,016	
<b>F-60-R-14</b>	133,219	131,865	
<b>F-60-R-15</b>	101,224	82,628	
<b>F-61-R-13</b>	568,629	560,037	
<b>F-61-R-14</b>	616,612	709,864	
<b>F-61-R-15</b>	670,000	752,129	
<b>F-64-R-6</b>	275,219	214,107	
<b>F-64-R-7</b>	252,632	191,278	
<b>F-64-R-8</b>	204,311	113,632	
<b>FW-8-C-57</b>	338,733	313,958	
<b>FW-8-C-58</b>	311,515	320,337	
<b>FW-8-C-59</b>	312,685	314,495	

**STATE OF RHODE ISLAND  
DIVISION OF FISH AND WILDLIFE  
FINANCIAL SUMMARY OF REVIEW COVERAGE  
JULY 1, 2005, THROUGH JUNE 30, 2007**

<b>Grant Number</b>	<b>Grant Amount</b>	<b>Claimed Costs</b>	<b>Questioned Costs (Federal Share)</b>
<b>FW-14-D-11</b>	\$920,000	\$958,389	
<b>FW-14-D-13</b>	806,555	136,030	
<b>FW-14-D-14</b>	69,000	51,845	
<b>FW-14-D-15</b>	100,000	94,562	
<b>FW-14-D-16</b>	337,200	0	
<b>FW-14-D-17</b>	79,600	16,637	
<b>FW-14-D-18</b>	2,253,970	978,406	
<b>FW-14-D-19</b>	71,980	46,552	
<b>FW-14-D-20</b>	132,180	155,118	
<b>FW-14-D-21</b>	254,800	0	
<b>W-22-D-50</b>	532,731	498,971	
<b>W-22-D-51</b>	740,000	657,655	
<b>W-23-R-49</b>	390,604	383,920	
<b>W-23-R-50</b>	478,850	415,465	
<b>W-23-R-51</b>	449,962	96,516	
<b>W-31-S-32</b>	395,900	301,634	\$12,427
<b>W-31-S-33</b>	455,501	329,246	15,108
<b>Totals</b>	<b>\$19,399,964</b>	<b>\$15,815,932</b>	<b>\$28,078</b>

**STATE OF RHODE ISLAND  
DIVISION OF FISH AND WILDLIFE  
SITES VISITED**

**Headquarters**

Department of Environmental Management, Providence  
Division of Fish and Wildlife, Wakefield

**Field Offices**

Fish and Wildlife Marine Fisheries Center, Jamestown  
Great Swamp Field Headquarters, West Kingston

**Wildlife Management Areas**

Nicholas Farm  
Simmons Mill Pond

**Hatchery**

Carolina Trout Hatchery

**Boat Ramps**

Carbuncle Pond Freshwater Boat Ramp  
Colt State Park Salt Water Boat Ramp  
Haines Memorial Park Salt Water Boat Ramp  
Mt. Hope Bay Salt Water Boat Ramp  
Stafford Pond Freshwater Boat Ramp  
Wilson Reservoir Freshwater Boat Ramp

**Other Locations**

Fort Wetherill Marine Laboratory  
Great Swamp Target Range

**RHODE ISLAND  
DEPARTMENT OF ENVIRONMENTAL MANAGEMENT  
DIVISION OF FISH AND WILDLIFE  
STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

Recommendations	Status	Action Required
A.1, A.2, B.1, B.2, C.1, C.2, and D	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), 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 October 20, 2009) 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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