



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

**U.S. Fish and Wildlife Service Grants
Awarded to the State of Michigan,
Department of Natural Resources,
From October 1, 2018, Through
September 30, 2020, Under the Wildlife and
Sport Fish Restoration Program**

This is a revised version of the report prepared for public release.



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

FEB 28 2023

Memorandum

To: Martha Williams
Director, U.S. Fish and Wildlife Service

From: Amy R. Billings *Amy R. Billings*
Director, Central Region Audit Division

Subject: Final Audit Report – *U.S. Fish and Wildlife Service Grants Awarded to the State of Michigan, Department of Natural Resources, From October 1, 2018, Through September 30, 2020, Under the Wildlife and Sport Fish Restoration Program*
Report No. 2021–CR–018

This report presents the results of our audit of costs claimed by the State of Michigan, Department of Natural Resources (Department), under grants awarded by the U.S. Fish and Wildlife Service (FWS) through the Wildlife and Sport Fish Restoration Program.

We provided a draft of this report to the FWS. The FWS concurred with all 11 recommendations and will work with the Department to implement corrective actions. The full responses from the Department and the FWS are included in Appendix 4. In this report, we summarize the Department's and the FWS' responses to our recommendations, as well as our comments on their responses. We list the status of the recommendations in Appendix 5.

Please provide us with a corrective action plan based on our recommendations by May 30, 2023. The plan should provide information on actions taken or planned to address each recommendation, as well as target dates and titles of the officials responsible for implementation. It should also clearly indicate the dollar value of questioned costs that you plan to either allow or disallow. If a recommendation has already been implemented, provide documentation confirming that the action is complete. Please send your response to aie_reports@doioig.gov.

We will notify Congress about our findings, and we will report semiannually, as required by law, on actions you have taken to implement the recommendations and on recommendations that have not been implemented. We will also post a public version of this report on our website.

If you have any questions, please contact me at 303–236–9243.

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Introduction

Objectives

In June 2016, we entered into an intra-agency agreement with the U.S. Fish and Wildlife Service (FWS) to conduct audits of State agencies receiving grant funds under the Wildlife and Sport Fish Restoration Program (WSFR). These audits assist the FWS in fulfilling its statutory responsibility to oversee State agencies' use of these grant funds.

The objectives of this audit were to determine whether the Michigan Department of Natural Resources (Department) used grant funds and State hunting and fishing license revenue for allowable fish and wildlife activities and complied with applicable laws and regulations, FWS guidelines, and grant agreements.

See Appendix 1 for details about our scope and methodology. See Appendix 2 for sites we reviewed.

Background

The FWS provides grants to States¹ through WSFR for the conservation, restoration, and management of wildlife and sport fish resources as well as educational and recreational activities. WSFR was established by the Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act.² The Acts and related Federal regulations allow the FWS to reimburse grantees a portion of eligible costs incurred under WSFR grants—up to 75 percent for States and up to 100 percent for the Commonwealths, territories, and the District of Columbia.³ The reimbursement amount is called the Federal share. The Acts require that hunting and fishing license revenue be used only for the administration of participating fish and wildlife agencies. In addition, Federal regulations require participants to account for any income earned from grant-funded activities and to spend this income before requesting grant reimbursements.

¹ Federal regulations define the term “State” as the 50 States; the Commonwealths of Puerto Rico and the Northern Mariana Islands; the territories of Guam, the U.S. Virgin Islands, and American Samoa; and the District of Columbia (Dingell-Johnson Sport Fish Restoration Act only).

² Formally known, respectively, as the Federal Aid in Wildlife Restoration Act, 16 U.S.C. § 669, as amended, and the Federal Aid in Sport Fish Restoration Act, 16 U.S.C. § 777, as amended.

³ The District of Columbia does not receive funding under the Pittman-Robertson Wildlife Restoration Act.

Results of Audit

We determined that the Department generally ensured that grant funds and State hunting and fishing license revenue were used for allowable fish and wildlife activities and complied with applicable laws and regulations, FWS guidelines, and grant agreements. We noted, however, issues with unallowable in-kind contributions, inaccurate reporting of program income, equipment disposal, and missing elements in subaward agreements.

We found the following:

- **Questioned Costs.** We questioned \$53,309 in Federal share as unallowable (see Figure 1). These questioned costs arose due to unallowable in-kind contributions and inaccurate reporting of program income.
- **Potential Diversion of License Revenue.** The Department potentially diverted license revenue totaling \$7,300 by not depositing proceeds from the sale of a disposed equipment to the license revenue account.
- **Control Deficiencies.** We found opportunities to improve controls in issuing subaward agreements.

Figure 1: Summary of Unallowable Costs (Federal Share)

Issue	Unallowable Costs (\$)
Unallowable in-kind contributions	50,597
Inaccurate program income	2,712
Total	\$53,309

See Appendix 3 for a statement of monetary impact and a summary of potential diversion of license revenue.

Questioned Costs—\$53,309 (Federal Share)

Unallowable In-Kind Contributions—Questioned Costs of \$50,597 (Federal Share)

WSFR requires States to use matching or non-Federal funds to cover at least 25 percent of grant project costs. States may use non-cash or in-kind contributions to meet the matching share of costs, but the value of these contributions must be supported. Additionally, 2 C.F.R. § 200.403(g) requires costs to be adequately documented to be allowable under Federal awards. Further, 2 C.F.R. § 200.306(b)(1) states that third-party in-kind contributions satisfy a cost-sharing or matching requirement if they are verifiable from the records of grantees, among other requirements. To the extent feasible, services donated to the non-Federal entity will be supported by the same methods used to support the allocability of regular personnel services per 2 C.F.R. § 200.434(d).

We sampled 882 out of 20,694 volunteer hours on two hunter education grants during fiscal year (FY) 2019: Grant Nos. F18AF00977 and F18AF00952. We found that 49 percent of our sample size had issues. Specifically, we found that the Department erroneously claimed 434 hours of in-kind contributions, valued at \$16,866. Out of the 882 volunteer hours, 389 of those hours were duplicate, and an additional 45 volunteer hours were claimed for paid instructors, totaling 434 questioned hours (see Figure 2).

Figure 2: Questioned Costs Related to Inadequately Documented Volunteer Hours for Grant Nos. F18AF00977 and F18AF00952

Sampled Hours Claimed	Questioned Hours	State Share (25%)	Questioned Costs (Federal Share 75%)
882	434	\$16,866	\$50,597

Source: Department Excel tracking spreadsheet and scantrons.

We found that the Department’s processes for recording and verifying volunteer hours did not ensure that hunter education volunteer instructor hours claimed as in-kind contributions for State matching requirements were adequately documented. Instructors, including volunteers, recorded their preparation and class hours on preprinted scantron forms. The Department then processed these forms into a scantron machine, which subsequently produced an Excel spreadsheet report.⁴ To determine the value of the in-kind contribution, the Department used an agreed-upon hourly rate.

The Department did not have controls in place to review scantron forms to ensure that instructors were completing the forms correctly. As a result, instructors incorrectly completed the scantron forms, creating duplicate volunteer hours that were not identified and corrected prior to scanning the forms. This resulted in duplicate volunteer hours on the Excel spreadsheet report. Additionally, while the Department required instructors to fill out scantron forms, it did not

⁴ Scantron forms are machine-readable papers that volunteer instructors use to record the date and number of class preparation and instruction hours.

require volunteers to complete separate timesheets to track classes and hours daily. Finally, we found that the Department did not have a policy or internal guidance requiring an official to reconcile the scantron forms with what is reported in its Excel tracking spreadsheet.

Without strong internal controls, the State risks counting unallowable in-kind contribution dollars for its share of Federal grants. Because the 434 hours are unallowable, the State did not meet its matching requirements for the grants, and the Department received \$50,597 in Federal reimbursement that it was not entitled to.

Recommendations

We recommend that the FWS:

1. Resolve the questioned costs of \$50,597 from improper Federal reimbursement.
2. Require the Department to develop and implement processes to reconcile scantron forms to the Department's Excel tracking spreadsheet and to identify and remove paid training instructors.
3. Require the Department to develop and implement a process for volunteers to complete a separate timesheet to track classes and hours daily.
4. Require the Department to reconcile the information in its Excel tracking spreadsheet and scantron forms to identify and remove all duplicate, multiple, or paid instructor hours claimed during FY 2019 to date.

Inaccurate Reporting of Program Income—Questioned Costs of \$2,712 (Federal Share)

Federal regulations at 50 C.F.R. § 80.120(a) state, “Program income is gross income received by the grantee or subgrantee and earned only as a result of the grant during the grant period.”

Non-Federal entities may choose between three methods⁵ for applying program income, and the FWS must approve this method in each award.⁶ Program income guidance is also provided in 2 C.F.R. § 200.307(e)(1), which states:

Program income that the non-Federal entity did not anticipate at the time of the Federal award must be used to reduce the Federal award and non-Federal entity contributions rather than to increase the funds committed to the project. Also, the Department must reduce the Federal award rather than increase the funds committed to the project.

⁵ These include deductive, additive, and cost sharing (also known as matching).

⁶ 50 C.F.R. § 80.123(a).

This method is called the deductive method.⁷ Although the Federal awarding agency may authorize the use of the additive method, program income in excess of any amounts specified must also be deducted from expenditures.

We found that the Department did not accurately account for and report program income. We reviewed eight grants that reported program income and found that two used the additive rather than the deductive method. First, for Grant No. F19AF01204, the award letter approved \$5,000 in anticipated program income using the additive method. However, if the agency were to exceed its approved amount, the excess program income would default to the deduction method, which requires the Department to reduce the grant by the excess amount. We found that the grant actually generated \$8,616 in program income—\$3,616 more than the approved amount. However, instead of reducing the Federal share by the excess amount of program income to the grant using the deductive method, the Department reported all program income using the additive method on the Federal Financial Report (SF-425). This resulted in an excess reimbursement of \$2,712 (Federal share).

For Grant No. F15AF00938, the award generated \$11,600 in program income. However, the approved award letter did not include anticipated program income in the funding, which meant that program income was not anticipated or agreed upon. Additionally, although the award letter stipulated that the Department must use the deductive method if program income was generated, it instead reported the program income using the additive method on the SF-425. Although the Department had incorrectly reported the program income on the SF-425, during our audit, it provided support that it had used the deductive method and corrected the issue on the SF-425.

According to a Department official, staff overlooked the specific requirement to use the deductive method for Grant No. F19AF01204 and agreed it did not properly account for or report some of the program income in accordance with the award letter. The Department stated it would work with FWS Region 3 to revise the SF-425. In its response to our draft report, the Department stated that it reduced the Federal share in accordance with 2 C.F.R. § 200.307; however, the Department did not provide support that it used the deductive method. As a result, the Federal share was overstated for Grant No. F19AF01204, and we question the \$2,712 Federal share reimbursement the Department received (see Figure 3).

Figure 3: Questioned Costs Related to Program Income

Grant No.	Grant Title	Questioned Costs (\$)	
		State Share	Federal Share
F19AF01204	Comprehensive Operations and Maintenance of Wildlife Management Areas	3,616	2,712
Total		\$3,616	\$2,712

⁷ Using the deductive method, a Federal or other awarding agency would deduct the program income from the total allowable project costs to determine the net allowable costs. This method reduces the Federal award contributions rather than increases the funds committed to the project. Conversely, the additive method adds program income to the Federal award.

Recommendations

We recommend that the FWS:

5. Resolve the Federal share of questioned costs related to improper reporting of program income, totaling \$2,712.
6. Require the Department to develop and implement an internal control mechanism to ensure the program income method is properly applied and reported in accordance with grant award approvals and regulations.

Potential Diversion of License Revenue—Undeposited Disposed Equipment Proceeds of \$7,300

Hunting and fishing license revenue includes income from the sale, lease, or rental of personal property acquired or constructed with license revenue, according to 50 C.F.R § 80.20(c). Federal regulations at 2 C.F.R. § 200.313(b)(e) require States to use, manage, and dispose of equipment acquired under a Federal award in accordance with State laws and procedures. Furthermore, according to 50 C.F.R § 80.11, a State becomes ineligible for WSFR funds if it diverts hunting and fishing license revenues for purposes other than WSFR administration. Federal regulations at 50 C.F.R. § 80.10(c)(2) also explain that only the functions required to manage and administer the State's fish and wildlife resources may be supported with license revenues.

We identified that the Department did not deposit proceeds from the sale of disposed equipment to the license revenue account, which resulted in a potential diversion of \$7,300. During our audit period, the Department disposed of 23 equipment items, which had historical costs of more than \$1,000 each, that had been purchased with grant funds and license revenue. We selected five items to determine if the Department followed the correct steps for disposal, including whether disposal methods were approved, the correct forms were completed, and the proceeds from the disposed items were deposited in the appropriate account. We found one set of items purchased with license revenue funds (a boat, motor, and trailer) was sold at auction for \$7,300, but these proceeds were not deposited back to the Department's Game and Fish Protection Fund.

This occurred because the Michigan Department of Technology, Management, and Budget (DTMB) denied reimbursement of the auction proceeds for the set of items to the license revenue fund, but Department staff at that time did not follow up to determine the reason for the denial. We learned upon discussions with the Department that the DTMB denied reimbursement because its inventory liaison believed the original funding source of the equipment was not clear and that the equipment was initially donated to the DTMB. However, we found that the Game and Fish Protection Fund was identified as the funding source on the disposal request form sent to the DTMB.

Potential diversion of license revenues brings into question whether fish and wildlife resources were used for their intended purpose and jeopardizes the State's continued participation in WSFR.

Recommendations

We recommend that the FWS:

7. Resolve the potentially diverted funds of \$7,300.
8. Require the Department to develop a mechanism to track items sent to the DTMB for disposal to ensure inventory liaisons verify reimbursement of funds back to the Department's Game and Fish Protection Fund.

Control Deficiencies

Missing Elements in Subaward Agreements

Federal regulations at 2 C.F.R. § 200.331(a) require pass-through entities⁸ to ensure that each subaward agreement is clearly identified to the subrecipient as a subaward and that the subaward agreement includes the required specific elements at the time of award. If any of these data elements change, Federal regulations require the pass-through entity to include the changes in a subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward.

Of the 24 grants, we reviewed only one grant that had subawards: Grant No. F18AF00243, which had two subaward agreements. The Department did not ensure that all required elements for subaward agreements were included in the two subaward agreements for Grant No. F18AF00243. We reviewed both subaward agreements and determined that for both, the Department excluded 8 of the 16 elements required by Federal regulations:

- Subrecipient's unique entity identifier.
- Federal award identification number.
- Federal award date (date of the award from the Federal agency to the pass-through entity).
- Subaward period of performance (start and end date).
- Catalogue of Federal Domestic Assistance number and name.

⁸ A pass-through entity is a non-Federal entity that provides a subaward to a subrecipient to carry out part of a Federal program.

- Identification of whether the award is for research and development.
- Indirect cost rate for the Federal award (including the de minimis rate, if applicable).
- Approved federally recognized indirect cost rate (or, if none exists, a rate negotiated between the pass-through entity and the subrecipient, or a de minimis rate).

This occurred because the Department did not have policies and procedures in place outlining what is required of staff responsible for issuing subawards, including the required elements that should be included in each subaward agreement. Further, the Department did not have a mechanism in place to ensure the contents of such agreements comply with Federal regulations.

The 16 elements required by Federal regulations help to clarify the rules and regulations the pass-through entity and subrecipient need to follow to fulfill the award objective. Without these elements, the Department and the subrecipient signed a binding subaward agreement without key information—such as the period of performance and an approved indirect cost rate. Missing elements increase the likelihood of noncompliance with both Federal and State requirements. Furthermore, if the Department does not ensure subrecipients follow Federal regulations when administering subawards, the Department may not be eligible to receive WSFR funds in future.

Recommendations

<p>We recommend that the FWS:</p>

- | |
|--|
| <ol style="list-style-type: none"> 9. Require the Department to amend all open subaward agreements to date to include all required elements. 10. Require the Department to develop and implement policies and procedures to ensure subaward agreements comply with Federal regulations by including the required elements. 11. Require the Department to develop and implement a mechanism, such as a template or checklist, to ensure subaward agreements contain all the necessary elements as required by Federal regulations. |
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Recommendations Summary

We provided a draft of this report to the FWS for review. The FWS concurred with all 11 recommendations. We consider Recommendations 1 through 11 resolved but not implemented. Below, we summarize the FWS' and the Department's responses to our recommendations, as well as our comments on their responses. See Appendix 4 for the full text of the FWS' and the Department's responses; Appendix 5 lists the status of each recommendation.

We recommend that the FWS work with the Department to:

1. Resolve the questioned costs of \$50,597 from improper Federal reimbursement.

Department Response: The Department concurred with the recommendation and stated that it will work with the FWS to resolve the questioned costs.

FWS Response: The FWS concurred with the recommendation.

OIG Comment: Based on the response from the Department and the FWS, we consider this recommendation resolved but not implemented.

2. Require the Department to develop and implement processes to reconcile scantron forms to the Department's Excel tracking spreadsheet and to identify and remove paid training instructors.

Department Response: The Department concurred with the recommendation and stated that on August 1, 2021, it implemented a new online entry system, Event Manager, which eliminated the need for the scantron and the excel spreadsheet. According to the Department, Event Manager captures instructor teaching and preparation hours per class, per day; total time per class; start and end times; and if the instructors were paid. The Department stated that this will prevent duplication of hours when instructors are teaching more than one class in a day.

The Department also explained that the cause of the duplicate hours did not result from volunteer hours being scanned or entered multiple times, but rather from instructors incorrectly completing the scantron sheets, which was not caught and corrected prior to scanning.

FWS Response: The FWS concurred with the recommendation.

OIG Comment: Based on the response from the Department and the FWS, we consider this recommendation resolved but not implemented. While the Department said it implemented Event Manager, which would prevent duplicate entries, the Department did not provide documentation confirming that the action was complete.

Based on the information provided by the Department in response to our draft report regarding the cause of the duplicate volunteer hours, we edited the language in our final report.

3. Require the Department to develop and implement a process for volunteers to complete a separate timesheet to track classes and hours daily.

Department Response: The Department stated that it disagreed with the recommendation due to the implementation of Event Manager.

FWS Response: The FWS concurred with the recommendation.

OIG Comment: Based on the response from the FWS, we consider this recommendation resolved but not implemented. While the Department said it implemented Event Manager, it did not provide documentation confirming that the action was complete.

4. Require the Department to reconcile the information in its Excel tracking spreadsheet and scantron forms to identify and remove all duplicate, multiple, or paid instructor hours claimed during FY 2019 to date.

Department Response: The Department concurred with the recommendation and stated that it will comply.

FWS Response: The FWS concurred with the recommendation.

OIG Comment: Based on the response from the Department and the FWS, we consider this recommendation resolved but not implemented.

5. Resolve the Federal share of questioned costs related to improper reporting of program income, totaling \$2,712.

Department Response: The Department did not concur with the recommendation. The Department stated that it disagrees with the questioned costs and will work with the FWS to resolve the issue. For Grant No. F19AF01204, the Department said that it intends to work with FWS Region 3 to submit a revised, final SF-425 representing the deductive program income method. For Grant No. F15AF00938, the Department said that it agrees that the program income was originally reported using the additive method when it should have been the deductive method. However, the Department stated that it reduced its Federal expenditures by the amount of program income and therefore treated the program income as the deductive method and did not receive excess reimbursement. The Department also said that it did not fully expend this grant. The Department revised the SF-425 for Grant No. F15AF00938 during the audit on November 19, 2021.

FWS Response: The FWS concurred with the recommendation.

OIG Comment: Based on the response from the FWS, we consider this recommendation resolved but not implemented. We continue to question the excess program income for

Grant No. F19AF01204 in the amount of \$2,712 because the Department did not provide a revised final SF-425 or support showing the deductive method was used to reduce the Federal share of expenditures. We did, however, reduce the Federal share of questioned costs by \$8,700—the amount related to improper reporting of program income for Grant No. F15AF00938—because we verified that the Department submitted a revised SF-425 for this grant showing that the program income earned of \$8,700 was expended using the deductive method.

6. Require the Department to develop and implement an internal control mechanism to ensure the program income method is properly applied and reported in accordance with grant award approvals and regulations.

Department Response: The Department concurred with the recommendation and stated that it will comply.

FWS Response: The FWS concurred with the recommendation.

OIG Comment: Based on the response from the Department and the FWS, we consider this recommendation resolved but not implemented.

7. Resolve the potentially diverted funds of \$7,300.

Department Response: The Department concurred with the finding and recommendation and stated that it has already complied. The Department stated that an entry was completed on January 4, 2023, to credit the \$7,300 to the Game and Fish Protection Fund in the State's accounting system.

FWS Response: The FWS concurred with the recommendation.

OIG Comment: Based on the response from the Department and the FWS, we consider this recommendation resolved but not implemented because the Department did not provide documentation showing that it completed the entry to correct the potential diversion.

8. Require the Department to develop a mechanism to track items sent to the DTMB for disposal to ensure inventory liaisons verify reimbursement of funds back to the Department's Game and Fish Protection Fund.

Department Response: The Department concurred with the recommendation and stated it will comply.

FWS Response: The FWS concurred with the recommendation.

OIG Comment: Based on the response from the Department and the FWS, we consider this recommendation resolved but not implemented.

9. Require the Department to amend all open subaward agreements to date to include all required elements.

Department Response: The Department concurred with the recommendation and stated it will comply.

FWS Response: The FWS concurred with the recommendation.

OIG Comment: Based on the response from the Department and the FWS, we consider this recommendation resolved but not implemented.

10. Require the Department to develop and implement policies and procedures to ensure subaward agreements comply with Federal regulations by including the required elements.

Department Response: The Department concurred with the recommendation and stated it will comply.

FWS Response: The FWS concurred with the recommendation.

OIG Comment: Based on the response from the Department and the FWS, we consider this recommendation resolved but not implemented.

11. Require the Department to develop and implement a mechanism, such as a template or checklist, to ensure subaward agreements contain all the necessary elements as required by Federal regulations.

Department Response: The Department concurred with the recommendation and stated it will comply.

FWS Response: The FWS concurred with the recommendation.

OIG Comment: Based on the response from the Department and the FWS, we consider this recommendation resolved but not implemented.

Appendix 1: Scope and Methodology

Scope

We audited the Michigan Department of Natural Resources' (Department's) use of grants awarded by the U.S. Fish and Wildlife Service (FWS) under the Wildlife and Sport Fish Restoration Program (WSFR). We reviewed 24 grants that were open during the State fiscal years (SFYs) that ended September 30, 2019, and September 30, 2020. We also reviewed license revenue during the same period. The audit included expenditures of \$61.8 million and related transactions. In addition, we reviewed historical records for the acquisition, condition, management, and disposal of real property and equipment purchased with either license revenue or WSFR grant funds.

Because of the COVID-19 pandemic, we could not complete our audit onsite. We gathered data remotely and communicated with Department personnel via email, Microsoft Teams, and telephone. As a result, we could not perform normal audit procedures for (1) equipment verification, (2) observing grant projects specific to construction and restoration work, and (3) subawards to subrecipients. Therefore, the audit team relied on alternative evidence provided by Department personnel that was determined to be sufficient and appropriate to support our conclusions.

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We assessed whether internal control was significant to the audit objectives. We determined that the State's control activities and the following related principles were significant to the audit objectives.

- Management should design control activities to achieve objectives and respond to risks.
- Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
- Management should implement control activities through policies.

We tested the operation and reliability of internal control over activities related to our audit objective. 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 by telephone.
- Reviewing equipment and other property using photographic evidence.
- Determining whether the Department used hunting and fishing license revenue for the administration of fish and wildlife program activities.
- Determining whether the State passed required legislation assenting to the provisions of the Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act.
- Evaluating State policies and procedures for assessing risk and monitoring subawards.

We found deficiencies in internal control resulting in our four findings: inaccurate reporting of program income, unallowable in-kind contributions, potential diversion of license revenue, and missing elements of subaward agreements.

Based on the results of our initial assessments, we assigned a level of risk and selected a judgmental sample of transactions for testing. We used auditor judgment and considered risk levels relative to other audit work performed to determine the degree of testing performed in each area. Our sample selections were not generated using statistical sampling, and therefore we did not project the results of our tests to the total population of transactions.

This audit supplements, but does not replace, the audits required by the Single Audit Act Amendments of 1996. Single audit reports address controls over Statewide financial reporting, with emphasis on major programs. Our report focuses on the administration of the Michigan fish and wildlife agency, and that agency's management of WSFR resources and license revenue.

The Department provided computer-generated data from its official accounting system and from informal management information and reporting systems. We tested the data by sampling expenditures and verifying them against WSFR reports and source documents such as purchase orders, invoices, and payroll documentation. While we assessed the accuracy of the transactions tested, we did not assess the reliability of the accounting system as a whole.

Prior Audit Coverage

OIG Audit Reports

We reviewed our last two audits of costs claimed by the Department on WSFR grants.⁹ We followed up on 23 recommendations from these reports and considered 21 recommendations resolved and implemented and 2 recommendations resolved but not implemented.

During the course of our audit, the Department implemented corrective actions for these two recommendations and submitted closure information to the FWS in April 2020. The FWS has not reviewed and approved the closure action for the recommendation related to real property. The closure action for the recommendation related to lands purchased with license revenue is pending FWS site visits. Therefore, the two recommendations are still open. For resolved and implemented recommendations, we verified that the State has taken the appropriate corrective actions to resolve these recommendations.

State Audit Reports

We reviewed the single audit reports for SFYs 2019 and 2020 to identify control deficiencies or other reportable conditions that affect WSFR. In those reports, the Schedule of Expenditures of Federal Awards indicated \$61.8 million (combined) in Federal expenditures related to WSFR but did not include any findings directly related to WSFR, which was not deemed a major program for Statewide audit purposes. The 2019 report noted a significant deficiency¹⁰ in grant accounting for other programs, and we considered this as a risk indicator when we prepared our audit procedures and tests.

⁹ U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Michigan, Department of Natural Resources from October 1, 2013, through September 30, 2015 (Report No. 2016-EXT-047), issued October 2018.

U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Michigan, Department of Natural Resources, From October 1, 2008, Through September 30, 2010 (Report No. R-GR-FWS-0008-2011), issued January 2012.

¹⁰ The report, *State of Michigan Comprehensive Annual Financial Report: Fiscal Year Ended September 30, 2019* (Report No. 071-0010-20), issued May 2020, noted material weaknesses in internal control over compliance for programs not related to WSFR.

Appendix 2: Sites Reviewed

Because of the COVID-19 pandemic, we were unable to visit audit sites in person. We performed interviews and remote site visits using video conferencing at the following locations.

Headquarters	Lansing, MI
Fish Hatcheries	Platte River State Wolf Lake
Main Wildlife Division	Wildlife Disease Laboratory Wildlife Policy and Management
Wildlife Offices	Cass City Field Office Fish Creel Statewide Angler Survey Program Flat River State Game Area Field Office Northern Lake Michigan Management Unit Plainwell Area Roscommon Houghton Lake Sault Sainte Marie Field Office Waterloo
Wildlife Management Areas	Barry State Game Area Crane Pond State Game Area Crow Island State Game Area Fish Point Wildlife Area Muskegon State Game Area Pointe Mouillee State Game Area Shiawassee River State Game Area
Hunter Education Facility	Rose Lake Shooting Range

Appendix 3: Monetary Impact

We reviewed 24 grants that were open during the State fiscal years that ended September 30, 2019, and September 30, 2020. The audit included expenditures of \$61.8 million and related transactions. We questioned \$53,309 (Federal share) as unallowable. We also identified a potential diversion of \$7,300 in license revenue from the Michigan Department of Natural Resources.

Monetary Impact: Questioned Costs (Federal Share)

Grant No.	Grant Title	Cost Category	Unallowable (\$)
F19AF01204	Comprehensive Operations and Maintenance of Wildlife Management Areas	Program Income	2,712
F18AF00977*	Hunter Education	In-Kind Contribution	50,597
F18AF00952	Statewide Archery Education and Shooting Range Programs		
Total			\$53,309

* The Department combined in-kind volunteer hours in the same spreadsheet for Grant Nos. F18AF00977 and F18AF00952.

Monetary Impact: Potential Diversion of License Revenue

Finding Area	Amount (\$)
Potential Diversion of License Revenue— Undeposited Disposed Equipment Proceeds	7,300
Total	\$7,300

Appendix 4: Responses to Draft Report

The U.S. Fish and Wildlife Service's response to our draft report follows on page 19. The Michigan Department of Natural Resources' response to our draft report follows on page 20.



United States Department of the Interior



FISH AND WILDLIFE SERVICE

Wildlife and Sport Fish Restoration Programs
5600 American Boulevard West, Suite 990
Bloomington, Minnesota 55437-1458

IN REPLY REFER TO:

FWS/R3/WSFR

January 5, 2023

Memorandum

To: Central Region Manager for Audits, Inspections, and Evaluations
Office of Inspector General

From: Assistant Regional Director, Wildlife and Sport Fish Restoration Programs

**JAMES
HODGSON**

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JAMES HODGSON
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Subject: Response to the Office of Inspector General's memorandum dated November 21, 2022 containing the OIG's Draft Audit Report No. 2021-CR-018 on U.S. Fish and Wildlife and Sport Fish Restoration Grants administered by the State of Michigan, Department of Conservation, from October 1, 2018 through September 30, 2020

Attached is a copy of the Michigan Department of Natural Resources response to the draft Office of Inspector General (OIG) audit report (see Attachment).

The Service concurs with OIG report recommendations. The Michigan DNR's response to implement the recommendations will be considered in the corrective action plan.

Please direct any questions the DNR may have to Ms. Julie Cole, Grants Fiscal Officer, at [REDACTED] or the undersigned at [REDACTED]

Attachment
as

cc: USFWS, WO WSFR Audit Branch (Mr. Ord Bargerstock)



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF NATURAL RESOURCES
LANSING



SHANNON LOTT
ACTING DIRECTOR

January 5, 2023

VIA E-MAIL

Mr. James B. Hodgson, Assistant Regional Director
Wildlife and Sport Fish Restoration Programs
U.S. Fish and Wildlife Service
DOI Region 3 – Great Lakes
5600 American Boulevard West, Suite 990
Minneapolis, Minnesota 55437-1458
[REDACTED]

Dear Mr. Hodgson:

On November 22, 2022, the Michigan Department of Natural Resources (MDNR) received Draft Audit Report – *U.S. Fish and Wildlife Service Grants Awarded to the State of Michigan, Department of Natural Resources, From October 1, 2018, Through September 30, 2020, Under the Wildlife and Sport Fish Restoration Program Report No. 2021-CR-018.*

In response to the draft audit report, under the Unallowable In-Kind Contributions – Questioned Costs of \$50,597 (Federal Share) finding, the MDNR agrees with the finding and resulting questioned costs. MDNR would like to correct the statement made in paragraph 3 of the write-up on page 3 that MDNR manually entered the hours into an Excel spreadsheet. The scantron sheets were scanned into a database that produced an Excel Spreadsheet Report. The cause of the duplicate hours did not result from volunteer hours being scanned or entered multiple times, it resulted from the instructors incorrectly completing the scantron sheets which were not caught and corrected prior to the scantron sheets being scanned. For recommendation #1, the MDNR agrees and will work with the U.S. Fish and Wildlife Service (USFWS) to resolve the questioned costs. For recommendation #2, the MDNR agrees and implemented a new system on August 1, 2021, called Event Manager. This system eliminated the need for scantron sheets and the Excel spreadsheet and replaced those with online entry into the system by volunteers. The system captures instructor hours by teaching hours and preparation hours per class per day, total time per class, class start and end times, and if they were paid. This will prevent the duplication of hours when they are teaching more than one class in a day. For recommendation #3, due to the implementation of the new system, the MDNR disagrees and believes that this is no longer necessary due to the volunteers entering their hours by class, by day, and by time. MDNR believe that this new process meets the requirements specified in 2 C.F.R. Section 200.434(d). For recommendation #4, the MDNR agrees and will comply.

Under the Inaccurate Reporting of Program Income – Questioned Costs of \$11,412 (Federal Share) finding, the DNR agrees with the finding but disagrees with the questioned costs. MDNR agrees that the program income was originally reported using the additive method when it should have been the deductive method; however, MDNR reduced its federal expenditures by the amount of program income so therefore treated it as the deductive method and MDNR did not receive excess reimbursement. MDNR also did not fully expend this grant. The Federal Financial Report (SF-425) was revised during the audit on 11-19-2021 for Grant No. F15AF00938. MDNR intends to work with the USFWS Region 3 Office to submit a revised final SF-425 representing the deductive program income method for Grant No. F19AF01204. For recommendation #5, the MDNR disagrees with the questioned costs and will work with the USFWS to resolve the issue. For recommendation #6, the MDNR agrees and will comply.

Under the Potential Diversion of License Revenue – Undeposited Disposed Equipment Proceeds of \$7,300 finding, the MDNR agrees with the finding and the recommendations. For recommendation #7, the MDNR agrees and has already complied. An entry was completed on January 4, 2023, to credit the \$7,300 to the Game & Fish Protection Fund on document number IETR1 23*84 in the state's accounting system. For recommendation #8, the MDNR agrees and will comply.

Under the Missing Elements in Subaward Agreements finding, the MDNR agrees with the findings and recommendations of #9, #10, and #11, and will comply.

Please contact Erik Eklund, Chief, Finance and Operations, at 517-284-5958 if you have any questions.

Sincerely,



Shannon Lott
Acting Director
517-284-6367

cc: Julie Cole, U.S. Fish and Wildlife Service
Scott Whitcomb, Acting Natural Resources Deputy, MDNR
Kristin Phillips, Chief Administrative Officer, MDNR
Jared Duquette, MDNR
David Shaw, MDNR
James Dexter, MDNR
Jon Spieles, MDNR
Erik Eklund, MDNR
Amy Henderson, MDNR
Eric Sink, MDNR

Appendix 5: Status of Recommendations

Recommendation	Status	Action Required
1-11	Resolved but not implemented: U.S. Fish and Wildlife Service (FWS) regional officials concurred with these recommendations and will work with staff from the Michigan Department of Natural Resources to develop and implement a corrective action plan.	Complete a corrective action plan (CAP) that includes information on actions taken or planned to address the recommendations, target dates and titles of the officials responsible for implementation, and verification that FWS headquarters officials reviewed and approved the actions the State has taken or planned.



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