AUDIT

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

U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program

Grants Awarded to the State of California, Department of Fish and Wildlife, From July 1, 2014, Through June 30, 2016

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

Report No.: 2017-WR-064 April 2019

Memorandum

APR 1 5 2019

To: James W. Kurth
Deputy Director, Exercising the Authority of the Director
U.S. Fish and Wildlife Service

From: Michael P. Colombo
Regional Manager, Western Region

Subject: Final Audit Report – U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of California, Department of Fish and Wildlife, From July 1, 2014, Through June 30, 2016
Report No. 2017-WR-064

This final report presents the results of our audit of costs claimed by the California State Department of Fish and Wildlife (Department) under grants awarded by the U.S. Fish and Wildlife Service (FWS). The FWS provided the grants to the State under the Wildlife and Sport Fish Restoration Program. The audit included claims totaling approximately $113 million on 189 grants that were open during the State fiscal years that ended June 30, 2015, and June 30, 2016 (see Appendix 1). The audit also covered the Department's compliance with applicable laws, regulations, and FWS guidelines, including those related to collecting and using hunting and fishing license revenues and reporting program income.

We questioned costs totaling $579,085 ($434,319 Federal share) due to an inaccurate indirect cost rate, unrecognized program income, unsupported and ineligible other direct costs, improperly calculated leave payouts, improper use of vehicles, improperly allocated leave pay, and improperly disposed equipment. In addition, we found that the Department used an unapproved methodology to count lifetime license holders, did not manage equipment adequately, did not properly allocate program income associated with its lands pass program, and did not properly classify its subawards.

We provided a draft of the report to the FWS. In this report we summarize the Department's and FWS Region 8's responses to our recommendations, as well as our comments on their responses. We list the status of the recommendations in Appendix 4.

Please provide us with a corrective action plan based on our recommendations by July 15, 2019. The plan should provide information on actions taken or planned to address the recommendations, as well as target dates and titles of the officials responsible for implementation. Please address your response to me and submit a signed PDF copy to aie_reports@doioig.gov.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit reports issued, actions taken to implement our recommendations, and recommendations that have not been implemented.

If you have any questions regarding this report, please contact me at 916-978-5653.

cc: Paul Souza, Regional Director, Region 8, U.S. Fish and Wildlife Service

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Introduction

Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act[1] established the Wildlife and Sport Fish Restoration Program. Under the Program, the U.S. Fish and Wildlife Service (FWS) provides grants to States to restore, conserve, manage, and enhance their wildlife and sport fish resources. The Acts and Federal regulations contain provisions and principles on eligible costs and allow the 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 States' fish and game agencies. Finally, Federal regulations and FWS guidance require States to account for any income they earn using grant funds.

Objectives

We conducted this audit to determine whether the California State Department of Fish and Wildlife (Department):

- Claimed the costs incurred under the Program grants in accordance with the Acts and related regulations, FWS guidelines, and grant agreements

- Used State hunting and fishing license revenues solely for fish and wildlife program activities

- Reported and used program income in accordance with Federal regulations

Scope

Audit work included claims totaling approximately $113 million on the 189 grants open during the State fiscal years (SFYs) that ended June 30, 2015, and June 30, 2016 (see Appendix 1). We performed our audit at the Department's headquarters office in Sacramento, CA, and visited 1 field office, 1 fish hatchery, 13 wildlife management areas, 2 boat access sites, and 9 ecological reserves (see Appendix 2).

We performed this audit to supplement—not replace—the audits required by the Single Audit Act.

[1] 16 U.S.C. §§ 669 and 777, as amended, respectively.

Methodology

We conducted this 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.

Our tests and procedures included:

- Examining the evidence that supports selected expenditures charged to the grants by the Department
- Reviewing transactions related to purchases, direct costs, indirect costs, drawdowns of reimbursements, in-kind contributions, and program income
- Interviewing Department employees to ensure that personnel costs charged to the grants were supportable
- Conducting site visits to inspect equipment and other property
- Determining whether the Department used hunting and fishing license revenues solely for the administration of fish and wildlife program activities
- 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 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 Department's operations.

We relied on computer-generated data for other direct costs and personnel costs to the extent that we used these data to select Program costs for testing. Based on our test results, we either accepted the data or performed additional testing. For other direct costs, we took samples of costs and verified them against source documents such as purchase orders, invoices, receiving reports, and payment documentation. For personnel costs, we selected Department employees who charged time to Program grants and verified their hours against timesheets and other supporting data.

Prior Audit Coverage

On June 26, 2012, we issued *Audit of U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of California, Department of Fish and Game, From July 1, 2009, Through June 30, 2011* (Report No. R-GR-FWS-0004-2012).

We followed up on all recommendations in the report and found that the U.S. Department of the Interior (DOI), Office of the Assistant Secretary for Policy, Management and Budget, considered the recommendations resolved and implemented.

We also reviewed the State's single audit reports for SFYs 2014 – 2015 and 2015 – 2016 and found that the Department's Program grants were not considered major programs. Neither of these reports contained any findings directly affecting the Program grants.

Results of Audit

Audit Summary

We identified the following conditions that resulted in our findings, including questioned costs totaling $579,085 ($434,319 Federal share).

A. **Ineligible and Unsupported Costs—$579,085**

   1. **Inaccurate Indirect Cost Rate—$302,494.** The Department included direct charges in its indirect cost pool when calculating its indirect cost rate for SFY 2015 – 2016 grants. This resulted in an inflated indirect cost rate.

   2. **Unrecognized Program Income—$124,940.** The Department did not account for program income received on some of its grants.

   3. **Unsupported and Ineligible Other Direct Costs—$59,265.** The Department charged ineligible expenses directly to grants and was unable to provide required support for other expenses.

   4. **Improperly Calculated Leave Payouts—$39,636.** The Department did not properly allocate payouts for employees who separated from the Department between grant and non-grant funds.

   5. **Improper Use of Vehicles——$20,924.** The Department used grant-funded vehicles for non-grant purposes during the audit period.

   6. **Improperly Allocated Leave Pay—$16,172.** The Department did not properly allocate grant-funded employees' payroll expenditures between grant and non-grant activities.

   7. **Improperly Disposed Equipment—$15,654.** The Department did not credit proceeds from the sale of a grant-funded piece of equipment to a grant program.

B. **Unapproved Methodology To Count Lifetime License Holders.** The Department's methodology to count lifetime license holders for its annual certification was not approved by the FWS.

C. **Inadequate Equipment Management.** The Department had not adequately managed its equipment. Items were not listed on the inventory and were missing "Dedicated Use" and property tags.

D. **Improper Lands Pass Program Income Allocations.** The Department is not properly allocating program income revenues resulting from the sale of lands passes.

E. **Contract Agreements Not Properly Classified as Subawards.** The Department's service agreement with Hubbs-SeaWorld Research Institute should have been classified as a subaward rather than a contract.

Appendix 3 summarizes our findings by grant number.

Findings and Recommendations

A. Ineligible and Unsupported Costs—$579,085

1. Inaccurate Indirect Cost Rate—$302,494

We found that the overhead cost pool used to calculate the Department's indirect cost rate for SFY 2015 – 2016 included expenditures that were also charged directly to Program grants, resulting in an inaccurate indirect cost rate.

The Department applies overhead costs to grants using a negotiated indirect cost rate approved by the DOI's Interior Business Center specifically for Program grants. The approved indirect cost rate of 27.63 percent for SFY 2015 – 2016 was calculated using direct and indirect costs incurred during SFY 2013 – 2014. We did not find evidence that this same problem occurred for the other audited fiscal year, SFY 2014 – 2015.

Federal regulations (2 C.F.R. § 200, Appendix VII(A)(1)) state that a cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose has been assigned as a direct cost.

Working with the Department, we identified $801,208 in costs included in the overhead cost pool that were also charged directly to Federal grants during SFY 2013 – 2014. As a result, the Department applied an inflated indirect cost rate to its Program grants for SFY 2015 – 2016 and charged excess indirect costs of $302,494. After removing the duplicated expenditures, we determined that the correct indirect cost rate should have been 26.73 percent.

Recommendation
We recommend that the FWS: 1. Work with the Department to resolve the Federal share of excess indirect costs, $226,871, billed to Program grants during SFY 2015 – 2016. (Note: The total recovery amount should be offset by recoveries of indirect costs associated with any SFY 2015 – 2016 costs disallowed by other issues identified by this audit.)

Department Response
The Department proposed to credit back to the FWS $302,494 for the excess indirect costs billed to WSFR grants during SFY 2015 – 2016. The Department verified that it has corrected the indirect cost calculation for all fiscal years from 2016 – 2017 forward.

FWS Response
The FWS concurred with our finding and recommendation.

OIG Comments
In its response, the Department proposed to credit back to the FWS $302,494. That is the total amount of excess indirect costs. We have modified our recommendation to clarify that we recommend the FWS work with the Department to resolve the Federal share of $302,494, or $226,871. Based on the Department's and the FWS' responses, we consider Recommendation 1 resolved but not implemented (see Appendix 4).

2. Unrecognized Program Income—$124,940

During the audit period, the Department collected revenues from visitors to sites managed with Program funds. The Department recorded these revenues in California State Fund 0213, sometimes, but not always, assigning a project ID number that associated the revenues with a specific project (grant). We found that the Department claimed program income on associated grants when a project ID number was assigned, but did not claim program income for revenues where no project ID number was assigned.

The revenues collected from visitors should have been claimed as program income on grants providing operations and maintenance funding to the attributable State property. According to Federal regulations (50 C.F.R. § 80.120(b)), program income includes revenues from use of real property managed with grant funds.

Because program income amounts were not applied toward grants, Federal drawdown amounts exceeded the amounts allowed by $93,705. We determined the amount of program income the Department should return to the FWS by multiplying the amount of unrecognized program income by the Federal share (75 percent), illustrated in Figure 1.

State Fiscal Year	Revenues	Program Income Applied to Projects	Unrecognized Program Income	Federal Share (75%) of Unrecognized Program Income
2014 – 2015	$75,038	$2,109	$72,929	$54,697
2015 – 2016	$82,980	$30,969	$52,011	$39,008
Total	**$158,018**	**$33,078**	**$124,940**	**$93,705**

Figure 1. Federal share calculation of unrecognized program income.

Recommendations

We recommend that the FWS:

2. Work with the Department to resolve the Federal share of unrecognized program income, $93,705.

3. Work with the Department to implement controls that ensure program income is properly allocated to the associated grants.

Department Response

The Department acknowledged that program income associated with the sale of daily and annual lands passes was unrecognized and not claimed properly on Program grants in SFYs 2014 – 2015 and 2015 –2016.

The Department will develop a methodology, along with policies and procedures, to ensure that revenues collected for daily and annual lands passes are properly allocated to the associated grants.

FWS Response

The FWS concurred with our finding and recommendations.

OIG Comments

Based on the Department's and the FWS' responses, we consider Recommendations 2 and 3 resolved but not implemented (see Appendix 4).

3. Unsupported and Ineligible Other Direct Costs—$59,265

We found the Department failed to obtain advance approval for three purchases, resulting in unsupported costs totaling $45,702, as well as other ineligible costs totaling $13,563, in our transaction testing.

We judgmentally selected 152 transactions, totaling $9,105,978 (or 43 percent of the total other direct costs claimed), to test the reliability of the Department's financial management system and determine whether the Department followed Federal and State requirements when procuring goods and services. Our tests revealed the following problems:

- **Advance Approval Not Obtained—Unsupported Costs of $5,413.** The Department could not provide sufficient evidence that it obtained required internal approval prior to purchase for two items in our sample, each costing $1,000 or more. Specifically, the Department incurred vehicle repair costs of $3,278 and $1,000 on Grant Nos. F14AF00349 and F15AF00905, respectively. The California Department of General Services, Office of Fleet and Asset Management (OFAM), has published guidance for vehicle repairs stating that maintenance and repairs exceeding $500 from an OFAM-approved auto repair vendor or exceeding $350 from a non-approved vendor require advance approval by an inspector. The inspections and approvals for these repairs were performed after the repairs. We therefore classified the $4,278 plus associated indirect costs of $1,135 as unsupported costs.

- **Prior FWS Approval Not Demonstrated for Major Equipment—Unsupported Costs of $40,289.** The Department could not provide sufficient evidence that it obtained approval from the FWS for a major equipment purchase as required. Specifically, the Department purchased ultrasound equipment costing $31,922 under Grant No. F14AF00929. The grant agreement lists $130,000 for minor equipment, but no amount or approval for major equipment purchases. Federal regulations (2 C.F.R. § 200.407) require non-Federal entities to seek prior written approval from the grant awarding agency in advance of special or unusual costs. Furthermore, regulations at 2 C.F.R. § 200.439(b)(2) require capital expenditures costing $5,000 or more to have the prior written approval of the Federal awarding agency to be allowable as direct costs. We therefore classified the $31,922 plus associated indirect costs of $8,367 as unsupported costs.

- **Other Ineligible Costs—$13,563.** The Department charged four ineligible expenditures to the grants, each costing $1,000 or more, specifically:

- The Department charged $6,500 to Grant No. F15AF00905 for pheasants. The FWS provides guidance at 521 FW 1.8(F) of the *FWS Service Manual* regarding ineligible activities, which include the stocking of game animals for the purpose of providing hunting of the animals stocked. This charge accrued associated indirect costs of $1,796.

- The Department charged $3,083 to Grant No. F15AF00579 for payment of penalties and fees to San Joaquin Valley Unified Air related to air quality assessments. Federal regulations at 2 C.F.R. § 200.441 state that costs resulting from a grantee's violation of or failure to comply with various laws and regulations are unallowable. No indirect costs were associated with this charge.

- The Department charged $1,164 to Grant No. F15AF01167 for payments in lieu of taxes (payments to local or county governments where tax-exempt State property is located to compensate for lost property tax revenues). Federal regulations at 2 C.F.R. § 200.470 state that taxes that a governmental unit is legally required to pay are allowable. Under this grant, however, the State was not legally bound to make payments in lieu of taxes. No indirect costs were associated with this charge.

- The Department charged $1,020 to Grant No. F14AF00593 for taxes associated with a residence; however, the grant does not list any residence. Furthermore, this residence is located in a wildlife area listed on a separate grant. The Department explained that this charge should have been allocated to that grant, but we would also question a charge associated with a residence being used by an employee performing work under a separate grant. Federal regulations at 2 C.F.R. § 200.403(a) state that in order to be allowable, costs must be necessary and reasonable for the performance of the Federal award and be allocable thereto. No indirect costs were associated with this charge.

These unsupported and ineligible direct costs were reimbursed at a rate of 75 percent of the expenditure plus associated indirect costs. As a result of our testing, we question $45,702 in unsupported costs ($36,200 plus $9,502 in associated indirect costs) and $13,563 in other ineligible costs ($11,767 plus $1,796 associated indirect costs), for a total of $59,265 ($44,449 Federal share).

Recommendation
We recommend that the FWS: 4. Work with the Department to resolve the Federal share of unsupported and other ineligible costs, along with associated indirect costs, $44,449.

Department Response
The Department will issue a memo to all staff reminding them of the policies and procedures associated with purchases using Federal funds.

FWS Response
The FWS concurred with our finding and recommendation.

OIG Comments
Based on the Department's and the FWS' responses, we consider Recommendation 4 resolved but not implemented (see Appendix 4).

4. Improperly Calculated Leave Payouts—$39,636

We found that the Department improperly calculated retirement and leave payouts for departing employees who charged time to Program grants.

When a Department employee separates from State service, the Department is allowed to allocate a portion of the employee's retirement and leave payout to a Federal grant. The portion of the payout allocated to the grant must be commensurate with the amount of activity the employee charged to the grant. During the audit period, nine employees who worked on Federal grants separated from the Department, and the Department charged 100 percent of those employees' retirement and leave payouts to Program grants.

Federal regulations (2 C.F.R. § 225, Appendix A(C)(1)(a), (b), and (j)) require that to be allowable under Federal awards, costs must be necessary for proper performance and administration of the award, be allocable to the award, and be adequately documented. Furthermore, 2 C.F.R. § 225, Appendix B(8)(d)(2), states that the cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if the costs are equitably allocated to all related activities, including Federal awards.

Based on information provided by the Department, we determined that leave payouts were improperly allocated to seven grants, resulting in ineligible costs of

$39,636 ($31,254 plus $8,382 in associated indirect costs). The Federal share of this amount is $29,729.

Recommendations

We recommend that the FWS:

5. Work with the Department to resolve the Federal share of excess leave payouts, along with associated indirect costs, charged directly to Program grants during SFYs 2014 – 2015 and 2015 – 2016, $29,729.

6. Ensure the Department follows Federal regulations and State policies and procedures to allocate the appropriate amount of leave to Program grants.

Department Response
The Department proposed to credit back to the FWS $29,729 for the excess leave payments that were charged directly to WSFR grants during SFYs 2014 – 2015 and 2015 – 2016.

The Department will develop policies and procedures for both the Human Resources Branch and the Federal Assistance Section to ensure leave payouts calculated by the Human Resources Branch are correct and follow the Code of Federal Regulations.

FWS Response
The FWS concurred with our finding and recommendations.

OIG Comments
Based on the Department's and the FWS' responses, we consider Recommendations 5 and 6 resolved but not implemented (see Appendix 4).

5. Improper Use of Vehicles—$20,924

We found multiple instances where Department employees used vehicles acquired with grant funds for purposes not supported by Program grants. A Department employee at an ecological reserve predominately used a grant-funded vehicle at sites not funded by grants. Another employee who used a grant-funded vehicle occasionally drove to non-grant-funded sites to perform work. One of those vehicles was previously used by a third employee to commute from a home office to daily work locations. These vehicles are marked with red, Federal "Dedicated Use" tags, requiring that usage of such equipment be restricted to Federal projects.

Federal regulations at 2 C.F.R. § 200.313(a)(1) require recipients of Federal awards to use equipment acquired with Federal funds only for authorized purposes, until funding for the project ends or the equipment is no longer needed for project purposes. Further, the Department's equipment policy requires all Department staff to be responsible for ensuring that any equipment identified with a Federal "Dedicated Use" tag be used only on Federal projects.

The Department failed to ensure that use of vehicles purchased with Federal funds was restricted to Federal projects. We reviewed mileage logs to identify ineligible trips between July 1, 2014, and April 30, 2018. We classified as ineligible costs totaling $7,188 ($5,391 Federal share) associated with trips where the destinations identified in the mileage log were sites that did not receive Federal funds. We classified as unsupported costs totaling $11,707 ($8,780 Federal share) associated with trips where the destinations in the mileage log were not specific enough to identify the sites or where the destinations were not specified at all. We also classified $2,029 ($1,522 Federal share) in costs as unsupported when the vehicle was used to commute from a home office to a work location. The questioned costs resulting from this issue total $20,924 ($15,693 Federal share).

Recommendations

We recommend that the FWS:

7. Work with the Department to resolve the Federal share of ineligible costs, $5,391.

8. Determine the allowability of unsupported costs of $13,736 ($10,302 Federal share) and work with the Department to resolve the Federal share of the total determined to be disallowed.

9. Ensure the Department follows Federal regulations and State policies and procedures for the use of vehicles acquired or maintained with Federal funds.

Department Response
The Department proposed to credit back to the FWS $5,391 for the ineligible costs as well as $10,302 for unsupported costs.

The Department will issue a memo to all staff reminding them of the specific requirements for vehicles acquired or maintained with Federal funds.

FWS Response
The FWS concurred with our finding and recommendations.

OIG Comments
Based on the Department's and the FWS' responses, we consider Recommendations 7, 8, and 9 resolved but not implemented (see Appendix 4).

6. Improperly Allocated Leave Pay—$16,172

Department employees who split their working hours between Federal grant projects and non-Federal grant projects are called "split-funded" employees. During the audit period, we identified five split-funded employees who failed to allocate leave hours equitably across their normal duty activity funds. For example, an employee at [redacted] Wildlife Area normally charges 80 percent of his time to Grant No. F14AF00752 and the remaining time to other State projects, but he charged 100 percent of his leave time to the grant across multiple months during the grant period.

Federal regulations (2 C.F.R. § 225, Appendix A(C)(1)(a), (b), and (j)) require that to be allowable under Federal awards, costs must be necessary for proper performance and administration of the award, be allocable to the award, and be adequately documented. Furthermore, 2 C.F.R. § 225, Appendix B(8)(d)(2), states that the cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if the costs are equitably allocated to all related activities, including Federal awards.

An excessive amount of fringe benefits, in the form of authorized absences for five employees, was charged to Program grants. This resulted in ineligible costs of $12,757 plus the associated indirect costs of $3,415. The Federal share of this amount is $12,131.

Recommendation

We recommend that the FWS:

10. Work with the Department to resolve the Federal share of ineligible fringe benefits, along with associated indirect costs, charged directly to Program grants, $12,131.

Department Response
The Department proposed to credit back to the FWS $12,131 for the Federal share of ineligible fringe benefits, along with associated indirect costs. The Department will issue a memo to all Federal grant project leads and supervisors reminding them of the specific requirements for federally funded staff.

FWS Response
The FWS concurred with our finding and recommendation.

OIG Comments
Based on the Department's and the FWS' responses, we consider Recommendation 10 resolved but not implemented (see Appendix 4).

7. **Improperly Disposed Equipment—$15,654**

We found one instance when the Department did not properly document proceeds from the disposition of equipment and four instances when the Department did not fully complete required documentation for disposal of property.

We tested five equipment dispositions that occurred during the audit period to determine whether the Department properly disposed of equipment purchased with Federal grant funds. We found the Department to be deficient in two areas, detailed below.

- **Disposition Proceeds Not Credited to a Federal Program.** The Department could not provide sufficient evidence to demonstrate that it abated disposition auction proceeds of $15,654 for a federally funded piece of equipment to a Federal program.

- **Property Survey Report Not Fully Completed.** Four of the five federally funded sample items selected had incomplete "Certification of Disposition" fields on their Property Survey Reports, or STD 152s. This field is a required field that documents how the equipment was disposed of, the disposal date, the name of the officer supervising the disposal, and that officer's title.

Federal regulations at 2 C.F.R. § 200.313(b) require States to use, manage, and dispose of equipment acquired under a Federal award in accordance with State laws and procedures. Statewide policies under California's *State Administrative Manual*, § 8640, require departments to prepare STD 152s when disposal of property occurs. In addition, the Department's equipment policy requires that federally funded equipment proceeds sold at auction for over $5,000 be abated to a Federal program.

As a result of our testing, we questioned disposition proceeds of $15,654. These proceeds should have been recorded as offsets to expenditures on the applicable Federal program, reducing the reimbursable amount. Because they were not recorded, the Federal share of the proceeds, or $11,741 (75 percent), represented an excessive drawdown amount, which we classified as ineligible costs.

Recommendations
We recommend that the FWS: 11. Work with the Department to resolve the Federal share of ineligible costs, $11,741. 12. Ensure the Department follows all Federal regulations and State policies and procedures related to disposition of equipment purchased with Federal funding.

Department Response
The Department proposed to credit back to the FWS $11,741 for the Federal share of ineligible costs.

The Department will update the policies and procedures related to disposition of equipment purchased with Federal funding.

FWS Response
The FWS concurred with our finding and recommendations.

OIG Comments
Based on the Department's and the FWS' responses, we consider Recommendations 11 and 12 resolved but not implemented (see Appendix 4).

B. Unapproved Methodology To Count Lifetime License Holders

Federal regulations (50 C.F.R. § 80.35(d)) require that multiyear licenses can be counted in the annual certification only if the licenses meet the minimum net revenue requirements for the license period, based on the duration of the license or whether the license holder remains alive. States must propose a technique to determine the number of license holders who remain alive in the certification period, and Federal regulations (50 C.F.R. § 80.35(e)) require the State agency to obtain the FWS Director's approval of its proposed methodology.

The Department had methodology in place to count lifetime license holders for its annual certification. We found, however, that the Department's methodology was not approved by the FWS, as required.

Without FWS approval of the Department's methodology for calculating lifetime license holders, licenses included in the certification beyond the year purchased are ineligible to be counted. This distinction is important because the FWS uses license certification data to equitably apportion Program funds among the States. The inclusion of multiyear licenses without FWS approval of a State's methodology means that the FWS cannot ensure States are receiving the appropriate level of Program funding.

Recommendation
We recommend that the FWS: 13. Exclude multiyear license holders from the Department's license certification count beyond the year purchased, unless the Department has obtained the FWS Director's approval of its proposed technique in accordance with 50 C.F.R. § 80.35(e).

Department Response
The Department agreed to coordinate with the FWS to receive approval of its methodology to count lifetime license holders for its annual certification moving forward.

FWS Response
The FWS did not concur with this finding and recommendation. In its reasoning, it cited pending regulations that would clarify how States determine which multiyear licenses to count. In addition, the FWS stated it had instructed all States not to submit the methodology for approval.

OIG Comments
Our audit relied on regulations that were in place during the audit period and still current. In identifying findings, we do not rely on pending legislation. The FWS indicated that it instructed all States not to submit the methodology for approval; however, 50 C.F.R. § 80.35(e) states, "The <u>agency</u> must obtain the Director's approval of its proposed technique . . ." [emphasis added]. Since the Department did not obtain this approval, it did not fulfill the requirement under 50 C.F.R. § 80.35(e). Therefore, lifetime licenses have not been approved for use in license certifications for multiple years. We have revised the finding and recommendation to more directly address the issue and regulatory criteria.

Based on the Department's and the FWS' responses, we consider Recommendation 13 unresolved (see Appendix 4).

C. Inadequate Equipment Management

We noted the following equipment management deficiencies during our visits to various Department properties:

- Items observed onsite were not listed on the Department's inventory.

- Items with red, Federal “Dedicated Use” tags were not listed on the Department’s inventory.

- Items that should have Federal “Dedicated Use” tags were missing the tags.

- Items were missing property tags altogether.

In addition, a review of Department transactions made during the audit period revealed equipment purchased using Federal funds that did not appear on the Department’s inventory list.

Federal regulations (50 C.F.R. § 80.90(f)) require each State fish and wildlife agency to be responsible for the control of all assets acquired under Program grants to ensure that they serve the purpose for which they were acquired throughout their useful life.

Statewide policies under the *State Administrative Manual*, § 8650, require departments to maintain accountability for State assets by keeping a record of State property in a property accounting or inventory system. When the property is acquired, departments must record the date of acquisition, property description, property identification number, cost or other basis of valuation, owner fund, and rate of depreciation (if applicable). The Department’s equipment and property tagging policy requires equipment purchased with Federal funds to be identified with a Federal “Dedicated Use” tag. The same policy document stipulates that any equipment worth $5,000 or more must receive a property tag.

The equipment management deficiencies we observed place equipment at greater risk of loss and increase the possibility that federally funded equipment may not be used for its originally intended purpose.

Recommendation

We recommend that the FWS:

14. Ensure the Department follows Federal regulations as well as State and Department policies and procedures for its asset management.

Department Response

In addition to updating the policies and procedures related to disposition of equipment purchased with Federal funding and for vehicles acquired or maintained with Federal funds, the Department will review all policies and procedures related to asset management and revise as needed to ensure they meet all Federal and State regulations.

FWS Response
The FWS concurred with our finding and recommendation.

OIG Comments
Based on the Department's and the FWS' responses, we consider Recommendation 14 resolved but not implemented (see Appendix 4).

D. Improper Lands Pass Program Income Allocations

During conversations with Department officials, we learned that the Department is not properly allocating revenues from the sale of site use passes (lands passes) as program income.

The Department collects revenues from non-hunting and non-fishing visitors to some properties in the form of a lands pass. On lands pass properties, each visitor who is 16 years of age or older is required to carry a 1-day or annual lands pass. Visitors who carry a valid California hunting or fishing license are exempt from the lands pass requirement.

Revenues from the sale of daily and annual lands passes are program income if the lands pass is used at a grant-funded site. Not all lands pass locations are grant-funded sites, and an annual lands pass can be used at multiple locations, making it difficult to determine which grant should receive the program income revenues.

According to Federal regulations (50 C.F.R. § 80.120(b)), program income includes revenues from use of real property managed with grant funds.

When program income amounts are not properly allocated among grants, Federal award drawdowns and claimed costs may exceed the allowable amounts.

Recommendations

We recommend that the FWS:

15. Coordinate with the Department to develop and implement policies, procedures, and a methodology that fairly allocates lands pass revenues among grant-funded sites.

16. Ensure that the Department recognizes program income associated with lands pass revenues prior to initiating the final drawdown for SFY 2017 – 2018 grants.

Department Response
The Department is developing policies and procedures to ensure lands pass revenues are properly allocated among grant-funded sites and correctly recognized as program income on the SFY 2017 – 2018 grants.

FWS Response
The FWS concurred with our finding and recommendations.

OIG Comments
Based on the Department's and the FWS' responses, we consider Recommendations 15 and 16 resolved but not implemented (see Appendix 4).

E. Contract Agreements Not Properly Classified as Subawards

After reviewing the Department's documentation for agreements with various entities that it classified as contracts, we determined that its service agreement with Hubbs-SeaWorld Research Institute (HSWRI) under Grant No. F14AF00521 should have been classified as a subaward. This agreement was continued the following grant year under Grant No. F15AF00306.

The Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) applies to grants approved by the FWS on or after December 26, 2014, and requires pass-through entities to perform risk assessments and subrecipient monitoring. A subrecipient is defined in Federal regulations (2 C.F.R. § 200.93) as a non-Federal entity that receives a subaward (as defined in § 200.92) from a pass-through entity to carry out part of a Federal program. In this case, the Department is the pass-through entity and the HSWRI is the subrecipient.

According to 2 C.F.R. § 200.330, a pass-through entity must make case-by-case determinations on whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of subrecipient or a contractor. The nature of the work described in the HSWRI agreement indicated higher levels of involvement than a typical contract, with Department staff serving as project leaders overseeing the work being conducted.

In making our determination that the HSWRI is a subrecipient, we relied on Federal regulations at 2 C.F.R. § 200.330(a)(5), 2 C.F.R. § 200.330(b)(3), and 2 C.F.R. § 200.201(b). We also relied on language in the agreement stating that the HSWRI was a subrecipient of Federal funds and, therefore, subject to the Federal Funding Accountability and Transparency Act (FFATA). Furthermore, the agreement was for activities serving the public purpose of the Dingell-Johnson Sport Fish Restoration Act (a typical attribute of a subaward), rather than for goods or services that are ancillary to the operation of a Federal program (a typical attribute of a contract). Therefore, we believe the HSWRI should be classified as a subrecipient and, as such, subject to the monitoring requirements outlined in 2 C.F.R.§ 200.331 and the reporting requirements outlined in the FFATA.

When an agreement is a subaward, Federal regulations at 2 C.F.R. § 200.331(b) require the Department to perform a risk assessment to evaluate the subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward in order to determine the appropriate subrecipient monitoring.

Because the agreement with the HSWRI should be classified as a subaward and not a contract, the Department is not in compliance with the Uniform Guidance for subaward administration under 2 C.F.R. § 200.331 and the FFATA.

Recommendation

We recommend that the FWS:

17. Require the Department to develop and implement procedures to ensure compliance with 2 C.F.R. § 200.331 and FFATA requirements for the proper administration and reporting of subawards.

Department Response

The Department agreed to follow guidance the FWS develops for determining whether Program funds pass through as subawards or contracts.

FWS Response

The FWS concurred with our finding that this agreement is a subaward, but did not concur with Recommendations 17 and 18 in our draft report because, as written, they were directed toward the FWS and not toward the Department (specifically, that the FWS develop and implement relevant guidance and procedures). The FWS suggested revising the recommendations to require action by the State. The FWS also acknowledged that "contracts vs. subawards" has been an issue in other WSFR audits and additional guidance may be needed.

OIG Comments

In response to the FWS' acknowledgment that subaward oversight is an ongoing issue and that it needs to provide additional guidance, we have revised the initial two recommendations into a single one.

Based on the Department's and the FWS' responses, we consider Recommendation 17 resolved but not implemented (see Appendix 4).

Appendix 1

State of California
Department of Fish and Wildlife
Grants Open During the Audit Period
July 1, 2014, Through June 30, 2016

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Ineligible	Unsupported
F10AF00683	$869,980	$73,216	$0	$0
F10AF00684	688,142	553,123	0	0
F11AF01004	2,041,871	1,676,000	0	0
F11AF01300	426,405	285,999	0	0
F11AF01301	365,490	152,294	0	0
F11AF01302	243,660	451,919	0	0
F11AF01317	414,222	241,775	0	0
F11AF01326	812,200	778,772	0	0
F12AF00221	791,895	650,000	0	0
F12AF00865	6,262,929	2,996,856	0	0
F12AF00866	502,545	148,903	0	0
F13AF01226	3,783,591	0	0	0
F14AF00184	2,284,000	1,905,087	4,591	8,622
F14AF00189	903,811	828,093	0	0
F14AF00234	200,509	192,044	0	0
F14AF00280	54,376	64,915	0	0
F14AF00281	153,850	153,118	0	0
F14AF00286	154,388	142,563	0	0
F14AF00289	134,944	113,896	0	0
F14AF00292	110,959	24,189	0	0
F14AF00293	61,036	49,856	0	0
F14AF00294	476,583	441,271	0	0
F14AF00302	260,408	257,839	0	0
F14AF00323	814,781	828,174	0	0
F14AF00341	207,572	120,364	0	0
F14AF00343	382,596	360,080	0	0
F14AF00349	138,648	137,392	0	4,137
F14AF00361	219,884	157,778	0	0
F14AF00364	319,297	240,429	0	0

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Ineligible	Unsupported
F14AF00365	$334,871	$325,615	$0	$0
F14AF00367	105,921	105,921	0	0
F14AF00373	1,075,067	1,075,067	0	0
F14AF00403	295,092	284,586	0	0
F14AF00415	222,448	185,282	0	0
F14AF00416	361,320	264,149	0	0
F14AF00428	202,981	158,157	0	0
F14AF00453	257,195	240,882	0	0
F14AF00454	285,000	153,054	0	0
F14AF00455	68,555	37,834	0	0
F14AF00456	536,128	473,121	0	0
F14AF00480	195,786	187,442	0	0
F14AF00481	805,079	688,005	0	0
F14AF00482	3,248,963	3,180,158	2,008	0
F14AF00483	780,899	627,879	0	0
F14AF00484	265,431	286,109	0	0
F14AF00485	163,491	160,086	0	0
F14AF00486	190,392	89,005	0	0
F14AF00498	249,767	11,052	0	0
F14AF00507	184,021	184,021	0	0
F14AF00518	314,883	306,022	0	0
F14AF00521	1,425,886	1,831,485	0	0
F14AF00522	49,760	8,019	0	0
F14AF00523	175,109	143,174	0	0
F14AF00560	59,542	58,057	0	0
F14AF00561	1,186,334	1,186,336	0	0
F14AF00562	454,808	461,455	0	0
F14AF00563	169,663	129,028	13,328	0
F14AF00564	262,204	244,331	0	0
F14AF00581	171,165	130,740	0	0
F14AF00582	1,222,436	717,065	0	0
F14AF00583	438,317	372,727	0	0
F14AF00584	135,388	97,235	0	0
F14AF00593	174,965	133,834	1,020	0
F14AF00594	2,183,609	2,317,883	0	0

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Ineligible	Unsupported
F14AF00595	$795,569	$670,553	$0	$0
F14AF00652	3,159,439	2,847,143	0	0
F14AF00662	126,212	0	0	0
F14AF00664	1,535,661	1,452,156	0	0
F14AF00665	403,287	351,748	0	0
F14AF00692	1,353,355	1,297,913	0	0
F14AF00693	451,732	312,520	0	0
F14AF00752	2,176,256	1,869,121	8,902	0
F14AF00757	128,075	39,335	0	0
F14AF00779	1,116,669	1,004,440	0	0
F14AF00790	166,331	155,176	0	0
F14AF00831	416,344	346,421	0	0
F14AF00832	90,656	73,454	0	0
F14AF00833	611,436	471,571	0	0
F14AF00872	891,268	657,538	0	0
F14AF00888	476,936	479,265	0	0
F14AF00889	192,287	120,446	0	0
F14AF00900	186,115	208,947	0	0
F14AF00905	360,164	317,595	0	0
F14AF00906	3,256,824	3,077,284	0	0
F14AF00907	307,440	258,842	0	0
F14AF00927	2,524,244	2,293,431	0	0
F14AF00928	411,862	315,804	0	0
F14AF00929	559,557	389,056	0	40,289
F14AF00930	206,520	166,684	0	0
F14AF00959	857,968	826,968	0	0
F14AF00962	762,850	762,851	0	0
F14AF01071	4,184,661	2,760,925	8,193	0
F14AF01072	472,931	357,212	0	0
F14AF01074	1,755,081	1,677,973	0	0
F14AF01076	600,038	630,715	0	0
F14AF01256	1,836,044	1,610,313	0	0
F14AF01257	600,565	598,423	0	0
F15AF00215	237,257	205,457	0	0
F15AF00216	252,596	117,583	0	0

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Ineligible	Unsupported
F15AF00217	$146,115	$89,003	$0	$0
F15AF00218	349,763	349,763	0	0
F15AF00219	684,393	532,656	0	0
F15AF00220	394,595	118,577	0	0
F15AF00225	196,221	147,536	0	0
F15AF00235	674,960	410,164	0	0
F15AF00236	924,765	609,722	0	0
F15AF00244	3,437,249	3,387,544	12,402	0
F15AF00259	108,157	76,443	0	0
F15AF00260	1,020,855	1,019,477	0	0
F15AF00261	176,037	119,382	0	0
F15AF00262	488,967	455,094	0	0
F15AF00263	1,019,927	977,450	0	0
F15AF00264	632,113	310,246	0	0
F15AF00265	463,719	28,022	0	0
F15AF00266	3,296,030	3,182,691	2,785	0
F15AF00271	160,000	155,828	0	0
F15AF00306	1,008,267	1,621,956	0	0
F15AF00307	653,007	600,497	0	0
F15AF00308	206,801	170,731	0	0
F15AF00309	338,469	336,396	0	0
F15AF00310	120,701	92,215	0	0
F15AF00334	369,909	364,027	0	0
F15AF00337	254,453	254,436	0	0
F15AF00338	175,972	164,561	0	0
F15AF00367	767,781	747,151	0	0
F15AF00368	281,984	121,276	0	0
F15AF00369	610,733	597,140	0	0
F15AF00370	309,476	289,827	0	0
F15AF00371	137,743	91,531	0	0
F15AF00372	215,092	208,249	0	0
F15AF00373	1,617,727	1,521,305	0	0
F15AF00397	376,635	365,627	0	0
F15AF00398	480,396	435,364	0	0
F15AF00399	198,989	125,894	0	0

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Ineligible	Unsupported
F15AF00400	$1,547,688	$1,329,872	$0	$0
F15AF00401	863,393	830,827	0	0
F15AF00409	453,233	537,377	0	0
F15AF00410	53,656	42,189	0	0
F15AF00415	1,020,071	904,496	0	0
F15AF00425	495,915	491,041	0	0
F15AF00431	252,684	177,784	0	0
F15AF00432	205,160	146,058	0	0
F15AF00444	84,384	62,454	0	0
F15AF00446	56,013	80,990	0	0
F15AF00447	31,635	55,019	0	0
F15AF00448	1,129,731	1,129,729	0	0
F15AF00449	55,024	51,116	0	0
F15AF00450	294,317	277,740	0	0
F15AF00451	271,475	293,499	0	0
F15AF00456	176,481	163,148	0	0
F15AF00464	166,760	113,762	0	0
F15AF00530	257,615	207,074	0	0
F15AF00542	248,242	174,509	0	0
F15AF00543	121,959	100,287	0	0
F15AF00544	323,548	313,533	0	0
F15AF00545	40,000	40,233	0	0
F15AF00546	225,232	234,545	0	0
F15AF00547	1,800,000	0	0	0
F15AF00549	156,071	156,071	0	0
F15AF00576	669,520	588,362	0	0
F15AF00577	213,865	213,252	0	0
F15AF00578	409,891	349,923	0	0
F15AF00579	481,814	374,740	4,893	0
F15AF00597	3,225,933	3,522,381	0	0
F15AF00598	1,985,911	1,837,027	0	0
F15AF00599	2,567,519	1,841,585	6,302	0
F15AF00600	557,341	514,213	0	0
F15AF00601	1,539,174	1,531,414	0	0
F15AF00602	198,640	189,771	0	0

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Ineligible	Unsupported
F15AF00603	$3,475,341	$3,868,554	$0	$0
F15AF00632	872,000	0	0	0
F15AF00633	304,308	255,325	0	0
F15AF00648	596,368	385,698	0	0
F15AF00655	431,417	342,703	0	0
F15AF00656	69,000	27,668	0	0
F15AF00657	631,775	532,750	0	0
F15AF00660	610,290	0	0	0
F15AF00661	696,689	0	0	0
F15AF00702	378,680	325,699	0	0
F15AF00719	184,580	130,221	0	0
F15AF00862	1,530,729	1,657,446	0	0
F15AF00903	190,765	188,737	0	0
F15AF00904	298,168	275,091	0	0
F15AF00905	4,398,082	3,528,017	8,374	1,276
F15AF01167	1,353,056	1,203,761	1,164	0
F15AF01270	1,015,000	271,435	2,597	5,114
F15AF01271	1,455,000	964,534	0	0
F16AF00372	$139,367	$0	$0	$0
F16AF00457	9,450,000	0	0	0
All 2015 – 2016*	–	–	302,494	0
Multiple†	–	–	124,940	0
Unknown‡	–	–	15,654	0
Totals	–	–	**$519,647**	**$59,438**

* The indirect cost rate issue we identified applies to all grants for State fiscal years 2015 – 2016 that claimed indirect cost expenditures; therefore, we are not breaking this issue out at an individual grant level.

† We were unable to identify the individual grants that should have received the unrecognized program income.

‡ We were unable to identify the individual grant containing the equipment that was improperly disposed.

Appendix 2

State of California
Department of Fish and Wildlife
Sites Visited

<u>Headquarters</u>
Sacramento, CA

<u>Field Office</u>
Northern Region Field Office – Eureka, CA

<u>Fish Hatchery</u>
Mad River Fish Hatchery – Arcata, CA

<u>Wildlife Management Areas</u>
Butte Valley Wildlife Area
Grizzly Island Wildlife Area
Hollenbeck Canyon Wildlife Area
Lake Earl Wildlife Area
Los Banos Wildlife Area
Mendota Wildlife Area
North Grasslands Wildlife Area
San Felipe Valley Wildlife Area
Shasta Valley Wildlife Area
Slinkard/Little Antelope Wildlife Area
Spenceville Wildlife Area
Upper Butte Basin Wildlife Area
Yolo Bypass Wildlife Area

<u>Boating Access</u>
Channel Island Boat Launch Facility
West Side Boat Launch Facility

<u>Ecological Reserves</u>
Agua Hedionda Lagoon Ecological Reserve
Boden Canyon Ecological Reserve
Buena Vista Lagoon Ecological Reserve
Burton Mesa Ecological Reserve
Otay Mountain Ecological Reserve
Rancho Jamul Ecological Reserve
San Dieguito Lagoon Ecological Reserve
San Elijo Lagoon Ecological Reserve
Sycuan Peak Ecological Reserve

Appendix 3

State of California
Department of Fish and Wildlife
Issues Identified in Grants Open During the Audit Period
July 1, 2014, Through June 30, 2016

Issue	Grant No.	Ineligible Plus Indirect Costs	Unsupported Plus Indirect Costs	Total Federal Share*
Inaccurate indirect cost rate	All 2015 – 2016	$302,494	–	$226,871
Unrecognized program income	Multiple	124,940	–	93,705
Unsupported and ineligible costs	F14AF00349	–	$4,137	3,103
	F14AF00593	1,020	–	765
	F15AF00905	–	1,276	957
	F14AF00929	–	40,289	30,217
	F15AF00579	3,083	–	2,312
	F15AF00905	8,296	–	6,222
	F15AF01167	1,164	–	873
	Subtotal	13,563	45,702	44,449
Improperly calculated leave payouts	F14AF00482	2,008	–	1,507
	F14AF00563	13,328	–	9,996
	F14AF01071	7,303	–	5,477
	F15AF00244	12,402	–	9,302
	F15AF00266	2,785	–	2,089
	F15AF00579	1,810	–	1,358
	Subtotal	39,636	–	29,729
Improper use of vehicles	F14AF00184	4,591	8,622	9,910
	F15AF01270	2,597	5,114	5,783
	Subtotal	7,188	13,736	15,693

Issue	Grant No.	Ineligible Plus Indirect Costs	Unsupported Plus Indirect Costs	Total Federal Share*
Improperly allocated leave pay	F14AF00752	$8,902	–	$6,677
	F14AF01071	890	–	668
	F15AF00599	6,302	–	4,727
	F15AF00905	78	–	59
	Subtotal	16,172	–	12,131
Improperly disposed equipment	Unknown	15,654	–	11,741
Totals		**$519,647**	**$59,438**	**$434,319**

* The Federal share is 75 percent of costs incurred under a grant. Slight differences may exist in numbers due to rounding.

Appendix 4

State of California
Department of Fish and Wildlife
Status of Audit Recommendations

Recommendations	Status	Action Required
1 – 12, 14 – 17	We consider these recommendations resolved but not implemented. U.S. Fish and Wildlife Service (FWS) regional officials concurred with the recommendations and will work with the California Department of Fish and Wildlife to develop and implement a corrective action plan for these recommendations.	Complete a corrective action plan 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 of the actions taken or planned by the Department. We will refer the recommendations not resolved or implemented at the end of 90 days (after July 15, 2019) to the Assistant Secretary for Policy, Management and Budget for implementation tracking.
13	We consider the recommendation unresolved.	We will refer the recommendations to the Assistant Secretary for Policy, Management and Budget for resolution and tracking of implementation.

Report Fraud, Waste, and Mismanagement

Fraud, waste, and mismanagement in Government concern everyone: Office of Inspector General staff, departmental employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to departmental or Insular Area programs and operations. You can report allegations to us in several ways.

By Internet:	www.doioig.gov	
By Phone:	24-Hour Toll Free: Washington Metro Area:	800-424-5081 202-208-5300
By Fax:	703-487-5402	
By Mail:	U.S. Department of the Interior Office of Inspector General Mail Stop 4428 MIB 1849 C Street, NW. Washington, DC 20240	