



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 Tennessee Wildlife Resources Agency From
July 1, 2010, Through June 30, 2012



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

May 17, 2013

Memorandum

To: Daniel M. Ashe
Director, U.S. Fish and Wildlife Service

From: Hannibal M. Ware *H. Ware*
Eastern Regional Manager for Audits, Inspections, and Evaluations

Subject: Final Audit Report – U.S. Fish and Wildlife Service Wildlife and Sport Fish
Restoration Program Grants Awarded to the State of Tennessee Wildlife
Resources Agency From July 1, 2010, Through June 30, 2012
Report No. R-GR-FWS-0002-2013

This report presents the results of our audit of costs claimed by the State of Tennessee Wildlife Resources Agency (Agency), under grants awarded by the U.S. Fish and Wildlife Service (FWS). FWS provided the grants to the State under the Wildlife and Sport Fish Restoration Program. The audit included claims totaling \$47.1 million on five grants that were open during the State fiscal years that ended June 30, 2011, and June 30, 2012 (see Appendix 1). The audit also covered the Agency's compliance with applicable laws, regulations, and FWS guidelines, including those related to the collection and use of hunting and fishing license revenues and the reporting of program income.

We found that the Agency complied, in general, with applicable grant accounting and regulatory requirements. The Agency, however, overstated its in-kind match by \$55,084, resulting in a questioned cost of \$165,252; did not report program income of \$1,012,110 from agricultural leases; drew down excess Federal funds of \$96,047; and overstated its annual license certifications by 177,615.

We provided a draft report to FWS for a response. In this report, we summarize the Agency and FWS Region 4 responses, as well as our comments on the responses, after the recommendations. We also list the status of the recommendations in Appendix 3.

Please respond in writing to the findings and recommendations in this report by August 15, 2013. Your response should include information on actions taken or planned to address the recommendations, target dates and title(s) of the official(s) responsible for implementation, and verification that FWS headquarters officials reviewed and approved of the actions taken or planned by the Agency.

Please address your response to:

Hannibal M. Ware
Eastern Regional Manager
for Audits, Inspections, and Evaluations
U.S. Department of the Interior
Office of Inspector General
12030 Sunrise Valley Drive, Suite 230
Reston, VA 20191

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 Chris Krasowski, Program Audit Coordinator, or me at 703-487-5345.

cc: Regional Director, Region 4, 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 (Acts)¹ established the Wildlife and Sport Fish Restoration Program (Program). Under the Program, the U.S. Fish and Wildlife Service (FWS) provides grants to States to restore, conserve, manage, and enhance their sport fish and wildlife resources. The Acts and Federal regulations contain provisions and principles on eligible costs and allow FWS to reimburse States up to 75 percent of the eligible costs incurred under the grants. The Acts also require that hunting and fishing license revenues be used only for the administration of the 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 if the State of Tennessee Wildlife Resources Agency (Agency)—

- 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; and
- reported and used program income in accordance with Federal regulations.

Scope

Audit work included claims totaling approximately \$47.1 million on the five grants open during the State fiscal years (SFYs) that ended June 30, 2011, and June 30, 2012 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at Agency headquarters in Nashville, TN, and visited two regional offices, four wildlife management areas, one shooting range, one refuge, two fish hatcheries, three boat access areas, and one State park (see Appendix 2). We performed this audit to supplement—not replace—the audits required by the Single Audit Act Amendments of 1996 and by Office of Management and Budget Circular A-133.

Methodology

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

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

Our tests and procedures included—

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

We also identified the internal controls over transactions recorded in the labor- and license-fee accounting systems and tested their operation and reliability. Based on the results of initial assessments, we assigned a level of risk to these systems and selected a judgmental sample of transactions 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 Agency's operations.

Prior Audit Coverage

On July 2, 2008, we issued "U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Tennessee, Wildlife Resources Agency, from July 1, 2004 Through June 30, 2006" (R-GR-FWS-0014-2007). We followed up on all 12 recommendations in the report and found that the U.S. Department of the Interior, Office of the Assistant Secretary for Policy, Management and Budget (PMB) considered 11 recommendations resolved and implemented and 1 recommendation (D.1) on the reconciliation of real property as resolved but not yet implemented. We found that the Agency had subsequently reconciled its real property with FWS. Documentation on the implementation of recommendation D.1 should be sent to PMB to officially close it.

We reviewed the single audit reports and comprehensive annual financial reports for SFYs 2010 and 2011. None of these reports contained any findings that would directly affect the Program grants.

Results of Audit

Audit Summary

We found that the Agency complied, in general, with applicable grant agreement provisions and requirements of the Acts, regulations, and FWS guidance. We identified, however, the following four conditions that resulted in our findings:

- A. Overstated In-Kind Match.** The Agency overstated its in-kind match by \$55,084 (State share of 25 percent) resulting in questioned costs of \$165,252 (Federal share of 75 percent).
- B. Unreported Program Income.** The Agency did not report \$1,012,110 of program income from agricultural leases.
- C. Excess Drawdown.** The Agency drew down excess Federal funds of \$96,047 because it did not reduce its expenditures for program income and excess drawdowns from the prior year.
- D. Overstated License Certification.** The Agency overstated its annual license certification by 177,615.

Findings and Recommendations

A. Overstated In-Kind Match—\$165,252

Under the Program, States must use “State matching” (non-Federal) funds to cover at least 25 percent of costs incurred in performing projects under the grants. Noncash (in-kind) contributions may be used to meet States’ matching share of costs, and, as with costs claimed for reimbursement, States must support the value of these contributions. The State’s matching share of costs on its Hunter’s Education Sec. 4c Program grant (FWE-6-28) included in-kind contributions consisting of the value of volunteer instructor hours.

The Federal Financial Report (SF-425) submitted by the Agency overstated the in-kind contributions by \$55,084 on Program grant FWE-6-28. Although the instructor time sheets supported the amount the Agency maintained as in-kind contributions in its database of \$548,746, the Agency reported \$603,830.

According to 43 C.F.R. § 12.64(a)(2), a matching or cost-sharing requirement may be satisfied by using the value of third-party in-kind contributions applicable to the grant period. Third-party in-kind contributions must be verifiable from the State’s records, and the records must show how the value placed on the contributions was derived (43 C.F.R. § 12.64(b)(6)). Because the Agency was unable to support \$55,084 of in-kind contributions (its 25 percent share of volunteer hours claimed on the Program), we are questioning as ineligible the \$165,252 (75 percent) representing the Federal share associated with these costs.

Recommendation

We recommend that FWS work with the Agency to resolve the ineligible questioned costs of \$165,252 on Program grant FWE-6-28.

Agency Response

The Agency officials concurred with the finding and recommendation.

FWS Response

The FWS regional officials concurred with the finding and recommendation and will work with the Agency on a corrective action plan.

OIG Comments

We consider the recommendation resolved but not implemented.

B. Unreported Program Income—\$1,012,110

Under the Program, States may earn revenue or program income from grant-supported activities and must report and use such funds in accordance with Federal regulations. The Agency did not report \$1,012,110 of program income generated from agricultural leases on wildlife management areas. The operations and maintenance of these areas are included in the grant agreements. Specifically, the Agency earned \$457,187 in SFY 2011 under Program grant FWE-6-28 and \$554,923 in SFY 2012 under Program grant FWE-6-29.

The Code of Federal Regulations (43 C.F.R. § 12.65(b)) defines program income as gross income a grantee receives that is “directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period.” The regulations specify that program income will be deducted from the total allowable costs to determine the net allowable costs unless the Federal agency authorizes otherwise. The regulations also require grantees to use program income that the grantee did not anticipate at the time of the award to reduce the Federal agency and grantee share of grant costs, rather than to increase the funds committed to the project.

The Agency misinterpreted FWS Service Manual 522 FW 19 Amendment 1, dated February 20, 2008, to mean that cooperative agreements did not have to report revenue as program income. “Cooperative agreements,” however, refers to barter, which is an exchange of goods, and not to transactions with revenue.

The Agency should have reduced allowable costs by the amount of program income earned. As a result of not reporting agricultural lease revenue of \$1,012,110 as program income, the Agency may have overstated net allowable costs and drawn down excess Federal funds of \$342,890 (Federal share of

\$457,187) on Program grant FWE-6-28 and \$416,192 (Federal share of \$554,923) on Program grant FWE-6-29.

Recommendation

We recommend that FWS work with the Agency to determine whether the Agency received excessive reimbursement resulting from the \$1,012,110 in unreported program income for SFYs 2011 and 2012, and if so, determine how to account for the excess reimbursement and treatment of the program income.

Agency Response

The Agency officials disagreed with the finding and recommendation.

FWS Response

The FWS regional officials acknowledged the recommendation and will address the questioned costs in detail in a corrective action plan.

OIG Comments

We consider the recommendation unresolved.

C. Excess Drawdown—\$96,047

Under the Program, FWS may reimburse States up to 75 percent of grant expenditures, provided the State first expends its required matching share of costs. The Agency drew down \$96,047 on the Hunter Education portion of Program grant FWE-6-29 without expending the required matching share of cost. By agreement with FWS, the Agency was to reduce Program grant expenditures on FWE-6-29 in SFY 2012 by \$187,328, representing the overdrawn amount on FWE-6-28 in SFY 2011. The Agency reduced expenditures by \$91,281 instead of \$187,328.

According to 43 C.F.R. §§ 12.61(g)(i) and (ii), grantees and subgrantees shall disburse repayment and interest earned before requesting additional cash payments. Because the Agency reduced its drawdowns by only \$91,281, it resulted in an overdraw of \$96,047 on Program grant FWE-6-29.

Recommendation

We recommend that FWS require the Agency to resolve the improper drawdown of \$96,047 on Program grant FWE-6-29.

Agency Response

The Agency officials concurred with the finding and recommendation.

FWS Response

The FWS regional officials concurred with the finding and recommendation and will work with the Agency on a corrective action plan.

OIG Comments

We consider the recommendation resolved but not implemented.

D. Overstated License Certification

All States provide a certified count of hunting and fishing license sales to FWS each year. FWS uses the license certifications to determine the amount of Program funds to be apportioned to each State.

The Agency sells lifetime senior hunting and fishing licenses at prices significantly lower than annual licenses. The Agency sells resident permanent senior citizen licenses (Code 166) for \$10 and annual licenses for \$27. The senior citizen licenses are counted as multiyear, lifetime licenses in the annual license certification count. For SFY 2011, the Agency included 177,615 senior citizen licenses in its license certification, signed on August 2, 2012.

According to 50 C.F.R. § 80.35, the Agency must receive net revenue from a multiyear license that is in close approximation to the net revenue received for a single-year license providing similar privileges. This regulation took effect on August 31, 2011, but the Agency did not increase the price of the resident permanent senior citizen licenses to qualify for certification. By not eliminating these licenses, the Agency incorrectly reported a higher number of license certifications, which may have resulted in a larger apportionment of Program funds.

Recommendation

We recommend that FWS work with the Agency to resolve the inaccurate number of license certifications.

Agency Response

The Agency officials disagreed with the finding and recommendation.

FWS Response

The FWS regional officials concurred with the finding and recommendation and will work with the Agency on a corrective action plan.

OIG Comments

We consider the recommendation unresolved.

Appendix I

State of Tennessee
Wildlife Resources Agency
Financial Summary of Review Coverage
July 1, 2010, Through June 30, 2012

Grant		Claimed Costs	Questioned Cost Exception
Number	Amount		
FWE-6-28	\$24,000,007	\$23,329,261	\$165,252
FWE-6-29	23,841,776	23,427,406	0
F-79-L-I	193,334	137,562	0
F-80-L-I	133,334	137,500	0
W-41-M	253,914	101,534	0
Total	\$48,422,365	\$47,133,263	\$165,252

Appendix 2

State of Tennessee Wildlife Resources Agency Sites Visited

Headquarters

Nashville

Regional Offices

Region 3 – Crossville

Region 4 – Morristown

Wildlife Management Areas

Buffalo Springs

Catoosa

Chuck Swan

Prentice Cooper State Forest

Range

John Sevier

Refuge

Hilwassee

Fish Hatcheries

Buffalo Springs

Morristown

Boat Access

Dandridge

Suck Creek

Walters Bridge

State Park

Cummins Falls

Appendix 3

**State of Tennessee
Wildlife Resources Agency
Status of Audit Findings and Recommendations**

Recommendations	Status	Action Required
A, B, C, and D	FWS management concurred with recommendations A, C, and D, but additional information is needed. FWS management acknowledged recommendation B and will address it in the corrective action plan.	Based on the FWS response, additional information is needed in the corrective action plan, as listed in the “Findings and Recommendations” section under “OIG Comments.” We will refer the recommendations not resolved or implemented at the end of 90 days (after August 15, 2013) 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.



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