



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 Game,
From July 1, 2009, Through June 30, 2011



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

June 26, 2012

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

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

Subject: Audit – 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

This report presents the results of our audit of costs claimed by the State of California (State), Department of Fish and Game (Department), 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 \$63.8 million on 68 grants that were open during State fiscal years that ended June 30, 2010, and June 30, 2011 (see Appendix 1). The audit also covered the Department'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 Department complied, in general, with applicable grant accounting and regulatory requirements. We questioned costs totaling \$851,337 due to unsupported in-kind and ineligible State match. We also found that the Department (1) had not reconciled its land records with those of FWS; (2) incorrectly reported program income received and expended using estimated amounts; and (3) did not ensure that its required matching share of grant costs was met prior to monthly drawdown of grant reimbursements.

We provided a draft report to FWS for a response. We summarized Department and FWS Region 8 responses to the recommendations, as well as our comments on the responses after the recommendations. We list the status of the recommendations in Appendix 3.

Please respond in writing to the findings and recommendations included in this report by September 24, 2012. Your response should include information on actions taken or planned, targeted completion dates, and titles of officials responsible for implementation. Please address your response to:

Director of External Audits
U.S. Department of the Interior
Office of Inspector General
12030 Sunrise Valley Drive, Suite 230
Reston, VA 20191

If you have any questions regarding this report, please contact the audit team leader, Tim Horsma, or me at 703-487-5345.

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

Table of Contents

Introduction..... 1

 Background..... 1

 Objectives 1

 Scope 1

 Methodology..... 1

 Prior Audit Coverage..... 2

Results of Audit 3

 Audit Summary..... 3

 Findings and Recommendations..... 3

Appendix 1 11

Appendix 2..... 14

Appendix 3..... 15

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 State's fish and game agency. Finally, Federal regulations and FWS guidance require States to account for any income they earn using grant funds.

Objectives

We conducted this audit to determine if the State of California (State), Department of Fish and Game (Department)—

- claimed the costs incurred under the Program grants in accordance with the Acts and related regulations, FWS guidelines, and the grant agreements;
- used State hunting and fishing license revenues solely for fish and wildlife program activities; and
- reported and used program income in accordance with Federal regulations.

Scope

Audit work included claims totaling approximately \$63.8 million on the 68 grants open during State fiscal years (SFYs) that ended June 30, 2010, and June 30, 2011 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at Department headquarters in Sacramento, CA, and visited one regional office, two field offices, seven wildlife areas, and a fish hatchery (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 our performance audit in accordance with the “Government Auditing Standards” issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We tested records and conducted auditing procedures as necessary under the circumstances. We believe that the

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

evidence obtained from our tests and procedures provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our tests and procedures included—

- examining the evidence that supports selected expenditures charged to the grants by the Department;
- reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, in-kind contributions, and program income;
- interviewing Department employees to ensure that personnel costs charged to the grants were supportable;
- conducting site visits to 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; 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 Department's operations.

Prior Audit Coverage

On March 14, 2008, we issued "Audit on the U.S. Fish and Wildlife Service Federal Assistance Program Grants Awarded to the State of California, Department of Fish and Game From July 1, 2004, Through June 30, 2006" (No. R-GR-FWS-0011-2007). We followed up on all recommendations in the report and found that that the U.S. Department of the Interior, Office of the Assistant Secretary for Policy, Management and Budget considered all 10 recommendations resolved but not implemented.

We reviewed California's Single Audit and Comprehensive Annual Financial Reports for SFY 2010. None of these reports contained any findings that would directly affect the Program grants.

Results of Audit

Audit Summary

We found that the Department complied, in general, with applicable grant agreement provisions and requirements of the Acts, regulations, and FWS guidance. We identified, however, several conditions that resulted in the findings listed below, including questioned costs totaling \$851,337.

Questioned Costs. We questioned costs totaling \$851,337 because the Department (1) was unable to provide adequate documentation to support labor rates and goods claimed as in-kind contributions on aquatic education grants; and (2) claimed State match on both a Program grant and a U.S. Bureau of Reclamation (BOR) cooperative agreement.

Unreconciled Real Property Records. The Department had not reconciled its grant-funded real property records with those of FWS and could not provide an accurate database of lands purchased with Program funds.

Incorrectly Reported Program Income. The Department incorrectly reported program income received and expended using budget estimate amounts instead of actual amounts earned (and expended) as a result of grant activity.

Improper Drawdowns. The Department did not ensure that it met its matching share of costs prior to monthly drawdowns.

Findings and Recommendations

A. Questioned Cost — \$851,337

1. Unsupported In-Kind Contributions — \$768,852

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. Non-cash (“in-kind”) contributions may be used to meet the States’ matching share of costs, and as with costs claimed for reimbursement, States must support the value of these contributions. 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 State’s matching share of costs on its Aquatic Resource Education grants (F-49-AE-23 and F-49-AE-24) included in-kind contributions consisting of the value of volunteer instructor hours and donated goods. However, the Department was unable to provide adequate documentation to support labor rates and goods claimed as in-kind contributions of \$256,284 on the Program grants F-49-AE-23 (\$192,787) and F-49-AE-24 (\$63,497).

The Code of Federal Regulations (CFR), 2 CFR § 225.55, Appendix A, subsection C, require that for a cost to be allowable under Federal awards, the cost must be necessary and reasonable, allocable and authorized, and adequately documented. In addition, 43 CFR § 12.64(b)(6) requires that third party in-kind contributions claimed must be verifiable from the records of grantees and sub-grantees. It further states that, to the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocation of regular personnel costs.

The Department did not have written policies and procedures to ensure that in-kind contributions are adequately supported. Because the Department could not support its matching funds of \$256,284 (25 percent), we are questioning the Federal share (75 percent) on grant F-49-AE 23 (\$578,361) and F-49-AE-24 (\$190,491), for a total of \$768,852 Federal share.

Recommendations

We recommend that FWS—

1. resolves the unsupported questioned costs of \$768,852; and
2. works with the Department to implement policies and procedures that ensure in-kind contributions are adequately supported.

Department Response

Department officials concurred with the finding and recommendations.

Department officials stated that a review of the supporting documents for grant F-49-AE-23 show that sufficient documentation exists to support the Federal share. With FWS' concurrence, the Department will apply the same standards to the F-49-AE-24 grant and expect that there is more than sufficient in-kind contribution to match the Federal share.

FWS Response

FWS Regional officials concurred with the finding and recommendations and will work with the Department on a corrective action plan.

OIG Comments

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

- specific action(s) taken or planned to address the recommendations;
- targeted completion dates;
- titles of officials responsible for implementing the actions taken or planned; and

- verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

2. Ineligible State Match — \$82,485

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. 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 Department drew down Program funds of \$329,940 (75 percent) on grant F-123-R-4 (Sacramento-San Joaquin Estuary Sport Fish Studies). These costs were verifiable to the Program grant based on the program cost accounts (PCAs) assigned in the State’s accounting system. However, the State’s matching costs of \$109,980 (25 percent) claimed on this grant were captured in a PCA assigned to capture costs, and claimed on a cooperative agreement with BOR.

Federal regulations (2 CFR § 225, Appendix A, subsection C.1) provides basic guidelines for cost allowability. Specifically, to be allowable under Federal awards, costs must be necessary and reasonable, allocable, authorized or not prohibited, and not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award. In addition, 43 CFR § 12.60(a)(2) requires that fiscal control and accounting procedures of the State must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

The Department did not establish policies and procedures to assign PCAs in the State’s accounting system, segregating costs between the Program grants and other Federal awards.

Because the Department was only able to support total costs of \$329,940, the Federal share would be \$247,455 (75 percent). We are therefore questioning the State’s matching share \$82,485 (25 percent) that was part of the Federal drawdown.

Recommendations

We recommend that FWS—

1. resolves the questioned costs of \$82,485; and
2. requires the Department to establish policy and procedures that ensure costs are not claimed on multiple Federal awards.

Department Response

Department officials concurred with the finding and recommendations. Department officials stated that they propose to credit back to the FWS \$82,485 and will develop policies and procedures to ensure that the State funded activities used as Federal match for one project are not counted towards another Federal project.

FWS Response

FWS Regional officials concurred with the finding and recommendations and will work with the Department on a corrective action plan.

OIG Comments

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

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

B. Unreconciled Real Property Records

To help maintain control over the use of land acquired with Program funds, the Department must ensure its database of real property is accurate and reconciles with land records maintained by FWS. FWS and the Department agreed that land reconciliation had not been performed.

The Department could not provide an accurate database of lands purchased with program funds, nor could it account for the funding or acreage of land purchased with Program funds.

Federal regulations (50 CFR § 80.18) requires States to be responsible for the accountability and control of all assets acquired with Program funds to ensure that they are used for the purpose for which they were acquired throughout their useful life. Also, 50 CFR § 80.4 extends the same accountability and control requirements to those assets acquired with license revenues. In addition, the FWS Director reiterated land management requirements to the Program participants in a March 29, 2007 letter. The letter requested each State maintain a real property management system that includes a comprehensive inventory of lands to ensure that its inventory is accurate and complete.

The Department has not—

1. developed policies and procedures to ensure that the funding source is included in the documentation of all land acquisitions;

2. established complete and accurate lists of all land acquired with the Program funds; and
3. reconciled their land records with FWS' land records.

As a result, the Department's land records are not adequate to ensure that lands acquired with the Program funds are used only for their intended purpose.

Recommendations

We recommend that FWS ensures the Department —

1. develop policies and procedures to include the funding source on all land acquisitions;
2. maintain an accurate and complete real property management system that includes a comprehensive inventory of lands, including those acquired with the Program funds; and
3. reconcile its inventory of land records with FWS' land records.

Department Response

Department officials concurred with the finding and recommendations. Department officials stated that they can provide real property data in three databases. The Department initiated a project to link these databases and will work with the FWS to complete the real property reconciliation.

FWS Response

FWS Regional officials concurred with the finding and recommendations and will work with the Department on a corrective action plan.

OIG Comments

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

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

C. Incorrectly Reported Program Income

Federal regulations allow grantees to earn income as a result of grant-supported activities, but they must account for the income in an agreed-upon manner. The Department estimated it would earn program income of approximately \$1.1

million on 12 Wildlife Habitat Development and Maintenance (WHDM) grants during SFYs ended June 30, 2010 and 2011. The amounts were included on its Applications of Federal Assistance (SF-424s). The sources of program income were employee housing rentals and user fees charged to external parties for grazing and agricultural activities. These activities took place on wildlife areas operated and maintained under the Program grants.

The Department, however, incorrectly reported program income received and expended using budget estimate amounts instead of actual income earned. As a result of grant activity, the incorrect amounts were reported on its Federal Financial Reports (SF-425s) for the 12 WHDM grants (W-76-D-3, W-76-D-4, W-77-D-3, W-77-D-4, W-78-D-3, W-78-D-4, W-79-D-3, W-79-D-4, W-80-D-3, W-80-D-4, W-81-D-3, and W-81-D-4).

Federal regulations (43 CFR § 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.” In addition, 43 CFR § 12.60(a)(2) requires States to be able to track, through its financial management system, funds at a level that is adequate to demonstrate compliance with grant provisions.

According to Department officials, the State’s accounting system did not permit the identification of program income by Wildlife Management Area. This occurred because the Department did not establish project accounting codes that track program income by grant activity.

The Department reported estimated amounts and not actual amounts for program income and related expenditures. The Department may have underreported program income and related expenses on the 12 grants due to the inadequate reporting of revenues and expenses.

Recommendations

We recommend that FWS requires the Department—

1. perform an analysis of program income received (and expended) from SFYs ended June 30, 2010 and 2011 on the 12 grants to determine if additional program income and expenditures need to be reported, and revise grant Federal Financial Reports accordingly; and
2. establish and implement project accounting codes that track program income by grant activities.

Department Response

Department officials concurred with the finding and recommendations. Department officials stated that they performed analyses of program income received and expended on the 12 grants and drafted procedures to record and report program income revenues and expenditures.

FWS Response

FWS Regional officials concurred with the finding and recommendations and will work with the Department on a corrective action plan.

OIG Comments

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

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

D. Improper Drawdowns

Under the Program, FWS may reimburse up to 75 percent of grant expenditures, provided the States first expend their required matching share (25 percent) of costs. The Department uses PCAs to track expenditures and funding sources in the State's accounting system (CALSTARS). Multiple PCAs can be used to fund grant expenditures. Expenditures recorded in these PCAs were used as a basis for monthly drawdowns. The State established PCAs for the Federal portion of the Program grants in the Federal Trust Fund and separate PCAs for the State match. We found that the Department did not ensure that it met its matching share of costs prior to monthly drawdowns.

Federal regulations (50 CFR § 80.16) provide that payments shall be made for the Federal share of allowable costs incurred by the State in accomplishing approved projects. In addition, 43 CFR § 12.60(a)(2), requires States to account for grant funds in a manner that permits funds to be traced to level of expenditures that adequately demonstrates compliance with applicable regulations.

Furthermore, 31 CFR § 205.15(d) states that for programs utilizing mandatory matching of Federal funds with State funds, a State incurs interest liabilities if it draws Federal funds in advance or in excess of the required proportion of agreed upon levels of State contributions. Therefore, the Department would be required to pay interest to the U.S. Treasury resulting from the advance drawdowns.

The Department did not establish adequate policies and procedures to ensure that it met its matching share of costs prior to monthly drawdowns. By not meeting its required State match prior to drawdowns, the Department may have improperly drawn down the Program grant funds in advance, resulting in potential interest liability.

Recommendation

We recommend that FWS requires the Department to revise its policies and procedures to ensure that sufficient State match is identified prior to drawdowns.

Department Response

Department officials concurred with the finding and recommendation. Department officials stated that they drafted revised policies and procedures on the drawdown of Federal funds. The procedures specify the steps to ensure that sufficient State match is verified prior to drawdowns.

FWS Response

FWS Regional officials concurred with the finding and recommendation and will work with the Department on a corrective action plan.

OIG Comments

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

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

Appendix I

State of California
Department of Fish and Game
Financial Summary of Review Coverage
July 1, 2009, Through June 30, 2011

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Ineligible	Unsupported
F-4-D-59	\$4,418,360	\$2,479,045		
F-4-D-60	3,288,329	2,943,485		
F-6-C-58	965,124	560,385		
F-49-AE-23	3,357,788	2,300,177		\$578,361
F-49-AE-24	3,512,283	3,120,088		190,491
F-50-R-22	5,256,151	3,996,023		
F-50-R-23	5,356,152	4,649,187		
F-89-D-13	412,501	348,215		
F-89-D-14	175,435	150,132		
F-113-B-3	221,866	13,691		
F-114-D-7	849,156	840,395		
F-119-R-5	3,021,256	2,290,303		
F-120-B-2	938,222	547,606		
F-122-R-4	4,370,710	2,807,284		
F-123-R-4	1,181,818	558,887	\$82,485	
F-124-T-4	281,218	172,999		
F-125-R-4	641,895	325,471		
F-126-R-4	2,115,415	1,430,415		
F-128-B-1	881,456	826,152		
F-129-B-1	32,481			
F-129-B-2	216,099			
F-130-B-1	597,237	510,828		
F-131-D-1	2,219,520	2,219,520		

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Ineligible	Unsupported
F-133-B-1	\$372,006	\$168,836		
F-134-D-1	928,130	639,086		
F-135-R-1	230,764	223,233		
F-137-R-1	1,297,382	980,466		
F-137-R-2	3,367,132	1,130,453		
F-139-B-1	279,096			
F-140-B-1	962,685			
F-141-B-1	869,980			
F-142-B-1	688,142			
FT-1-1	2,764,576	474,076		
W-29-C-63	1,075,204	673,965		
W-58-HS-38	1,835,088	1,544,399		
W-58-HS-39	5,845,561	1,368,564		
W-66-C-3	800,000	746,041		
W-67-R-3	1,564,353	764,935		
W-68-R-3	647,267	293,533		
W-69-R-3	1,146,708	591,925		
W-70-R-3	621,387	357,417		
W-71-R-3	842,729	355,732		
W-72-R-3	961,871	475,328		
W-73-R-3	845,120	234,163		
W-74-R-3	365,528	101,363		
W-75-R-3	262,440	110,768		
W-76-D-3	1,153,807	963,992		
W-76-D-4	1,479,686	1,401,540		
W-77-D-3	241,062	196,489		
W-77-D-4	235,631	145,728		
W-78-D-3	2,449,873	1,952,427		
W-78-D-4	2,490,973	2,536,057		
W-79-D-3	1,595,799	1,595,799		

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Ineligible	Unsupported
W-79-D-4	\$1,731,574	\$1,797,481		
W-80-D-3	2,400,453	1,914,179		
W-80-D-4	2,374,679	2,494,910		
W-81-D-3	1,732,425	1,353,153		
W-81-D-4	1,936,668	1,883,203		
W-82-C-1	199,603	122,045		
W-83-R-1	1,092,872	469,506		
W-84-E-1	68,912	38,591		
W-84-E-2	162,200	134,487		
W-85-R-1	731,288	26,884		
W-86-R-1	1,826,851			
W-87-R-1	1,203,001	399,557		
W-88-R-1	487,159	47,637		
W-89-R-1	1,461,480			
W-90-D-1	243,581			
Total	\$100,184,198	\$63,798,736	\$82,485	\$768,852

Appendix 2

**State of California
Department of Fish and Game
Sites Visited**

Headquarters
Sacramento

Regional Office
Northern Region - Redding

Field Office
Bermuda Dunes
Eureka

Wildlife Areas
Gray Lodge
Hollenbeck Canyon
Imperial
San Felipe Valley
San Jacinto
Spenceville
Tehama

Fish Hatchery
Mojave River

Appendix 3

**State of California
Department of Fish and Game
Status of Audit Findings and Recommendations**

Recommendations	Status	Action Required
A.1.1, A.1.2, A.2.1, A.2.2, B.1, B.2, B.3, C.1, C.2, and D	FWS management concurred with the recommendations, but additional information is needed.	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 and/or implemented at the end of 90 days (after September 24, 2012) to the Assistant Secretary for Policy, Management and Budget for resolution and/or 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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