



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 Maryland, Department of Natural Resources,
From July 1, 2008, Through June 30, 2010




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

November 30, 2011

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Suzanna I. Park 
Director of External Audits

Subject: Audit on U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Maryland, Department of Natural Resources, From July 1, 2008, Through June 30, 2010 (No. R-GR-FWS-0007-2011)

This report presents the results of our audit of costs claimed by the State of Maryland (the State), Department of Natural Resources (the 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 Program). The audit included claims totaling approximately \$25.4 million on 41 grants that were open during State fiscal years (SFYs) ended June 30, 2009 and June 30, 2010 (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 \$941,106, however, and determined that the Department (1) did not ensure the State's legislation assenting to the Wildlife and Sport Fish Restoration Acts met Federal requirements, (2) potentially diverted \$1,122,501 in hunting and fishing license revenues to unallowable activities, (3) did not report \$61,379 in program income or ensure it was spent appropriately, (4) incorrectly calculated and reported indirect costs, (5) did not adequately track equipment purchased with Program funds and license revenues, (6) did not accurately or consistently calculate payroll amounts charged to the Program grants, and (7) did not reconcile its inventory of Program lands with FWS' records.

We provided a draft report to FWS for a response. We summarized the Department and FWS Region 5 responses, 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 February 28, 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, Mr. Crist Chensvold, Evaluator, or me at 703-487-5345.

cc: Regional Director, Region 5, 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 (the Acts)¹ established the Wildlife and Sport Fish Restoration Program. Under the Program, FWS provides grants to States to restore, conserve, manage, and enhance their sport fish and wildlife resources. The Acts and Federal regulations contain provisions and principles on eligible costs and allow FWS to reimburse States up to 75 percent of the eligible costs incurred under the grants. The Acts also require that hunting and fishing license revenues be used only for the administration of the State's fish and game agency. Finally, Federal regulations and FWS guidance require States to account for any income they earn using grant funds.

Objectives

Our audit objectives were to determine if the 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.
- Reported and used program income in accordance with Federal regulations.

Scope

Audit work included claims totaling approximately \$25.4 million on the 41 grants that were open during SFYs ended June 30, 2009 and June 30, 2010 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at Department headquarters in Annapolis, MD, and visited two service centers, a field office, a work center, seven wildlife management areas, two hatcheries, three boating facilities, two Natural Resources Police offices, a State park, a laboratory, a demonstration forest, and a natural resources management area (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

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

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.

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.
- Determining whether the State passed required legislation assenting to the provisions of the Acts.

We also identified the internal controls over transactions recorded in the labor and license fee accounting systems and tested their operation and reliability. Based on the results of initial assessments, we assigned a level of risk to these systems and selected a judgmental sample of transactions recorded in these systems for testing. We did not project the results of the tests to the total population of recorded transactions or evaluate the economy, efficiency, or effectiveness of the Department's operations.

Prior Audit Coverage

On February 8, 2007, we issued "Audit Report on the U.S. Fish and Wildlife Service, Federal Assistance Division, Grants Awarded to the State of Maryland, Department of Natural Resources, From July 1, 2003, Through June 30, 2005" (No. R-GR-FWS-0025-2005). 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 considers 7 recommendations as resolved and implemented and 5 recommendations as resolved but not yet implemented. As discussed in the Findings and Recommendations section of this report, we are repeating four of the unimplemented recommendations, which deal with inadequate controls over real property and equipment.

We reviewed Maryland's Comprehensive Annual Financial Reports and Single Audit Reports for SFYs 2009 and 2010. None of these reports contained any findings that would directly impact the Program grants.

We also reviewed an audit of the Department, issued on April 1, 2011, that was conducted by the Maryland General Assembly's Office of Legislative Audits. The

report covered the period from May 1, 2007, through March 17, 2010, and contained two findings in areas related to our review of the Department's Program grants. Specifically, the report stated that the Department did not follow the State's inventory procedures or maintain adequate controls over equipment. Furthermore, it noted that a former Department employee executed more than \$71,000 in potentially fraudulent transactions using a corporate purchasing card. According to the report, supervisory review over those purchases was "deficient" and not in accordance with State policy. We found similar issues with equipment controls and corporate purchasing cards, which are discussed in the Findings and Recommendations section of this report.

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 several conditions, however, that resulted in the findings listed below, including questioned costs totaling \$941,106. We discuss the findings in more detail in the Findings and Recommendations section.

Questioned Costs. We questioned costs totaling \$941,106 because the Department (1) did not ensure that an appropriate official reviewed and approved all journal voucher transactions affecting Program grant funds, (2) did not maintain adequate documentation to support in-kind contributions on two Program grants, (3) did not adequately support all payroll costs claimed under the Program grants, (4) claimed unsupported and out-of-period costs incurred by subgrantees with Program funds, and (5) could not provide documentation to fully support corporate purchasing card transactions claimed under four Program grants.

Inadequate Assent Legislation. Legislation establishing two of the State's funds for hunting and fishing license revenues did not prohibit the diversion of revenues for purposes other than the administration of fish and wildlife.

Potential Diversions of License Revenues. The Department potentially diverted \$1,122,501 of its hunting and fishing license revenues because officials (1) allocated an inappropriate amount of license revenues to the Department's Office of the Secretary, (2) donated license revenues for an unallowable purpose, (3) did not document how the Maryland Park Service spent license revenues, (4) lost physical and administrative control over firearms potentially purchased with license revenues, and (5) could not determine if the State has ever disposed of real property purchased with license revenues and used the resulting proceeds appropriately.

Unreported Program Income. The Department earned \$61,379 under two Program grants but did not report the income to FWS or ensure that it was used exclusively to meet the grants' objectives.

Noncompliance with Indirect Cost Requirements. The Department (1) did not ensure it limited the costs of State-provided central services to 3 percent of the State's annual apportionment of Program funds, (2) charged indirect costs to three grants using an incorrect rate, (3) did not report indirect costs claimed on three grants, and (4) overstated the amount of indirect costs charged to FWS in a Federal Financial Report.

Inadequately Tracked and Missing Equipment. Several items purchased with Program funds and license revenues were either missing or not tagged, and the Department's official inventory listing was inaccurate and incomplete.

Inaccurate and Inconsistent Payroll Calculations. The Department's Federal Timecard System did not accurately or consistently calculate payroll expenses for employees who charged time to the Program grants.

Unreconciled Real Property Records. The Department's inventory of lands purchased with Program grants and FWS' records showed significant differences because they have not been reconciled.

Findings and Recommendations

A. Questioned Costs — \$941,106

1. Unsupported Journal Voucher Transactions — \$635,473

The Department regularly uses journal vouchers to split charges among various accounting codes, to correct errors, to charge its units for work performed by other State agencies, and for other miscellaneous purposes. Department officials, however, stated that they generally did not obtain and document managerial approval on journal voucher forms, as required by State policy, until June 2011, when the Department issued its own policies and procedures for processing journal vouchers.

According to the Code of Federal Regulations (CFR), in 43 CFR § 12.60(a), States are required to account for Federal grants in accordance with the laws and procedures governing their own funds. According to Section 5 of the "Accounting Procedures Manual," issued by the State Comptroller, agencies are responsible for establishing basic internal control procedures that (1) require a segregation of duties between the preparation and approval of journal voucher entries and (2) ensure that journal entries are clearly referenced to indicate their source and reviewed and approved by a responsible official.

Due to the systemic nature of this problem, we are questioning all journal voucher transactions that affected the Program grants and involved transfers between:

- The Department's accounting codes and codes of other State agencies.
- The Department's revenue and expenditure codes.
- Two or more of the Department's expenditure codes.

As shown in the table below, we consider approximately \$1.2 million in journal voucher transactions as unsupported, resulting in a Federal share of \$721,463 in questioned costs. Because we are questioning \$85,990 of these costs for

additional reasons in Findings A.3 and A.4 below, we removed them from our total here and are questioning a Federal share of \$635,473.

Grant	Unsupported Costs	Federal Share Percentage	Federal Share of Unsupported Costs	Less: Costs Questioned in Findings A.3 and A.4	Revised Questioned Costs
F-47-E-19	\$133,164	58%	\$77,235	\$7,717	\$69,518
F-47-E-20	326,391	59%	192,571	40,438	152,133
F-47-E-21	508,834	64%	325,654	37,835	287,819
F-48-R-19	1,036	75%	777		777
F-53-D-15	1,336	46%	615		615
F-53-D-16	82,503	75%	61,877		61,877
F-53-D-17	5,348	75%	4,011		4,011
F-57-R-9	4,148	41%	1,701		1,701
F-57-R-10	4,581	44%	2,016		2,016
F-57-R-11	1,323	44%	582		582
F-61-R-4	7,555	40%	3,022		3,022
F-61-R-5	7,919	40%	3,168		3,168
F-61-R-6	5,077	49%	2,488		2,488
F-63-R-1	544	50%	272		272
W-61-R-20	53,277	75%	39,958		39,958
W-62-D-20	3,609	73%	2,635		2,635
W-65-S-20	1,049	75%	787		787
W-65-S-21	2,909	72%	2,094		2,094
Total	\$1,150,603		\$721,463	\$85,990	\$635,473

Recommendations

We recommend that FWS:

1. Resolve the \$635,473 in unsupported questioned costs.
2. Ensure the Department fully implements its policies and procedures for processing journal vouchers.

Department Response

Department officials stated that the transactions in question were generally warranted but were questioned due to a procedural issue. They agreed to review the journal vouchers for propriety by June 30, 2012, and will work with FWS to resolve the questioned costs. They also stated that the Department will continue to follow its administrative procedure regarding the processing of journal vouchers.

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Because the scope of our audit ended on June 30, 2010, we did not test any journal voucher transactions processed after the Department issued its policies and procedures in June 2011. Therefore, the Department needs to demonstrate to FWS that it has fully implemented those controls. Furthermore, although the Department suggests that the transactions in question were “generally warranted,” we have no assurance that the \$635,473 in journal voucher transactions represents eligible grant costs due to the lack of supervisory review and approval.

Based on the FWS response, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address Recommendation A.1.2.
- Targeted completion date for Recommendation A.1.2.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

2. Unsupported In-Kind Contributions — \$211,274

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.

We reviewed approximately one-quarter of all timesheets used to document volunteer labor donated under Grants W-65-S-20 and W-65-S-21 for hunter education. The Department’s Natural Resources Police (the NRP), which administered the hunter education grants, calculated these in-kind contributions by multiplying labor rates by the hours donated. We found, however, that none of the volunteer contributions were adequately supported. Specifically, the NRP:

- Claimed unreasonable amounts of time donated, including 68 hours attributed to a single volunteer who taught a class lasting only 15 hours.
- Allowed one person to complete timesheets for all volunteers assisting with a class rather than ensuring everyone recorded and certified their own time.
- Allowed lead volunteer instructors to approve their own timesheets.
- Calculated the value of volunteer hours using Department labor rates that were not in effect at the time the hours were donated.
- Claimed hours contributed in May and June 2008 under Grant W-65-S-20, even though that grant began in July 2008, and claimed hours contributed in June 2009 under Grant W-65-S-21, even though that grant began in July 2009.

The CFR provides the general documentation requirements for in-kind contributions. Under 2 CFR § 225, Appendix A, subsection C, which outlines basic guidelines on cost principles, costs must be necessary, reasonable, and adequately documented to be allowable under Federal awards. Furthermore, 43 CFR § 12.64(b)(6) states that in-kind contributions consisting of volunteer services will, to the extent possible, be supported by the same methods that the organization uses to support the allocability of regular personnel costs. Finally, according to 43 CFR § 12.64(a), matching requirements may be met by the value of third party in-kind contributions applicable to the corresponding grant period.

This issue arose because:

- The Department did not have policies and procedures to limit the number of hours claimed by volunteers during a single course or to review timesheets for accuracy, completeness, and compliance with Federal regulations.
- NRP staff did not accumulate and report data on volunteer contributions based on the effective dates of Grants W-65-S-20 and W-65-S-21.
- Staff in the Department's Finance and Administrative Service (FAS) claimed Federal reimbursement without ensuring that the in-kind contributions were provided during the appropriate grant periods.

Because we tested one-quarter of the in-kind contributions claimed under the hunter education grants and found systemic problems with all of those timesheets, we have no assurance that any of the in-kind contributions on Grants W-65-S-20 or W-65-S-21 is supported. Therefore, we are questioning the Federal share of \$86,650 under Grant W-65-S-20 and \$124,624 under Grant W-65-S-21, for a total of \$211,274, as shown in the table below.

Description	Grant Numbers and Amounts		Total
	W 65 S 20	W 65 S 21	
Total Grant Outlays	\$679,127	\$804,763	
Less: Unsupported In-Kind	332,526	359,676	
Total Supported Grant Outlays	346,601	\$445,087	
Federal Share Percentage	75%	72%	
Supported Federal Share	259,951	320,463	
Original Federal Share Claimed	\$346,601	\$445,087	
Less: Supported Federal Share	259,951	320,463	
Federal Share Questioned Costs	\$86,650	\$124,624	\$211,274

Recommendations

We recommend that FWS:

1. Resolve the unsupported questioned costs totaling \$211,274.
2. Ensure the Department develops and implements policies and procedures to limit the number of hours volunteers can reasonably contribute in a single day and to review volunteers' timesheets for accuracy, completeness, and compliance with Federal regulations.
3. Ensure the Department develops and implements policies and procedures to (1) accumulate, calculate, and report the value of in-kind contributions related to the corresponding grant periods and (2) verify this information prior to requesting Federal reimbursement.

Department Response

Department officials stated that by June 30, 2012, they will (1) determine why an instructor claimed 68 hours of volunteer time for a 15 hour class, (2) interview volunteers and audit their timesheets to determine the validity of the hours donated, (3) recalculate the grant billings using the appropriate hourly rates, (4) adjust the grant billings to include only hours donated in the grant periods, and (5) implement the policies and procedures recommended in this finding.

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the FWS response, additional information is needed in the corrective action plan, including:

- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

3. Unsupported Payroll Expenses — \$79,656

The Department requires employees working on projects under its Program grants to submit a "Federal time card," which is used to track the number of hours worked on Program activities and to charge the grants. We noted several instances, however, where the Department requested Federal reimbursement for payroll expenses that were not fully supported.

For example, the State's matching share under Grant F-55-D-9, for boating access project coordination, was comprised entirely of payroll expenses of one employee from the Department's Boating Services unit. Because that individual charged time to State projects as well, she completed a Federal time card to record the hours attributable to the matching share of Grant F-55-D-9. We determined, however, that the employee's time cards (1) were not reviewed and approved by her supervisor, (2) did not indicate the specific project and project code to which the hours were billable, and (3) did not account for all hours she worked during the pay period.

Furthermore, officials of the Department's Chesapeake and Coastal Watershed Services (Watershed Services) applied predetermined percentages to the gross salaries of two employees. They charged the resulting amounts to Grants F-47-E-19, F-47-E-20, and F-47-E-21, for aquatic resource education. The officials instead should have charged the actual hours the employees worked. In another instance involving Watershed Services staff, we found that a time card used to charge Grant F-47-E-21 was signed with the correct employee's name; however, that employee informed us that the signature was not hers.

Several criteria pertain to these issues:

- According to 2 CFR § 225, Appendix B, subsection 8.h(1), charges to Federal awards for salaries and wages must be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of that unit.
- Furthermore, 2 CFR § 225, Appendix B, subsections 8.h(4) and (5), state that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports that must (1) reflect an after-the-fact distribution of the actual activity of each employee; (2) account for the total activity for which each employee is compensated; and (3) be signed by the employee.
- According to 2 CFR § 225, Appendix B, subsection 8.h(7), salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards.
- Under 2 CFR § 225, Appendix B, subsection 8.h(5)(e), budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards.
- The Department's "Instructions for Completing Federal Time Cards" states that for each project on which employees work during the pay period, they should enter the project name and codes representing the appropriate program, project, and subproject. Employees are also required to sign their time cards and obtain their supervisor's signature.

These problems arose due to two primary reasons. First, with regard to Grant F-55-D-9, the Department did not ensure a separation of duties over payroll charges. Specifically, the Boating Services employee calculated the value of the hours reported on her time card and provided that amount to FAS in an email. FAS staff then requested Federal reimbursement without verifying the payroll calculations or reviewing the relevant time cards. Second, with regard to all the Program grants discussed above, employees were not fully aware of the Federal regulations and Department policies relating to payroll charges to Federal grants.

Because none of the State match for Grant F-55-D-9 was supported with time cards that satisfied Federal regulations and Department policies, we are questioning \$4,618 as unsupported. This amount represents all Federal reimbursements received by the State under that grant during our audit period. We are also questioning the Federal share of unsupported payroll expenses charged to the aquatic education grants, including \$7,717 under Grant F-47-E-19; \$34,559 under Grant F-47-E-20; and \$32,762 under Grant F-47-E-21. Therefore, all unsupported questioned costs related to payroll total \$79,656.

Recommendations

We recommend that FWS:

1. Resolve the \$79,656 in unsupported questioned costs.
2. Ensure the Department follows Federal regulations and Department policies when charging payroll expenses to the Program grants.
3. Ensure the Department develops and implements policies and procedures requiring the Fiscal and Administrative Service to obtain and review supporting documentation for Program grant charges before requesting Federal reimbursement.

Department Response

Department officials stated that they will review the payroll expenses for propriety by June 30, 2012, and will work with FWS to resolve the questioned costs. The Department will also develop policies and procedures to implement the other recommendations.

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the FWS response, additional information is needed in the corrective action plan, including:

- Targeted completion dates for Recommendations A.3.2 and A.3.3.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

4. Unsupported and Ineligible Subgrant Costs — \$10,952

The Department annually receives Program grants to educate the public on the State's aquatic resources. Using these funds, Watershed Services awarded more than 20 subgrants to schools and environmental education centers in SFYs 2009 and 2010 to carry out aquatic-based projects. Watershed Services staff, however, did not administer these subgrants in accordance with Federal regulations and Department policies. Specifically, they:

- Advanced recipients 75 percent of their subgrant awards and obtained Federal reimbursement for the advances.
- Fully funded two subgrants without ever receiving required reports on the subgrantees' accomplishments.
- Obtained insufficient or no receipts for purchases made by eight subgrantees totaling \$12,349 (\$7,646 Federal share).
- Charged \$5,543 (\$3,306 Federal share) from five subgrants to Grants F-47-E-20 and F-47-E-21, even though these costs were incurred or obligated outside the grant periods.

Federal regulations and the Department's policies and procedures outline a number of requirements regarding subgrant agreements and payments. For instance:

- The CFR, in 43 CFR § 12.77(a), requires States to ensure that subgrantees are aware of requirements imposed upon them by Federal regulations and to ensure that a provision for compliance with 43 CFR § 12.82 (regarding retention and access requirements for records) is placed in every cost reimbursement subgrant.
- According to 2 CFR § 225, Appendix A, subsection C.1.j, to be allowable under a Federal award, costs must be adequately documented.
- In addition, 50 CFR § 80.15(c) states that costs incurred prior to the effective date of the grant are allowable only when specifically provided for in the grant, and 50 CFR § 80.16 notes that payments must be made for the Federal share of allowable costs after the State incurs those costs for Program purposes.

- A FAS administrative procedure requires subgrant agreements to be reviewed by the Department’s Office of Attorney General and states that billings from subgrantees may not be paid until the Department receives “copies of invoices, time cards, and other documentation to support the amount being billed.”
- Finally, Watershed Services’ subgrant agreements require recipients to submit a report on their accomplishments before receiving final payment.

These problems occurred because Department officials did not (1) follow their own procedures to ensure subgrant agreements were reviewed for legal sufficiency; (2) include a provision in subgrantee agreements requiring records, such as receipts, to be maintained in accordance with 43 CFR § 12.82; (3) follow Federal regulations and Department policies requiring payment only after receiving documentation to support incurred costs; and (4) have policies and procedures to ensure that costs were charged to the correct Program grant when subgrants spanned two different grant periods.

As a result, we are questioning a Federal share of \$7,646 in unsupported costs and \$3,306 in ineligible out-of-period costs, for a total of \$10,952, as detailed in the table below.

Grant Number	Unsupported Costs (Federal Share)	Ineligible Costs (Federal Share)	Totals
F-47-E-20	\$3,036	\$2,843	\$5,879
F-47-E-21	4,610	463	5,073
Totals	\$7,646	\$3,306	\$10,952

Recommendations

We recommend that FWS:

1. Resolve the \$7,646 in unsupported costs and \$3,306 in ineligible out-of-period costs.
2. Ensure the Department’s component units follow Federal regulations and Department policies to award, monitor, and administer subgrants.
3. Require the Department to develop and implement policies and procedures to ensure that costs are charged to the correct Program grant when subgrantee agreements span two different grant periods.

Department Response

Department officials stated that Watershed Services has obtained additional documentation to support a portion of the questioned costs. They plan to resolve

all the questioned costs with FWS by June 30, 2012. In addition, Department officials agreed to implement Recommendations A.4.2 and A.4.3. They noted that Watershed Services has added language to subgrant award letters and signatory paperwork requiring subgrantees to submit all receipts and retain appropriate records for at least 3 years. Furthermore, subgrants awarded by Watershed Resources will no longer span two different Program grant periods.

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the FWS response, additional information is needed in the corrective action plan, including:

- Targeted completion dates for Recommendations A.4.2 and A.4.3.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

5. Unsupported Corporate Purchasing Card Transactions — \$3,751

To carry out daily activities under the Program grants, Department employees purchase a variety of supplies, services, and equipment items using corporate purchasing cards (CPCs). The Department, however, could not provide signed CPC statements to support four expenditures charged to the Program grants because it did not fully enforce Statewide CPC requirements. One of these transactions was also missing a receipt.

According to 2 CFR § 225, Appendix A, subsection C.1.j, to be allowable under a Federal award, costs must be adequately documented. In addition, Section 12.04 of the “Corporate Purchasing Card Program Policy and Procedures,” issued by the State Comptroller, requires the cardholder’s supervisor or business manager to review all CPC transactions on a monthly basis and determine if they are reasonable and necessary. The reviewer must also certify the accuracy of the employee’s CPC activity by signing and dating the monthly cardholder statement.

As discussed in the Prior Audit Coverage section of this report, the lack of a thorough supervisory review permitted a former Department employee to execute \$71,000 in potentially fraudulent CPC transactions. Similarly, due to inadequate supervisory review and missing documentation, we are questioning \$7,035 (\$3,751 Federal share) in unsupported CPC transactions, as shown in the table below.

Grant Number	Unsupported Costs	Federal Share Percentage	Federal Share of Unsupported Costs
F-53-D-17	\$2,000	75%	\$1,500
F-57-R-10	2,500	44%	1,100
F-57-R-11	1,935	44%	851
F-61-R-6	600	50%	300
Totals	\$7,035		\$3,751

Recommendations

We recommend that FWS:

1. Resolve the \$3,751 in unsupported questioned costs.
2. Ensure the Department follows the State's "Corporate Purchasing Card Program Policy and Procedures."

Department Response

Department officials stated that they will work with FWS to resolve the questioned costs and take measures to adhere to the CPC policies and procedures.

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the FWS response, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address the recommendations.
- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

B. Inadequate Assent Legislation

The legislation establishing two of the State's funds for hunting and fishing license fees does not prohibit the diversion of those fees for purposes other than the administration of fish and wildlife. Specifically, the Annotated Code of Maryland, Natural Resources Article, Section 10-209 notes that hunting license fees deposited in the State's Wildlife Management and Protection Fund "may be used for the scientific investigation, protection, propagation, and management of

wildlife;” it does not, however, prohibit the diversion of license fees for other purposes. Similarly, Section 4-209 states that fishing license fees deposited in the Fisheries Research and Development Fund “may be used” for fisheries-related work; it likewise does not prohibit the diversion of license fees.

According to 50 CFR § 80.3, “A State may participate in the benefits of the Act(s) only after it has passed legislation which assents to the provisions of the Acts and has passed laws for the conservation of fish and wildlife including a prohibition against the diversion of license fees paid by hunters and sport fishermen to purposes other than administration of the fish and wildlife agency.”

Department officials were unaware that the State’s assent legislation did not prohibit the diversion of license revenues from these two funds. Without adequate assent legislation, however, the State poses a greater risk for diverting license revenues and could be deemed ineligible to participate in the Program.

Recommendation

We recommend that FWS require the Department to work with the State legislature to pass legislation prohibiting the diversion of hunting and fishing license fees for purposes other than the administration of fish and wildlife.

Department Response

Department officials stated that they will request the State’s General Assembly to introduce legislation during the 2012 session to prohibit the diversion of hunting and fishing license fees for purposes other than the administration of fish and wildlife.

FWS Response

FWS regional officials concurred with the finding and recommendation and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the FWS response, additional information is needed in the corrective action plan, including:

- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

C. Potential Diversions of License Revenues

One of the Program's major tenets is the requirement that States use hunting and fishing license revenues solely to manage their fish and wildlife resources. As previously discussed, the Acts and the CFR emphasize the importance of this principle by requiring States to pass assent legislation prohibiting the diversion of license revenues.

In 50 CFR § 80.4(a), license revenues are defined as any revenues the State receives from the sale of licenses conveying the privilege to pursue or take wildlife or fish. Such revenues include income from:

- General or special licenses, permits, stamps, tags, access and recreation fees, or other charges imposed by the State to hunt or fish for sport or recreation.
- The sale, lease, rental, or other granting of rights of real or personal property acquired or produced with license revenues.

Furthermore, 50 CFR § 80.4(b) and (c) note that a diversion of license revenues occurs when any portion is used for any purpose other than the functions required to manage the State's fish and wildlife-oriented resources. Because 50 CFR § 80.4(d) gives the FWS Director the authority to declare a diversion, we refer to "potential diversions" of license revenues in this report.

We noted five instances where the Department potentially diverted \$1,122,501 in license revenues because officials (1) allocated an inappropriate amount of license revenues to the Department's Office of the Secretary, (2) donated license revenues for an unallowable purpose, (3) did not document how the Maryland Park Service spent license revenues, (4) lost physical and administrative control over firearms potentially purchased with license revenues, and (5) could not determine if the State has ever disposed of real property purchased with license revenues and used the resulting proceeds appropriately.

Each potential diversion brings into question whether fish and wildlife activities appropriately benefitted from these funds and jeopardizes the State's continued participation in the Program.

1. Inequitable Allocations of License Revenues to the Department's Office of the Secretary

The Department uses approximately 20 "special funds" to track a variety of revenues that are restricted by State legislation, including hunting and fishing license fees. Each year, the Department makes indirect cost payments to its Office of the Secretary (the Office) using these revenues, since the Office's divisions, such as FAS, the Human Resource Service, and the Office of the Attorney General, support the entire Department. In SFY 2009, however, two special funds

consisting of fishing license revenues paid an inequitable share of indirect costs to the Office. Specifically, the Office received \$691,212 from the Fisheries Research and Development Fund and the Fisheries Management and Protection Fund that should have been borne by other funding sources.

We calculated the amount of fishing license revenues allocable to the Office using the indirect cost rate for the Department's Fisheries Service, which was negotiated with the U.S. Department of the Interior. We applied this rate to the applicable direct base of salaries, wages, and fringe benefits paid by the two special funds, as shown in the table below.

Special Fund Name	SFY	Salaries, Wages, and Fringe	Indirect Cost Rate	Allowable Indirect Cost	Allocated to Office of the Secretary	Difference (Potential Diversion)
Fisheries Research and Development Fund	2009	\$3,735,679	7.34%	\$274,199	\$749,400	\$475,201
Fisheries Management and Protection Fund	2009	\$1,593,851	7.34%	\$116,989	\$333,000	\$216,011
Total						\$691,212

This issue arose because the Department allocated indirect costs to the Office based on the proportionate amount of *revenue deposited* per year in each special fund. This allocation method, however, does not reasonably distribute the Office's costs to the Department's benefitting activities, since it does not consider *expenditures charged* to the special funds. To illustrate, the Department could choose not to spend the special fund revenue earned through a particular activity. As a result, the Office would incur relatively limited costs to process payroll, procure equipment and supplies, or issue legal opinions related to that activity. The Department's current methodology could therefore overstate the Office's corresponding costs and allocate an inequitable share of revenue from that special fund.

Recommendations

We recommend that FWS:

1. Resolve the potential diversion of fishing license revenues totaling \$691,212.
2. Ensure the Department uses its negotiated indirect cost rates or another reasonable methodology to equitably allocate indirect costs to the Office of the Secretary from its various revenue sources.

Department Response

Department officials stated that by December 31, 2012, they will review the allocation of indirect costs from the two fisheries funds for propriety. They also concurred that “there is some merit in developing an alternative approach in allocating Office of the Secretary costs.” The officials argued, however, that Federal indirect rates do not provide a better alternative because the Department’s allocation to the Office is calculated on an “agency fund” basis (Wildlife Management and Protection Fund, etc.), while the Federal indirect rates are calculated on a unit basis (Wildlife and Heritage Service, Fisheries Service, etc.).

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

We used the Federal indirect cost rates to determine the potential diversion in this finding for a number of reasons: (1) Department officials recognized the overall premise that indirect costs should not be allocated based on revenue received, (2) the Department developed the Federal indirect cost rates itself, (3) employees paid with license revenues do not perform work appreciably different from employees paid with Program grant funds, and (4) the Department could not provide a more reasonable methodology for allocating indirect costs to its Office of the Secretary.

Based on the FWS response, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address the recommendations.
- Targeted completion date for Recommendation C.1.2.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

2. Donations of License Revenues

The Department annually donated hunting license revenues to an organization that pays for the processing of deer meat for individuals in need. The amount donated in SFYs 2009 and 2010 totaled \$196,000 and was not used to manage the State’s fish and wildlife resources.

This issue occurred because State legislation required the donations. According to the Annotated Code of Maryland, Natural Resources Article, Section 10-308(b), “The Department shall use \$1 from the sale of each resident regular and full season nonresident hunting license to provide funding for the processing of deer for donation to the needy.”

Recommendation

We recommend that FWS resolve the potential diversion of license revenues totaling \$196,000.

Department Response

Department officials stated that they will request the State's General Assembly to introduce legislation during the 2012 session to eliminate the Department's obligation to process deer meat for donations.

FWS Response

FWS regional officials concurred with the finding and recommendation and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the FWS response, additional information is needed in the corrective action plan, including:

- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

3. Transfers of Hunting Permit Revenues to the Maryland Park Service

The Department's Wildlife and Heritage Service sells managed hunt permits, which are required to hunt on a limited number of lands operated by the Maryland Park Service (the Park Service). To support hunting programs on those areas, the Department annually transferred \$70,000 to the Park Service from the sale of managed hunt permits, or a total of \$140,000 in SFYs 2009 and 2010. The Department, however, did not require the Park Service to document its use of these revenues. Officials therefore could not demonstrate whether the funds were spent solely to manage the State's fish and wildlife resources.

Recommendations

We recommend that FWS:

1. Resolve the potential diversion of license revenues totaling \$140,000.
2. Ensure the Department adequately documents the Maryland Park Service's use of license revenues to demonstrate that those funds are spent solely to manage the State's fish and wildlife resources.

Department Response

Department officials stated that they will review the transfers of license revenues to the Maryland Park Service for propriety by March 31, 2012. The Wildlife and Heritage Service and the Maryland Park Service will also develop a Memorandum of Understanding (MOU), which will detail allowable uses of hunting permit fees beginning with the 2012-2013 hunting season.

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

An MOU detailing allowable uses of these funds is in itself not sufficient to resolve this potential diversion. The Department must maintain auditable records, such as timesheets, invoices, and receipts, to demonstrate that license revenues from the sale of managed hunt permits are used solely to manage the State's fish and wildlife resources.

Based on the FWS response, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address the recommendations.
- Targeted completion date for Recommendation C.3.2.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

4. Loss of Physical and Administrative Control over Firearms

Under the Program, items purchased with hunting and fishing license revenues must continue to serve fish and wildlife purposes throughout their useful lives. The Department's Natural Resources Police, however, has lost physical and

administrative control over hundreds of hunter education firearms that were potentially purchased with license revenues. Specifically:

- The NRP issued 906 firearms to 90 citizens who volunteer to teach hunter education courses. None of these individuals are NRP employees or contractors, although they keep the State-owned firearms full-time. The NRP could not provide evidence that it had conducted background checks on all of these volunteers.
- Of the 906 firearms, 761 (84 percent) were not recorded in the Department's official Capital Equipment Inventory System (CEIS). Instead, an NRP contractor kept a list of weapons and the volunteers to whom they were assigned on a spreadsheet. He was the only individual who possessed these records when our audit began.
- The NRP had no record of the physical location of the firearms; officials informed us that they were generally kept in volunteers' private residences or at gun clubs.
- The firearms were not clearly and consistently marked as State property, and NRP staff had never conducted a comprehensive physical inventory of them.
- According to one NRP staff member, a volunteer admitted to loaning one of these firearms to an acquaintance, who allowed a minor to use it for personal purposes.

This problem arose due to several reasons. First, the NRP issued the firearms to volunteer instructors to make them readily available for hunter education courses. (We noted, however, that each instructor teaches an average of only three courses annually.) Second, the Department did not have a procedure to ensure that all firearms, particularly those acquired using corporate purchasing cards, were recorded in CEIS. Third, NRP staff had never conducted a physical inventory of these firearms but instead relied on the volunteers to inform them when firearms were damaged or missing. Finally, the NRP's equipment coordinator informed us that she has not issued property identification numbers for hunter education firearms "in years" and that CEIS only allows these numbers to be added when equipment is initially inputted in the system.

Because the NRP lost physical and administrative control over these firearms, we determined that the Department potentially diverted \$95,289 in license revenues. As shown in the table below, we calculated this amount in three steps because neither CEIS nor the NRP's unofficial inventory indicated the funding source of all the firearms in question. More importantly, however, the NRP's lack of control over these firearms poses a public safety risk, since they are prone to theft, unauthorized use, or even use for illegal activities.

Hunter Education Firearms Issued to Volunteers			
Description	Number of Firearms	Amount Potentially Paid by License Revenue	Comments
Firearms in CEIS With a Funding Source	32	\$2,881	CEIS indicated that special funds (most likely license revenues) paid for these firearms.
Firearms in CEIS Without a Funding Source	113	\$11,742	Since CEIS indicated a value but no funding source for these firearms, license revenues could have paid up to the full cost.
Firearms Not in CEIS But Listed on NRP's Unofficial Spreadsheet	761	\$80,666	Neither the value nor the funding source of these firearms was listed on the NRP's unofficial spreadsheet. We therefore determined the average value of all firearms in CEIS that belonged to the hunter education program. We multiplied that amount, \$106, by the number of firearms missing from CEIS. License revenues could have paid up to the full cost.
Totals	906	\$95,289	

Recommendations

We recommend that FWS:

1. Resolve the potential diversion of license revenues totaling \$95,289.
2. Ensure the Department secures the hunter education program's firearms to limit the potential for misuse or theft.
3. Require the Department to develop and implement policies and procedures to notify its equipment coordinators when equipment and sensitive items are procured through any means.

Department Response

Department officials stated that by June 30, 2012, they will review the practice of issuing firearms to individuals not employed by the State, research the source of funds used to purchase the firearms in question, and ensure all acquisitions of firearms are accounted for in CEIS.

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the FWS response, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address the recommendations.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

5. Disposal of Real Property Purchased with License Revenues

One of the ways States carry out the objectives of the Program is by acquiring real property – primarily land – for public hunting and fishing. According to Program requirements, any proceeds from the disposal of real property purchased with hunting and fishing license revenues must be spent solely to manage the State’s fish and wildlife resources.

Section II.02A of the “Inventory Control Manual,” issued by the State’s Department of General Services, requires agencies to record the source of funds used to purchase each State-owned building or parcel of land. The Department, however, has not consistently maintained such records. Therefore, officials were unable to determine if the State has ever disposed of real property purchased with license revenues or whether it used the resulting proceeds strictly to manage its fish and wildlife resources. This issue occurred because the Department did not have policies and procedures to (1) maintain real property records that include the source of funding and (2) restrict proceeds from the disposal of real property purchased with license revenues.

We reported a similar condition in our prior audit report (No. R-GR-FWS-0025-2005). We are therefore repeating the applicable recommendation from that report (Recommendation D.2), which will be tracked under the resolution process for the prior audit. We are also issuing two new recommendations.

Repeat Recommendation

We recommend that FWS require the Department to establish policies and procedures for maintaining real property records that include the source of funding.

Department Response

Department officials stated that due to recent improvements, CEIS can now identify the source of funds for all newly-acquired property. While the officials identified all lands purchased with Wildlife Restoration funds in response to the

prior Program audit, they have not yet determined which properties were acquired with Sport Fish Restoration funds or license revenues.

FWS Response

FWS regional officials concurred with the finding and recommendation and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

The implementation of this recommendation will be tracked under the prior audit report. Accordingly, FWS should send documentation regarding the implementation of this recommendation to the U.S. Department of the Interior, Office of the Assistant Secretary for Policy, Management, and Budget.

New Recommendations

We recommend that FWS:

1. Resolve the potential diversion of license revenues related to the disposal of real property.
2. Ensure the Department develops and implements policies and procedures to restrict proceeds from the disposal of real property purchased with license revenues to the administration of the State's fish and wildlife resources.

Department Response

Department officials stated that beginning in 1976, the Department has exclusively used State funds to acquire real property. They claimed that the Department has not sold any real property in the past 10 years and has only rarely done so prior to that time. Selling real property requires multiple layers of approval and a title search to identify any legal restrictions attached to the deed. In addition, officials stated that the funding source of real property could be found in the minutes of the Board of Public Works' meetings dating from the time the property was acquired.

According to the officials, "Although historical records of specific fund sources are generally lacking, by making certain reasonable assumptions about the time and funding sources available to [the Department's] predecessor agencies, we believe we can accurately capture license purchased property."

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Department officials assert that due to the complexity of the disposal process, they would have inevitably determined the funding source of any real property proposed for disposal. As noted above, however, they also state that “historical records of specific funding sources are generally lacking” and to resolve the recommendations, they would need to make “assumptions” regarding which lands were purchased with license revenues. Therefore, despite the officials’ response, we have no assurance that the Department or its predecessor agencies have consistently restricted the disposal of real property purchased with license revenues.

Based on the FWS response, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address the recommendations.
- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

D. Unreported Program Income

Under the Program, States may earn revenue, or program income, from grant-supported activities but must report and use such funds in accordance with Federal regulations. Although the Department claimed program income totaling \$45,491 under Grants W-62-D-20 and W-62-D-21 for the operation and maintenance of its wildlife management areas (WMAs), we determined that it did not report an additional \$61,379. The Wildlife and Heritage Service (WHS) generated the unreported income by leasing land for agricultural purposes and exclusive trapping rights on WMAs. WHS personnel charged the time they spent preparing and executing the leases to the Program grants. The table below details the associated revenues.

Type of Lease	Grant Number		Totals
	W 62 D 20	W 62 D 21	
Agricultural	\$0	\$57,035	\$57,035
Trapping	2,202	2,142	4,344
Totals	\$2,202	\$59,177	\$61,379

In 43 CFR § 12.65(b), program income is defined 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 accordance with the CFR, the agreements for Grants W-62-D-20 and W-62-D-21 stipulate that any

program income should be added to grant funds and used for grant-related purposes.

Although the Department had sufficient policies and procedures related to program income, this issue occurred due to miscommunication between a WHS regional manager and his staff. According to the manager, he had informed his staff to charge a State funding source for all time spent preparing and executing agricultural and trapping leases. Two of his staff members, however, informed us that they had charged Grants W-62-D-20 and W-62-D-21 for such work. One additional employee, who worked on trapping leases, was unable to recall if he charged his time to the Program grants or a State funding source. At any rate, because the \$61,379 was not tracked and reported as program income, WHS officials were unable to ascertain whether those funds were properly spent to carry out the objectives of Grants W-62-D-20 and W-62-D-21.

Recommendations

We recommend that FWS:

1. Resolve the \$61,379 in unreported program income.
2. Ensure the Department clearly communicates its policies and procedures for tracking and reporting program income to staff charging time to the Program grants.

Department Response

Department officials stated that by March 31, 2012, they will resolve the unreported program income. They also plan to review the Department's existing policy on program income, make any necessary revisions, and ensure staff members adhere to existing procedures.

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the FWS response, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address the recommendations.
- Targeted completion date for Recommendation D.2.
- Titles of officials responsible for implementing the actions taken or planned.

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

E. Noncompliance with Indirect Cost Requirements

The Department allocated administrative costs for State- and Department-provided services among its Federal grants. It did not, however, adhere to a number of requirements regulating the calculation and reporting of these costs.

According to 50 CFR § 80.15(e), indirect costs for State central services outside the fish and wildlife agency cannot exceed 3 percent of the State's annual apportionment of Program funds. We found, however, that on Grants W-65-S-20 and W-65-S-21 for hunter education and Grants F-47-E-19, F-47-E-20, and F-47-E-21 for aquatic resource education, the Department did not obtain Federally-approved indirect cost rates that ensured compliance with this requirement. (Following the period covered by this audit, the Department did obtain appropriate rates for its hunter education grants but still had not done so for its aquatic resource education grants.)

The Department also calculated indirect costs on its aquatic resource education grants incorrectly. It applied the indirect cost rate for the Fisheries Service to the salaries, wages, and fringe benefits of Watershed Service employees, who actually performed the work under those grants. This practice is contrary to 2 CFR § 225, Appendix C, subsections A.2 and A.3, which state that "indirect costs include the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards.... A separate indirect cost rate is usually necessary for each department or agency of the governmental unit claiming indirect costs."

Finally, the Department submitted Federal Financial Reports with incorrect indirect cost totals. For instance, the Department did not report any indirect costs on its aquatic resource education grants, even though it regularly drew down Federal funds for that purpose. On Grant F-63-R-1 for marine and estuarine finfish ecological and habitat investigations, the Department reported Federal charges for indirect costs totaling \$32,195, even though the actual amount charged was \$16,098. The requirement in 43 CFR § 12.81(b)(4) to submit financial reports to the Federal grantor agency inherently stipulates that all figures be reported accurately.

Several causes gave rise to these issues. Specifically,

- The Department had not fully implemented its policies and procedures regarding the limitation on payments for Statewide central services.
- A Fisheries Service official informed FAS staff, who prepare the Federal Financial Reports that no indirect costs were incurred under the aquatic resource education grants. The official remarked that he viewed

Watershed Services as a contractor and therefore did not believe that its indirect costs needed to be reported separately.

- For Grant F-53-D-17, a grant specialist did not apply the Federal share percentage to total indirect costs to accurately report FWS' portion of these expenses.
- FAS did not have formal policies and procedures in place to ensure that amounts claimed on Federal Financial Reports were independently verified before their submission to FWS.

Due to noncompliance with the 3 percent limitation on Statewide indirect costs, the Department might have received excess reimbursement under Grants F-47-E-19, F-47-E-20, F-47-E-21, W-65-S-20, and W-65-S-21. Furthermore, incorrect reporting of costs on Federal Financial Reports hinders FWS' efforts to ensure compliance with Program requirements and accountability for Federal funds.

Recommendations

We recommend that FWS:

1. Ensure the Department fully implements its policies and procedures limiting reimbursement for State-provided central services under the Program grants to 3 percent of the State's annual apportionment.
2. Require the Department to claim indirect costs on its Program grants by applying the indirect cost rate of the unit performing the grant work to the same unit's direct cost base.
3. Ensure the Department develops and implements policies and procedures requiring amounts claimed on Federal Financial Reports to be independently verified before their submission to FWS.

Department Response

Department officials stated that they will implement the recommendations by June 30, 2012.

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the FWS response, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address the recommendations.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

F. Inadequately Tracked and Missing Equipment

Federal regulations require States to have adequate controls to account for equipment purchased under the Program. To test the Department's controls in this area, we selected 54 pieces of equipment from CEIS. These items were purchased with Federal and special funds (i.e., license revenues) and were valued at \$508,032. We determined that:

- Department staff could not locate three items, costing \$6,714, including an all-terrain vehicle, a laptop computer, and a digital camera.
- Property tags and property tag numbers were not affixed to, etched on, or painted on 23 pieces of equipment, costing \$251,211. This amount represents 49 percent of the value of all equipment in our sample. Items missing property tags and numbers included tractors, boats, firearms, laptop computers, and a digital camera.

Additionally, we performed a "reverse test" of 24 pieces of equipment; that is, we viewed these items during site visits and then attempted to locate them in CEIS. Seven items were not recorded in CEIS, including four boats, a laptop computer, a water pump, and a podium with a removable public address system. Furthermore, 11 items were missing property tags.

We noted several other indications of inadequate equipment management during the course of our audit. Specifically:

- As of April 2011, CEIS indicated that the NRP maintained 52 pieces of equipment at the Annapolis City Dock Office that had been purchased with special funds, Federal funds, or an unspecified funding source. These items were valued at \$1,010,120. According to Department officials, however, all NRP staff had vacated this office by February 2010.
- As of April 2011, CEIS indicated that the NRP maintained 14 pieces of hunter education equipment at the Annapolis Annex Office that had been purchased with special funds, Federal funds, or an unspecified funding source. These items were valued at \$49,629. According to Department officials, however, all NRP staff working on safety education projects had vacated this office by September 2007.
- As discussed in detail in Finding C.4 of this report, the NRP provided 906 firearms, valued at approximately \$95,289, to volunteer hunter education instructors. These weapons were not all recorded in CEIS or stored at the

locations noted in CEIS. The NRP therefore did not exercise effective control over them.

According to 43 CFR § 12.72(b), States are required to manage equipment acquired under the Program grants in accordance with their own laws and procedures. The State's "Inventory Control Manual" requires the following:

- A complete physical inventory of capital items shall be taken at least once every three years (Section II.03 B.1.b). Such equipment has a probable useful life in excess of one year (Section I.04) and a cost of \$500 or more (Section II.03).
- A complete physical inventory of sensitive items shall be taken at least once each year (Section II.03 B.1.a). Such items include all computer equipment and hand-held electronic devices, portable tools, cameras, and firearms (Section I.04).
- When the physical inventory is taken, inventory records shall be checked against the items inventoried to assure that records exist for each item and that records for missing items are investigated, reported, and removed from the inventory system (Section II.03 C.1).
- Capital equipment items shall be marked with a property identification number and the words "Property of the State of Maryland." The marking shall be conspicuously located on the top or side of items so as to be readily seen (Section III.03 A).

This issue arose due to several reasons. Specifically:

- The Department did not conduct the required annual inventory of sensitive items in SFY 2010 or 2011 and therefore did not determine if any items were missing and take appropriate follow-up action.
- The Department did not enforce policy to ensure that all equipment was marked as property of the State and had identification numbers affixed in a conspicuous location.
- Department staff who managed the inventory process expressed uncertainty about their specific responsibilities, and the Department did not have adequate policies and procedures to clarify this issue.

As a result, the Department has increased the risk that equipment purchased with Federal funds or license revenues could be lost, misplaced, or used for unauthorized purposes.

We reported a similar condition in our prior audit report (No. R-GR-FWS-0025-2005). We are therefore repeating the applicable recommendations from that report (Recommendations C.1 and C.2), which will be tracked under the resolution process for the prior audit. We are also issuing two new recommendations.

Repeat Recommendations

We recommend that FWS:

1. Ensure the Department accurately updates the data in the Capital Equipment Inventory System to reflect the correct status and location of items.
2. Ensure the Department assigns property numbers to all items and tag all untagged items as required by the State's guidelines.

Department Response

Department officials stated that they will ensure CEIS correctly identifies the location of its capital equipment and will affix a unique property identifier to each piece of equipment.

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

The implementation of these recommendations will be tracked under the prior audit report. Accordingly, FWS should send documentation regarding the implementation of these recommendations to the U.S. Department of the Interior, Office of the Assistant Secretary for Policy, Management, and Budget.

New Recommendations

We recommend that FWS:

1. Ensure the Department follows the State's policies and procedures to conduct an inventory of all capital equipment once every three years and of all sensitive items once each year.
2. Require the Department to develop and implement policies and procedures that (1) clarify the roles and responsibilities of staff charged with equipment management and inventory and (2) specifically address responsibilities for updating the location of equipment in the Capital Equipment Inventory System.

Department Response

Department officials stated that they are developing internal policies and procedures to ensure physical inventories are completed in accordance with the Department of General Services' requirements.

FWS Response

FWS regional officials concurred with the finding and recommendations and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the FWS response, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address the recommendations.
- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

G. Inaccurate and Inconsistent Payroll Calculations

The Department's Federal Timecard System, which is separate from but interfaces with the State's payroll system, calculates payroll charges related to the Program grants. We noted several instances, however, where the Federal Timecard System did not accurately or consistently perform these calculations.

For example, we found exceptions with payroll calculations for 7 of 15 Department employees in our sample for SFY 2010. In some instances, the Department paid employees for working 80 hours over two weeks even though they reported fewer hours on their timecards. In other cases, the Federal Timecard System allocated fringe benefits to the Program grants based on a 72- or 74-hour pay period, even though the employees worked 80 hours. The inaccurate and inconsistent calculations appeared to occur when furlough days were involved.

The Federal Timecard System also allocates leave expenses to the Program grants. It bases these calculations on the percentage of time each employee directly charged a Program activity during the previous fiscal quarter. In one case, however, we found that the Department charged a Program grant for 50 percent of an employees' leave, but the grant should have borne only 43 percent. In another instance, the Department charged 11 percent of an employee's leave to a grant but should have charged only 8 percent. Because the system calculates and applies hundreds of these percentages each quarter, total overcharges to the Program grants could be significant.

According to 43 CFR §12.60(a)(2), 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 they have not been used in violation of the restrictions and prohibitions of applicable statutes. Furthermore, 2 CFR 225, Appendix A, subsection C.1.e, states that to be allowable under Federal awards, costs must be consistent with policies, regulations, and procedures that apply uniformly to Federal awards and other activities of the governmental unit.

Department officials were unaware of these inaccuracies and inconsistencies; we therefore concluded that the Federal Timecard System has not been correctly programmed and appropriately tested to ensure charges to the Program grants are accurate.

Recommendation

We recommend that FWS require the Department to (1) test the Federal Timecard System by verifying payroll charges in pay periods that include furlough days and the percentages used to allocate costs for leave, (2) provide FWS with documentation of such tests, and (3) make necessary changes to ensure the accuracy and consistency of payroll calculations.

Department Response

Department officials stated that they are currently converting the Department's payroll time reporting system to an electronic records-keeping system. The Department intends to incorporate and convert the Federal time-keeping requirements into its new payroll module. The officials agreed to periodically test the Federal Timecard System when furloughs are reflected in payroll calculations but noted that no furloughs are scheduled for SFY 2012.

FWS Response

FWS regional officials concurred with the finding and recommendation and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

The Department should conduct all tests outlined in the recommendation as soon as practicable because (1) the State could require furloughs in future SFYs even though none are scheduled for SFY 2012 and (2) the inaccuracies in leave allocations described in this finding did not appear to be linked to furlough days. Therefore, the Department could be overcharging the Program grants for employees' leave expenses each time it requests reimbursement from FWS.

Based on the FWS response, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address the recommendation.
- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

H. Unreconciled Real Property Records

The Department and FWS each maintain records on land purchased with Program grant funds; however, these two sets of records contained a number of differences. FWS' records listed 50,468 acres that cost about \$1.03 million, whereas the Department's land inventory identified 46,446 acres costing about \$1.23 million. Furthermore, FWS' records indicated that the State received five Sport Fish Restoration grants to acquire 257 acres of land, but the Department's inventory attributed no real property to the Sport Fish Restoration Program.

According to 50 CFR § 80.18(c) and the FWS Manual (522 FW 1.15), each State is required to maintain accountability and control of Program assets to assure that they are used for the purpose for which acquired throughout their useful life. The FWS Director reiterated land management requirements to Program participants in a March 29, 2007 letter. This letter requested each State to maintain a real property management system that includes a comprehensive inventory of lands and to ensure that its inventory is accurate and complete.

Even though a Department official received a copy of FWS' land records in 2007, he did not distribute them to the appropriate staff to begin the reconciliation process. As a result, the Department's land inventory is not adequate to ensure that lands acquired with grant funds are used only for their originally intended purposes.

We reported a similar condition in our prior audit report (No. R-GR-FWS-0025-2005). We are therefore repeating the applicable recommendation from that report (Recommendation D.1), which will be tracked under the resolution process for the prior audit.

Repeat Recommendation

We recommend that FWS require the Department to establish complete and accurate records for real property acquired with Program funds and license revenues, ensuring reconciliation between the Department and FWS land records.

Department Response

Department officials noted that beginning in 1976, the Department has exclusively used State funds to acquire real property, and that the new CEIS allows the Department to identify the source of funding for all real property acquisitions. They stated that any reconciliation with FWS' land records would therefore involve only acquisitions prior to 1976.

FWS Response

FWS regional officials concurred with the finding and recommendation and stated that they will work with the Department to develop and implement a corrective action plan.

OIG Comments

The implementation of this recommendation will be tracked under the prior audit report. Accordingly, FWS should send documentation regarding the implementation of this recommendation to the U.S. Department of the Interior, Office of the Assistant Secretary for Policy, Management, and Budget.

Appendix I

State of Maryland
Department of Natural Resources
Financial Summary of Review Coverage
July 1, 2008, Through June 30, 2010

Grant Number	Grant Amount	Claimed Costs	Questioned Costs (Federal Share)	
			Unsupported	Ineligible
F-45-R-21	\$74,907	\$92,286		
F-45-R-22	82,799	89,217		
F-45-R-23	68,524	18,737		
F-47-E-19	500,103	427,327	\$77,235	
F-47-E-20	537,210	507,231	189,728	\$2,843
F-47-E-21	603,413	104,581	325,191	463
F-48-R-18	1,167,628	937,289		
F-48-R-19	1,174,823	1,180,390	777	
F-48-R-20	1,372,347	450,430		
F-50-R-16	283,422	292,264		
F-50-R-17	283,490	333,136		
F-50-R-18	317,434	293,917		
F-50-R-19	351,638	115,673		
F-53-D-15	1,267,304	1,648,725	615	
F-53-D-16	2,088,999	1,961,829	61,877	
F-53-D-17	1,806,527	700,544	5,511	
F-55-D-9	84,724	6,156	4,618	
F-57-R-10	415,615	360,171	3,116	
F-57-R-11	455,090	79,923	1,433	
F-57-R-9	417,816	344,566	1,701	
F-60-R-5	91,975	116,503		
F-60-R-6	93,621	106,785		
F-60-R-7	103,123	41,547		
F-61-R-4	1,907,170	1,513,531	3,022	
F-61-R-5	2,249,299	1,801,855	3,168	
F-61-R-6	1,640,678	1,048,661	2,788	
F-62-D-1	538,670	538,670		
F-63-R-1	587,106	124,087	272	
F-103-D-1	1,716,134	1,632,224		
F-104-D-1	401,239	384,966		
F-105-D-1	400,000	226,677		
W-61-R-20	1,067,000	1,082,817	39,958	
W-61-R-21	1,000,000	1,144,830		
W-62-D-20	1,600,000	1,827,266	2,635	
W-62-D-21	1,600,000	1,660,042		

**State of Maryland
Department of Natural Resources
Financial Summary of Review Coverage
July 1, 2008, Through June 30, 2010**

Grant Number	Grant Amount	Claimed Costs	Questioned Costs (Federal Share)	
			Unsupported	Ineligible
W-63-C-20	29,386	37,557		
W-63-C-21	\$33,400	\$33,099		
W-64-T-20	254,000	344,641		
W-64-T-21	266,670	355,745		
W-65-S-20	540,000	679,128	\$87,436	
W-65-S-21	705,000	804,762	126,719	
TOTALS	\$30,178,284	\$25,449,785	\$937,800	\$3,306

Appendix 2

**State of Maryland
Department of Natural Resources
Sites Visited**

Headquarters

Annapolis

Service Centers

Bel Air

Prince Frederick

Field Office

Wye Mills

Work Center

Patuxent

Wildlife Management Areas

Cedar Point

Fishing Bay

Idylwild

LeCompte

Millington

Myrtle Grove

Old Bohemia

Hatcheries

Cedarville

Unicorn Lake

Boating Facilities

Elk River

Lapidum

Wye Landing

Natural Resources Police Offices

Safety Education Division

Western Region Echo Lake

Other Sites

Chapman State Park

Cooperative Oxford Laboratory

Doncaster Demonstration Forest

Indian Creek Natural Resources Management Area

Appendix 3

State of Maryland
Department of Natural Resources
Status of Audit Findings and Recommendations

Recommendations	Status	Action Required
A.1.1, A.1.2, A.2.1, A.2.2, A.2.3, A.3.1, A.3.2, A.3.3, A.4.1, A.4.2, A.4.3, A.5.1, A.5.2, B, C.1.1, C.1.2, C.2, C.3.1, C.3.2, C.4.1, C.4.2, C.4.3, C.5.1, C.5.2, D.1, D.2, E.1, E.2, E.3, F.1, F.2, G	FWS management concurs 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 February 28, 2012) to the Assistant Secretary for Policy, Management and Budget (PMB) for resolution and/or tracking of implementation.
Repeat Recommendations C.5, F (2 recommendations), and H	Repeat recommendations from our prior report (No. R-GR-FWS-0025-2005, Recommendations D.2, C.1, C.2, and D.1). PMB considers these recommendations resolved but not implemented.	Provide documentation regarding the implementation of these recommendations to PMB.

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