



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 Michigan, Department of Natural Resources,
From October 1, 2008, Through September 30, 2010



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

January 6, 2012

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

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

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

This report presents the results of our audit of costs claimed by the State of Michigan (State), Department of Natural Resources (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 (Program). The audit included claims totaling approximately \$83.8 million on 23 grants that were open during State fiscal years (SFYs) that ended September 30, 2009, and September 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 did identify a potential diversion of license revenue of \$38,000 for a University study unrelated to the administration of the Department's Fish and Game Program. We found real property deficiencies related to (1) potential diversion of lands from an abandoned prison facility on lands purchased with State license revenues, (2) loss of control of real property based on 79 identified cases of trespass, (3) improper use of 400 acres of real property for dog trials, and (4) unreconciled real property records with FWS.

We provided a draft report to FWS for a response. We summarized Department and FWS Region 3 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 April 5, 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. Chris Krasowski, or me at 703-487-5345.

cc: Regional Director, Region 3, U.S. Fish and Wildlife Service

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Introduction

Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts)¹ established the Wildlife and Sport Fish Restoration Program (the 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 \$83.8 million on the 23 grants that were open during SFYs that ended September 30, 2009, and September 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 Lansing, MI, and visited three Operations Service Centers, four Field Offices, seven State Game and Wildlife Areas, one Wildlife Research Area, one State Fish Hatchery, one Fish Research Station, one Shooting Range, one Seawall, and one Lock and Dam. (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 May 1, 2006, we issued "Final Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Program Grants Awarded to the State of Michigan" (R-GR-FWS-0010-2005). We followed up on all recommendations in the report and found that the U.S. Department of the Interior, Office of the Assistant Secretary for Policy, Management and Budget considered them to be resolved and implemented.

We reviewed the Single Audit Report for the State of Michigan for 2009 and the Comprehensive Annual Financial Reports for 2009 and 2010. Neither 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 several conditions that resulted in the findings listed below. We discuss the findings in more detail in the Findings and Recommendations section.

Potential Diversion of License Revenues. We identified a potential diversion of license revenue of \$38,000 for a University study that was unrelated to the administration of the Department's Fish and Game Program.

Potential Diversion of Real Property. The Department of Corrections (DOC) did not raze a prison facility on a 12-acre parcel of land, acquired with license revenues, located at the Cusino Wildlife Research Station.

Loss of Control of Real Property. The Department has at least 79 cases of trespass on Program and license-acquired land.

Improper Use of Real Property. The Allegan State Game Area includes about 400 acres managed for dog field trials. The management of the land for field trials is not compatible with the intended land use of preserving native grasses and providing nesting habitat for ground birds and animals.

Unreconciled Real Property Records. The Department has not reconciled its Program-funded real property records with FWS.

Findings and Recommendations

A. Potential Diversion of License Revenues

The Department sells hunting and fishing licenses and collects license fees from hunters and anglers. Under the Program, the Department must use license revenue from these sales only to administer its fish and wildlife program. The Department expended \$38,000 of State Game and Fish Funds (license funds) in SFY 2009 on a forestry study with the Michigan State University called the Partners in Ecosystem Resource Management. Our review of the study showed that it was specific to the impact of harvest pattern on diversity and productivity of tree regeneration in northern hardwood forests. We were unable to identify any wildlife purpose or component in the study. In SFY 2010, additional payments for the same study were correctly charged to a forestry funding source and not to the Game and Fish Fund.

According to the Code of Federal Regulations (50 CFR § 80.4) revenues from license fees paid by hunters and anglers are to be used only for the administration of the State fish and wildlife agency. A diversion of license fee revenues occurs when any portion of the license revenues issued for any purpose other than the administration of the fish and wildlife agency. For purpose of this rule, administration of the State fish and wildlife agency includes only those functions required to manage the fish and wildlife resources of the State.

The Department did not properly review the nature of the expense that should have been charged to the forestry fund. Therefore the Department may have spent revenues from license fees collected on an activity not related to the fish and wildlife program. The use of hunting and fishing license revenues for nonfish and wildlife program purposes would result in a potential diversion of license fees in violation of 50 CFR § 80.4.

| Recommendation |
|---|
| We recommend that FWS resolves the potential diversion of license revenues totaling \$38,000. |

Department Response

Department officials concurred with the finding and responded that a journal voucher was processed restoring the license revenues to the Game and Fish Fund.

FWS Response

FWS Regional officials concurred with the finding and recommendation and will work with the Department to resolve the finding in the corrective action plan once the final report is issued.

OIG Comments

Based on the Department and FWS responses, documentation on the journal voucher including verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department need to be included in the corrective action plan.

B. Potential Diversion of Real Property

The Department is required to protect land resources acquired with Program funds and license revenue to ensure that the land is used for wildlife purposes. The Department's Cusino Wildlife Research Station includes an abandoned prison residing on approximately 12 acres of lands acquired with license revenues. The memorandum of agreement between the Department and DOC required that prison labor be provided for a specific deer research project as well as \$1-a-year in rent, and that the land ultimately be returned to its original wildlife purpose by razing the prison buildings at DOC expense when the facility is closed. The

facility closed on July 26, 2009; however, the prison still remains on the Cusino Wildlife Research Station land.

According to 50 CFR § 80.18(c) the State must maintain accountability and control of all assets to assure they serve the purpose for which they were acquired throughout their useful life. Regulations (50 CFR § 80.14) also require that when such property passes from management control of the State Fish and Game agency, the control must be restored to the State fish and wildlife agency.

Further, 50 CFR § 80.4 states, “Revenues from license fees paid by hunters and fishermen shall not be diverted to purposes other than administration of the State fish and wildlife agency. In addition, 50 CFR § 80.4(c) states that if a diversion of license revenues occurs, the State becomes ineligible to participate under the pertinent Act from the date the diversion is declared by the Director until: “All license revenues or assets acquired with license revenues are restored, or an amount equal to license revenue diverted or current market value of assets diverted (whichever is greater) is returned and properly available for use for the administration of the State fish and wildlife agency.”

The Department did not enforce the terms of the original memorandum of agreement requiring the DOC to remove the prison and restore the land to its intended purpose upon termination of the agreement. As result, there are currently 12 acres of license-acquired land at the Cusino Wildlife Research Station that are not available to be used as intended, and have therefore been diverted from their original purpose.

| Recommendation |
|---|
| We recommend that FWS ensures that the Department enforce the terms of the agreement with the DOC by requiring the DOC to remove all infrastructure associated with the facility and return the land to its original state. |

Department Response

Department officials concurred with the finding and responded that they will initiate actions with DOC to restore the site.

FWS Response

FWS Regional officials concurred with the finding and recommendation and will work with the Department to resolve the finding in the corrective action plan once the final report is issued.

OIG Comments

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

- The specific actions(s) taken or planned to address the recommendation.
- Targeted completion dates.
- 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. Loss of Control of Real Property

The Department is required to protect land resources acquired with Program funds and license revenue to ensure that the land is used for wildlife purposes. We found at least 79 cases of trespass on Program (18 cases) and license (61 cases) acquired land, of which, 78 cases were identified by the Department in their database. The other instance of trespass was identified during our site visit to Crow Island State Game Area.

- On Program-acquired lands, we found 18 cases of trespass, of which, the Department identified 17 active cases in their database. Of the 18 cases, 12 are on wildlife-managed lands and 6 are on forestry-managed lands. Four of the 18 trespass cases were identified between 1991 and 1992. At Crow Island State Game Area, we found that an adjoining landowner expanded its existing parking lot onto the game land, and is storing flat bed trailers, steel columns, and concrete blocks on the game land.
- On license-acquired lands, the Department identified 61 active cases in their database. Of the 61 cases, 54 are on forestry-managed lands and 7 are on wildlife-managed lands. Four of the 61 trespass cases were identified between 1980 and 1989.

According to 50 CFR § 80.18(c), States must maintain accountability and control of all assets to assure they serve the purpose for which they were acquired throughout their useful life. Regulations (50 CFR § 80.14) also require that when such property passes from management control of the State Fish and Game agency, the control must be restored to the State fish and wildlife agency.

A Department official stated the primary cause for the number of trespasses and the lack of resolution of old cases is failure to follow the Department's existing Policies and Procedures (26.26-19 – Non-Timber Trespass Procedure, issued July 11, 2005). As a result, the Department's database may not be accurate; therefore, all cases of trespass may not be identified. Furthermore, the fact that the Department has not resolved old cases may result in lands not being used for their intended purposes.

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| Recommendations |
| <p>We recommend that FWS ensures that the Department:</p> <ol style="list-style-type: none">1. Makes timely efforts to resolve its backlog of active trespass cases so that Program and license lands are returned to their intended purposes.2. Follows existing Non-Timber Trespass Procedures. |

Department Response

Department officials concurred with the finding and will work with FWS to resolve the trespass cases involving a federal interest or hunting and fishing license revenues.

FWS Response

FWS Regional officials concurred with the finding and recommendations and will work with the Department to resolve the finding in the corrective action plan once the final report is issued.

OIG Comments

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

- The specific actions(s) taken or planned to address the recommendations.
- Targeted completion dates.
- 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. Improper Use of Real Property

The Department acquired land with Program funds and license revenue. This land is to be used for the administration of fish and wildlife resources. Management of the Allegan State Game Area (the Area) for dog field trials is incompatible with intended Program grant purposes.

The Department manages the Area which includes about 400 acres for dog field trials. During field trials, judges assess the performance of dogs. The field trial area is open to dog use and dog training year round. This has resulted in:

- Elevated disturbance of wildlife during important portions of the year (nesting for example).
- As a field trial area open to dog use, there is a release of nonnative bird species (i.e., chukars and pigeons) into the habitat. The release of these

birds is not regulated which could result in the release of diseased specimens which could infect the native or desirable bird populations. Some of these birds are shot and left behind creating an unnaturally high concentration of carcasses which could attract additional predators into the Area.

- During field trials the participants are allowed to release native species, usually quail, which could act as a carrier for disease.
- The field trial permits allow for the use of horses, which may pose multiple issues: trampling of habitat, additional disturbance to nesting species, introduction of nonnative or undesirable vegetation through hay, and wandering of riders into nonpermitted areas, which happens every year. The horses are kept near the parking lot where participants camp for the weekend and are staked out in various locations – these locations are heavily browsed/trampled by the horses and invasive or undesirable species take over. Some of these locations are within a restored warm-season grass field.
- Field trial dogs do not limit themselves to the field trial area and regularly run into unpermitted areas. The participants then follow the dogs on horseback, occasionally by vehicle, to retrieve the dog.
- In the past, many activities were allowed including the mowing of trails to facilitate the trials, unregulated cutting of wood and trimming of trees, camping not covered by the permit, etc. These activities have largely been halted or regulated by the permits.

The management of the land for field trials is not compatible with the intended land use of preserving native grasses and providing nesting habitat for ground birds and animals.

Title 50 CFR § 80.14(2) clearly state that when “property is used for purposes which interfere with the accomplishment of approved purposes, the violating activities must cease and any adverse effects resulting must be remedied.”

The Department has tried to relocate the field trials to other properties, but has been unsuccessful because the field trial permit holders have been adamant about staying on the property, claiming all other proposed properties are unacceptable. As a result, the dog-trial acreage is not being managed for the purpose for which the property was originally acquired.

| Recommendation |
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| We recommend that FWS ensures the Department terminates managing the Allegan State Game Area for dog field trials. |

Department Response

Department officials disagreed with the finding and responded that dog field trials have been approved by FWS in a news release dated October 12, 2001.

FWS Response

FWS Regional officials concurred with the finding and recommendation and will work with the Department to resolve the finding in the corrective action plan once the final report is issued. FWS is not in agreement with the Department's position and stated that dog field trials have not received "blanket" approval and have been subject of audit findings in other states.

OIG Comments

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

- The specific actions(s) taken or planned to address the recommendation.
- Targeted completion dates.
- 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. 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 is reconciled with land records maintained by FWS. The Department and FWS agreed a reconciliation had not been performed. We found that the totals of the 2 set of records differed by 4,754 acres. For example, for Baraga County the FWS record showed a total of 240 acres, but the Department records showed 456 acres. Title 43 CFR § 12.71(a) requires that title to real property acquired under a grant or subgrant will vest upon acquisition in the grantee or subgrantee, respectively. Furthermore, 50 CFR § 80.18(c) requires the State to maintain accountability and control of all assets to assure they serve the purpose for which they were acquired throughout their useful life. Title 50 CFR § 80.14 also requires that when such property passes from management control of the State Fish and Game agency, the control must be restored to the State fish and wildlife agency. In addition, the FWS Director reiterated land management requirements to 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 was not aware that it was required to reconcile records in its land database with FWS land records to determine their accuracy and completeness. Without a reconciliation of the records, the Department cannot ensure that lands are being controlled, accounted for, and used for their intended purposes.

| |
|---|
| Recommendation |
| We recommend that FWS works with the Department to reconcile its real property records funded with Program funds. |

Department Response

Department officials concurred with the finding and responded that it is ready to work with FWS to reconcile the land records.

FWS Response

FWS Regional officials concurred with the finding and recommendation and will work with the Department to resolve the finding in the corrective action plan once the final report is issued.

OIG Comments

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

- The specific actions(s) taken or planned to address the recommendation.
- Targeted completion dates.
- 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.

Appendix I

State of Michigan
Department of Natural Resources
Financial Summary of Review Coverage
October 1, 2008, Through September 30, 2010

| Grant Number | Grant Amount | Claimed Costs |
|--------------|---------------------|---------------------|
| F-62-D-22 | \$9,084,577 | \$8,211,262 |
| F-62-D-23 | 9,290,579 | 7,953,828 |
| F-80-R-10 | 901,122 | 868,258 |
| F-80-R-11 | 861,609 | 870,873 |
| F-81-R-10 | 5,082,422 | 5,264,876 |
| F-81-R-11 | 3,900,412 | 4,325,576 |
| F-82-R-9 | 162,827 | 170,606 |
| F-84-D-6 | 403,520 | 401,235 |
| F-84-D-7 | 401,360 | 183,673 |
| F-90-D-1 | 3,749,877 | 3,553,987 |
| F-91-B-1 | 250,950 | 152,598 |
| F-92-B-1 | 1,985,420 | 1,704,141 |
| F-93-B-1 | 776,036 | 525,138 |
| F-94-D-1 | 1,940,910 | 1,936,419 |
| FW-4-C-20 | 146,563 | 138,402 |
| FW-4-C-21 | 140,333 | 131,260 |
| W-120-S-46 | 2,456,215 | 2,348,366 |
| W-120-S-47 | 3,370,033 | 2,890,175 |
| W-147-R-5 | 27,683,995 | 22,460,026 |
| W-148-M-5 | 3,533,000 | 3,567,528 |
| W-148-M-6 | 3,740,000 | 3,233,490 |
| W-149-P-4 | 11,951,599 | 12,714,786 |
| W-150-D-5 | 165,000 | 138,095 |
| TOTAL | \$91,978,359 | \$83,744,598 |

Appendix 2

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

Headquarters

Lansing

Operations Service Centers and Field Offices

Cass City

Grayling

Gaylord

Houghton Lake

Newberry

Plainwell

Traverse City

State Game Areas and Wildlife Areas

Allegan

Crane Pond

Crow Island

Deford

Gratiot-Saginaw

Pinconning Township

Rose Lake

Wildlife Research Area

Cusino

State Fish Hatchery

Wolf Lake

Fish Research Station

Charlevoix

Shooting Range

Pontiac Lake

Seawall & Lock and Dam

Cheboygan Lock and Dam

Mitchell State Park

Appendix 3

**State of Michigan
Department of Natural Resources
Status of Audit Findings and Recommendations**

| Recommendations | Status | Action Required |
|--------------------------|--|---|
| A, B, C.1, C.2, D, and E | FWS management concurs with the recommendations, but additional information is needed, as outlined in the “Actions required” column. | 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 April 5, 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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|---------------------|--|--------------|
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| | Washington Metro Area: | 202-208-5300 |
| By Fax: | 703-487-5402 | |
| By Mail: | U.S. Department of the Interior Office of Inspector General Mail Stop 4428 MIB 1849 C Street, NW. Washington, DC 20240 | |