



Office of Inspector General U.S. Department of the Interior

AUDIT REPORT

**U.S. Fish and Wildlife Service
Federal Assistance Grants
Administered by the State of
Iowa, Department of Natural
Resources from July 1, 2000,
through
June 30, 2002**

Report No. R-GR-FWS-0022-2003

July 2004



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

External Audits

12030 Sunrise Valley Drive, Suite 230

Reston, VA 20191

July 29, 2004

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Joe Ansnick
Director of External Audits

Subject: Final Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the State of Iowa, Department of Natural Resources from July 1, 2000, through June 30, 2002 (No. R-GR-FWS-0022-2003)

This final report presents the results of our audit of costs incurred by the State of Iowa, Department of Natural Resources (Department), under its hunting and fishing programs and costs claimed under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included claims that totaled approximately \$19.5 million on FWS grants that were open during the State's fiscal years ended June 30, 2001, and 2002 (see Appendix 1).

We found the Department did not report program income of \$1,290,424. In addition, the Department may have used Federal Assistance Funds to maintain management areas acquired under the Land and Water Conservation Fund program, which the State had agreed to maintain at its own expense. Finally, the Department's management and control of personal property assets are in need of improvement.

The Department of Natural Resources and FWS Region 3 responded to a draft of this report on June 23, 2004. We have added the responses after our recommendations and summarized the status of the recommendations in Appendix 3.

In accordance with the Departmental Manual (360 DM 5.3), please provide us with your written response to the recommendations included in this report by October 29, 2004. Your response should include information on actions taken or planned, including target dates and titles of officials responsible for implementation. If you have any questions regarding this report, please contact me or Richard O'Brien, Team Leader, at (703) 487-5345.

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

Introduction

Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts) ¹ authorize the U.S. Fish and Wildlife Service (FWS) to provide Federal Assistance grants to states to enhance their sport fish and wildlife programs. The Acts provide for FWS to reimburse the states up to 75 percent of the eligible costs incurred under the grants. They also specify that state hunting and fishing license revenues cannot be used for any purpose other than the administration of the state's fish and game agencies.

Scope, Objective, and Methodology

We performed our audit at the Department of Natural Resources (the Department) headquarters in Des Moines, Iowa. The audit work at the Department included claims that totaled approximately \$19.5 million on FWS grants that were open during the State's fiscal years (SFYs) ended June 30, 2001, and 2002 (see Appendix 1). We also visited a fish hatchery and several wildlife management areas, wildlife management units, research stations, and boat ramps (see Appendix 2). The objective of our audit was to evaluate:

- the adequacy of the Department's accounting system and related internal controls;
- the accuracy and eligibility of the direct and indirect costs claimed under the Federal Assistance grant agreements with FWS;
- the adequacy and reliability of the Department's hunting and fishing license fees collection, certification and disbursement processes;
- the adequacy of the Department's asset management system and related internal controls with regard to purchasing, maintenance, control and disposal; and
- the adequacy of the State's compliance with the Acts' assent legislation requirements

We performed our audit in accordance with government auditing standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that we considered necessary under the circumstances. Our tests included an examination of evidence supporting selected expenditures charged by the Department to the grants; interviews with employees to ensure that personnel costs charged to the grants were supportable; and a review of the Department's use of fishing and hunting license revenues to determine whether the revenues had been used for program purposes. No exceptions were reported. We did not evaluate the economy, efficiency, and effectiveness of the Department's operations.

¹ As amended 16 U.S.C. § 669 and 16 U.S.C. § 777.

Prior Audit Coverage

On August 4, 1999, we issued audit report No. 99-E-197, “U.S. Fish and Wildlife Service Federal Aid Grants to the State of Iowa, Department of Natural Resources, Fish and Wildlife Division, for Fiscal Years Ended June 30, 1995, and 1996.” The State Auditor also issued single audit reports on the State of Iowa for SFYs 2001 and 2002, but the Department was not audited as a major program.

We reviewed these reports and followed up on all significant findings to determine whether they had been resolved prior to our review. We determined that all but one finding in the audit of Federal Aid Grants had been resolved. During our review, we found that some State and Federal Assistance equipment items were either missing or lacked proper identification, such as a property tag or manufacturer’s serial number (see Finding C). Although the State’s Single Audit did not include the Sport Fish Restoration or Wildlife Restoration programs as major programs, the State’s Comprehensive Annual Financial Report for SFYs 2001 and 2002 included management letters disclosing internal control deficiencies within the Department. We determined that the internal control deficiencies for equipment had not been corrected.

Results of Audit

Our audit disclosed that:

- except for finding A below, the Department's accounting system and related internal controls adequately and accurately accounted for grant and license fee receipts and disbursements;
- direct and indirect costs claimed under the Federal Assistance grants agreements with FWS were adequately recorded and supported;
- the State had adequate assent legislation in place that prohibited the use of license fees for any purpose other than the administration of the Department.

During our audit, we found:

- A. Unreported program income of \$1,290,424,
- B. Ineligible use of Federal Assistance funds on property acquired or constructed with Land and Water Conservation funds, and
- C. Departmental asset management needs improvement.

A. Unreported Program Income of \$1,290,424

The Department earned \$2,504,979 in revenues generated on its wildlife management areas. Although some revenues were identified as program income and reported on the respective Financial Status Reports, SF-269s, the Department did not report \$1,290,424 in program income generated on eight wildlife management areas leased from the U.S. Army Corps of Engineers (Corps).

The Department maintained 450 wildlife management areas under Grants FW-43-D-33 during SFY 2001 and FW-43-D-34 during SFY 2002. The maintained areas included land owned by the Department and land leased to the Department from other agencies, including the Corps. The Department reported \$1,214,555 of program income reported under Grants FW-43-D-33 and FW-43-D-34 during SFYs 2001 and 2002. The income resulted from crop leases, sales of wood and seedlings, and special fees for controlled hunts. The reported program income was deposited into the Department's Fish and Wildlife Fund, Fund 233. However, we found that an additional \$1,290,424 of program income was not reported. It was earned on areas leased from the Corps and was deposited into Fund 498.

The Department leased 15 wildlife areas from the Corps in order to manage its fish and wildlife activities. For eight of the areas, which were leased in February 1996, the leases included special terms that allowed the Department to keep all funds received from operations conducted on the leased lands and to use the receipts for planning and development of fish and wildlife habitat, including the labor costs of employees directly engaged in such activities. These terms, however, did not allow the Department to charge for general administrative expenses. In

addition, the Department was required to submit to the Corps an annual statement of receipts and expenses related to its fish and wildlife management activities on the eight wildlife areas. For the other seven areas leased from the Corps, the Department deposited receipts into and paid expenses out of the Fish and Wildlife Fund (Fund 223).

The Department created Fund 498, separate from the Fish and Wildlife Fund, for the deposit of revenues collected on the eight areas covered by the February 1996 leases and to track each area's revenues and expenses. We found that the Department did not collect enough revenues to cover maintenance costs for some wildlife management areas. Other areas generated annual surpluses. During SFYs 2001 and 2002, the Department collected and deposited \$1,290,424 in crop revenues into Fund 498. During the same 2-year period, \$729,509 of maintenance expenses was charged to Fund 498. By June 30, 2002, the accumulated surplus in Fund 498 was \$1,364,077.

According to 43 CFR § 12.65, program income is gross income received by a grantee directly generated by a grant-supported activity. Ordinarily program income should be deducted from total grant costs to determine net costs on which the grantor's share will be based, or if authorized, it may be added to the project funds to further eligible program objectives. In addition, the grant agreement should identify the estimated amounts, sources, and method of accounting for the program income.

Department officials told us they did not report the receipts because they were not aware that the areas were maintained with Federal Assistance; accordingly, they did not consider them program income. In addition, a Department official told us that they were saving the surpluses from the eight Corps leases in order to fund major capital improvements.

We believe the Department should revise its SF-269s to report the \$1,290,424 of program income, \$861,679 of additional program income under Grant FW-43-D-33, and \$428,745 under Grant FW-43-D-34.

Recommendations

We recommend that the FWS:

1. Resolve the issue of the unreported program income of \$1,290,424.
2. Require the Department to identify all estimated program income in grant proposals.

Department Response

Department officials stated that only net revenues of \$560,915 needed to be reported after deducting \$729,509 of related expenses from the unreported program income of \$1,290,424. They stated that the Department incurred costs that exceeded the matching requirements of these Grants by more than \$560,915 anyway, which would result in no change to the Federal share of the project costs. They also pointed out that program income reported under these Grants is not all generated by Federally cost shared activities because the accounting costs associated with separating the income into Federal and non-

Federal amounts is too great and extremely difficult to do. Furthermore, they stated that the program income cannot belong to both the FWS and the Corps of Engineers. The Department proposed that in the future, it would report all Corps income and operation and maintenance expenses on the Grant's Financial Status Reports, but not Corps expenses for capital projects.

FWS Response

Region 3 officials agreed with both OIG recommendations that the full amount of program income should be identified and reported, and any offsetting expenses should also be reported. The Region will work with the Department to develop a Corrective Action Plan (CAP). The CAP will include specific actions, responsible officials, due dates, and documentation needed to substantiate actions taken.

Office of Inspector General Comments

We consider the FWS response to be sufficient to consider this finding resolved. We will consider recommendations A.1 and A.2 implemented when the CAP is completed.

B. Ineligible Use of Federal Assistance Funds on Property Acquired or Constructed with Land and Water Conservation Funds

As stated in Finding A, the Department maintained approximately 450 wildlife management areas with Federal Assistance funds during SFYs 2001 and 2002. However, 18 of the 450 wildlife areas contained either properties purchased or facilities constructed with Land and Water Conservation funds, which may have made them ineligible to receive funds for their operation and maintenance.

Sixteen areas maintained under Grants FW-43-D-33 and FW-43-D-34 were acquired with Land and Water Conservation funds by the predecessor to the Department's Fish and Game Division, the Iowa Conservation Commission. Two facilities constructed in part with Land and Water Conservation funds also received regular maintenance funding through Federal Assistance Grants FW-43-D-33 and FW-43-D-34.

Paragraph 7.5B of Chapter 522 of the FWS Manual (522FW7.5B) states that Federal Assistance funds cannot be used to operate or maintain properties or facilities purchased or constructed under the Land and Water Conservation Fund Act (16 U.S.C. § 4601-8). Section 6(f)(1) of the Land and Water Conservation Fund Act of 1965 requires States to operate and maintain by acceptable standards, at State expense, the particular properties or facilities acquired or developed for public outdoor recreation use. Chapter 660.2 of the National Park Service's L&WCF Grants Manual requires applicants for assistance to submit a signed and dated project boundary map, which clearly delineates the area to be included. Generally, the area will be the entire park, open space, or recreation area being developed to which the Land and Water Fund property is being added. Areas to be excluded should also be identified.

When we notified Department officials of this issue, they stated that they were unaware that Land and Water Conservation funds had been used to purchase or develop portions of the 18 wildlife areas.

When we issued the Notice of Potential Finding and Recommendations, the Department's Chief of Wildlife pointed out that a prior version of the FWS Manual only prohibited maintenance of facilities constructed or purchased with Land and Water Conservation funds, not land acquired with Land and Water Conservation funds. He believed that the current version of the Service Manual, issued in October 2001, which prohibits funding for both land and facilities, does not apply to SFYs 2001 and 2002. In addition, he showed us that renewal documents approved by FWS for the 6-year period from July 1, 2003 through June 30, 2009, for the operation and maintenance program contain the prior Manual provisions.

The provisions of the Land and Water Conservation Act include properties as well as facilities in its requirement that they be maintained at state expense. Section 6(f)(1) of the Land and Water Conservation Fund Act of 1965, which requires states to maintain properties at State expense, was effective January 1, 1965; accordingly, its provisions would apply to SFYs 2001 and 2002.

Another issue raised by Department officials was the actual area of land and facilities covered by the operation and maintenance prohibition. They believed that only the actual land area acquired and actual facilities constructed with Land and Water Conservation funds were covered based on the Service Manual's prohibition of using Federal Assistance for the operation and maintenance of properties purchased or constructed with Land and Water Conservation funds. We believe that the restricted areas should be defined by the Land and Water Conservation Fund project agreements approved by the National Park Service (NPS) or its predecessor, the Heritage, Conservation, and Recreation Service, and the NPS L&WCF Grants Manual, which requires that the project area be delineated by a project boundary map.

The project agreement files were located on microfiche, but because a microfiche reader was not available, we did not review them. In addition, we could not locate project boundary maps for the 18 Land and Water Conservation Fund properties. They may be filed at NPS offices with the site inspection reports, which are required to be completed every 5 years, or they may not exist. We were told that, prior to 1984, project boundary maps were not required. In addition, the Department's accounting system did not account for costs at the management area level. The lowest level of grant accounting was to the State's 20 Wildlife Units. As a result, we were unable to identify project areas or quantify an amount of Federal Assistance maintenance costs associated with the 16 areas acquired and two facilities constructed with Land and Water Conservation funds.

Recommendations

We recommend that the FWS:

1. Request an opinion from the Solicitor about whether the prohibition against using Federal Assistance funds for operation and maintenance, as contained in the Land and Water Conservation Act and its implementing regulations, applies to project areas or to the properties acquired with Land and Water Conservation funds.

Based on the Solicitor's opinion,

2. Resolve the issue of Federal Assistance funds used during SFYs 2001 and 2002 to operate and maintain the 18 management areas either acquired or developed with Land and Water Conservation funds.
3. If necessary, require the Department to locate Land and Water Conservation project agreements and project boundary maps and use them to exclude Land and Water Conservation fund acquired properties and facilities from Federal Assistance grants for the maintenance of wildlife management areas.
4. Assist the Department in developing a methodology to discontinue using Federal Assistance funds in the future to operate and maintain project areas or lands and facilities acquired or developed with Land and Water Conservation funds.
5. If necessary, change its Service Manual to state that Federal Assistance grant funds cannot be used to operate and maintain Land and Water Conservation project areas as defined in the Land and Water Conservation Act project agreements or project boundary maps.

Department Response

Department officials understood that this was a National issue that will affect other states as well. They stated that the Department would not change its process until the FWS provided direction.

The Department's position was that "at state expense" did not mean that state funding was required for the maintenance of Land and Water Conservation Fund acquired property. Officials stated that state expense could include funding that was not only general fund dollars but also Federal and Fish and Wildlife Trust Fund dollars. They said that the Land and Water Conservation Fund Act did not mean to restrict funding sources used, but instead, it meant to assign perpetual maintenance responsibility to the grant recipient. They further pointed out that there is no prohibition in the Sport Fish and Wildlife Restoration Acts against using Federal Assistance funds to maintain Land and Water Conservation Fund acquired or developed properties. The prohibition in the Service Manual is merely guidance policy and does not have the effect of law. They believed that the Service Manual misinterpreted the Land and Water Conservation Fund Act.

FWS Response

Region 3 officials agreed with recommendation B.1 to request a Solicitor's opinion on the finding and recommendations. If necessary, they will take action on recommendations B.2 through B.5.

Office of Inspector General Comments

We consider the finding resolved, and the recommendations B.1 through B.5 unimplemented. Accordingly, the FWS should identify an official responsible for implementation of the recommendations and a target date for implementation.

C. Departmental Asset Management Needs Improvement

The Department's Equipment Inventory System contained incomplete data for equipment purchased by the Department with Federal Assistance or license fee funds. As a result, the Department could not assure us that Federal Assistance property was controlled, maintained, and used only for Federal Assistance activities and was not able to identify the property in its property inventory in accordance with requirements in 50 CFR § 80.18.

The Department of Natural Resource's Bureau of Financial Management was responsible for maintaining the inventory database for all personal property² for the Department. We found that the inventory database contained inaccurate data because some items were either not tagged or did not have the correct serial number.

A Federal Assistance percentage number³ was used to distinguish Federal Assistance property and to identify the portion of Federal Assistance funding used to acquire personal property in the inventory system. On the personal property inventory list, 288 items (valued at \$2,209,547) of the 1,204 items (valued at \$4,618,213) for the Divisions of Fisheries and Wildlife were identified as Federal Assistance property. To determine whether personal property items existed, were in usable condition, and were being used properly, we performed property verifications at nine sites.⁴ Of the 254 items (valued at \$947,516) on the inventory list at those sites, we selected a sample of 32 items (valued at \$713,834) for review. Of the 32 items, 26 of which were Federal Assistance property, we were unable to locate one item (valued at \$19,950) on the inventory. For the remaining 31 items sampled, we found:

- Seven Federal Assistance property items, valued at \$91,537, that did not have the correct serial number
- Six items, valued at \$104,822 (including two Federal Assistance properties valued at \$18,223) that did not have property tags.

Recommendation

We recommend that the FWS require the Department to follow its requirements for the management and control of property by conducting the annual verification and certification process, including verification of key identification numbers, an assessment of the property's condition and maintenance, and the identification of its location.

²Personal property is defined as capitalized equipment (valued at or costing \$500 or more), and certain sensitive items, regardless of cost; e.g., artwork and antiques, computers, firearms and licensed equipment.

³The percentage number for Federal Assistance funds is a data field containing a percentage greater than 0.

⁴Boone Fisheries and Wildlife Research Station, Rathbun Hatchery, Chariton and Rathbun Fish Research Stations, Clear Lake Wildlife Research Station, and Big Marsh, Mt. Ayr, Rathbun and Saylorville Wildlife Management Units.

Department Response

Department officials did not concur with the finding and recommendation. They stated that the annual inventories they conduct include verification of key identification numbers and confirmation of item locations but, due to the large number of the equipment items and their widespread locations, it was difficult to ensure 100 percent accuracy. They added that all of the deficiencies reported were promptly corrected and inventory records have been updated. The missing property item was later located by the area supervisor at the location identified in the property inventory. They stated that they will continue to stress to their staff the importance of accurately completing the annual equipment confirmation and related paperwork in a timely manner.

FWS Response

Region 3 officials agreed with the report finding and recommendation, and stated that the asset management deficiency represented a recurring finding from past audits. They added that since the finding is recurring, Department management needs to increase emphasis and oversight of asset management and control of property. The Region will work with the Department to develop a Corrective Action Plan. The CAP will include specific actions, responsible officials, due dates, and documentation needed to substantiate actions taken.

Office of Inspector General Comments

We consider the FWS response sufficient to consider this finding resolved. We will consider the recommendation implemented when the CAP is completed.

**IOWA DEPARTMENT OF NATURAL RESOURCES
FINANCIAL SUMMARY OF REVIEW COVERAGE**

| Grant Number | Amount | Claimed Costs | Questioned Costs |
|---------------------|---------------|----------------------|-------------------------|
| F-118-D-16 | \$ 691,500 | \$130,487 | \$0 |
| F-120-L-3 | 884,000 | 0 | 0 |
| F-125-E-13 | 545,010 | 493,799 | 0 |
| F-125-E-14 | 454,051 | 467,138 | 0 |
| F-128-D-7 | 30,000 | 0 | 0 |
| F-138-D-2 | 2,586,584 | 20,651 | 0 |
| F-150-D-1 | 1,540,105 | 51,987 | 0 |
| F-152-L-2 | 1,602,900 | 133,426 | 0 |
| F-154-R-7 | 20,000 | 20,000 | 0 |
| F-154-R-8 | 20,000 | 20,000 | 0 |
| F-157-D-2 | 17,025 | 0 | 0 |
| F-159-D-2 | 40,700 | 28,742 | 0 |
| F-160-R-5 | 792,700 | 1,026,496 | 0 |
| F-160-R-6 | 954,300 | 1,018,914 | 0 |
| F-161-D-2 | 4,000 | 242 | 0 |
| F-162-D-1 | 173,334 | 60,607 | 0 |
| F-163-D-1 | 67,300 | 41,506 | 0 |
| F-164-D-1 | 200,000 | 0 | 0 |
| F-165-D-1 | 1,303,333 | 824,649 | 0 |
| F-165-D-2 | 2,810,666 | 194,036 | 0 |
| F-166-D-1 | 493,380 | 2,142 | 0 |
| F-167-D-1 | 200,000 | 214,200 | 0 |
| F-168-L-1 | 112,000 | 99,549 | 0 |
| F-169-D-1 | 216,000 | 211,179 | 0 |
| F-170-D-1 | 471,000 | 437,252 | 0 |
| F-171-D-1 | 1,441,733 | 72,476 | 0 |
| F-172-D-2 | 175,000 | 85 | 0 |

| Grant Number | Amount | Claimed Costs | Questioned Costs |
|---------------------|----------------------|----------------------|-----------------------------|
| FW-43-D-33 | 4,877,000 | 5,312,046 | 0 |
| FW-43-D-34 | 5,070,000 | 5,571,451 | 0 |
| FW-47-L-1 | 648,150 | 316,565 | 0 |
| W-114-S-32 | 631,631 | 894,583 | 0 |
| W-114-S-33 | 724,779 | 885,549 | 0 |
| W-115-R-27 | 326,622 | 338,368 | 0 |
| W-115-R-28 | 344,000 | 326,816 | 0 |
| W-122-L-2 | 174,572 | 179,972 | 0 |
| W-124-L-1 | <u>127,500</u> | <u>103,167</u> | <u>0</u> |
| | <u>\$ 30,770,875</u> | <u>\$ 19,498,080</u> | <u>\$0</u> |

**IOWA DEPARTMENT OF NATURAL RESOURCES
SITES VISITED**

Wildlife Management Units

Big Marsh

Mt Ary

Rathbun

Saylorville

Wildlife Management Areas

Big Marsh

Dekalb

Kellerton (Grassland Bird Conservation Area)

McCoy

Mt Ary

Ringgold

Saylorville

Sedan Bottoms

Fishing/Boating Access

Big Marsh Wildlife Area

Boone Forks Wildlife Area

Deception Hollow

Fraser Dam

Skillet Junction Access

Fish Hatchery

Rathbun

Research Stations

Boone Fisheries and Wildlife

Chariton Fisheries

Clear Lake Wildlife

Rathbun Fisheries

**IOWA DEPARTMENT OF NATURAL RESOURCES
STATUS OF AUDIT FINDINGS
AND RECOMMENDATIONS**

| Recommendation | Status | Action Required |
|---|---|--|
| A.1, A.2, B.1, B.2, B.3, B.4, B.5, and C | Findings resolved, Recommendations Unimplemented. | Provide a corrective action plan that includes the target date and the official responsible for implementation of each recommendation. The unimplemented recommendations remaining at the end of 90 days (after October 29, 2004) will be referred to the Assistant Secretary of PMB for resolution and/or tracking of implementation. |

Report Fraud, Waste, Abuse, and Mismanagement



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



By Mail:

U.S. Department of the Interior
Office of Inspector General
Mail Stop 5341 MIB
1849 C Street, NW
Washington, D.C. 20240

By Phone:

| | |
|-----------------------|--------------|
| 24-Hour Toll Free | 800-424-5081 |
| Washington Metro Area | 202-208-5300 |

By Fax:

202-208-6081

By Internet:

www.oig.doi.gov