



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
New York, Department of
Environmental Conservation,
Division of Fish, Wildlife and
Marine Resources, from
April 1, 2000, through
March 31, 2002**

Report No. R-GR-FWS-0025-2003

May 2004



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

External Audits

12030 Sunrise Valley Drive, Suite 230

Reston, VA 20191

May 6, 2004

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Joe Ansnick
Director of External Audits

Subject: Final Audit Report on U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the State of New York, Department of Environmental Conservation, Division of Fish, Wildlife and Marine Resources, from April 1, 2000, through March 31, 2002 (No. R-GR-FWS-0025-2003)

This report presents the results of our audit of costs incurred by the State of New York, Department of Environmental Conservation, Division of Fish, Wildlife and Marine Resources (Division) under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS) for the period April 1, 2000, through March 31, 2002 (see Appendix 1).

We found that indirect costs were calculated using negotiated indirect cost rates that did not limit the costs of central services to three percent of the annual Sport Fish or Wildlife apportionments, not all report program income was reported, and improvements are needed in the Division's annual license certifications and asset management.

The Department of Environmental Conservation (Department) and FWS Region 5 responded to a draft of this report on March 16, 2004. We modified the findings and recommendations as necessary to incorporate additional information provided and to clarify the report. 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 by August 6, 2004, to the unresolved and unimplemented recommendations included in this report. 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 Mr. Owen Nicholson, Audit Team Leader, at 703-487-5345.

cc: Regional Director, Region 5, U.S. Fish and Wildlife Service

INTRODUCTION

Background and Scope

The Pittman-Robertson Wildlife Restoration Act, as amended (16 U.S.C. 669), and the Dingell-Johnson Sport Fish Restoration Act, as amended (16 U.S.C. 777) (the Acts), authorize 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. The Acts 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.

We performed an audit of Federal Assistance grants to the State of New York as requested by FWS. The objective of our audit was to evaluate: (1) the adequacy of the Division's accounting system and related internal controls; (2) the accuracy and eligibility of the direct and indirect costs claimed under the Federal Assistance grant agreements with FWS; (3) the adequacy and reliability of the Division's hunting and fishing license fee collection and disbursement process; (4) the adequacy of the Division's asset management system and related internal controls with regard to purchasing, control and disposal; and (5) the adequacy of the Division's compliance with the Acts' assent legislation requirements. The audit also included an analysis of other issues considered sensitive and/or significant by the FWS. The audit work at the Division included claims that totaled approximately \$36 million on FWS grants that were open during the State's fiscal years ended March 31, 2001, and 2002 (see Appendix 1).

Our audit was performed 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. We relied on the work of the State of New York Single Audit Report auditors to the extent possible in order to avoid a duplication of audit effort. Our tests included an examination of evidence supporting selected expenditures charged by the Division to the grants; interviews with employees to ensure that personnel costs charged to the grants were supportable; and a review of the Division's use of fishing and hunting license revenues to determine whether the revenues had been used for program purposes. We did not evaluate the economy, efficiency, and effectiveness of the Division's operations.

Our audit was performed at the New York Division of Fish, Wildlife and Marine Resources headquarters in Albany, New York. We also visited several wildlife management areas, hatcheries, and boat ramps (see Appendix 2).

**Prior Audit
Coverage**

In September 1998, we issued audit report No. 98-E-681, "Audit of U.S. Fish and Wildlife Service Federal Aid Grants to the State of New York, Department of Environmental Conservation, Division of Fish, Wildlife and Marine Resources, for Fiscal Years Ended March 31, 1995, and 1996."

We reviewed this report and followed up on all significant findings to determine whether they had been resolved prior to our review. One finding in this report, relating to asset management, was previously reported and had not been addressed satisfactorily.

RESULTS OF AUDIT

Summary

Except for the issues identified below, the Division's accounting system accurately accumulated grant expenditures; direct and indirect costs were accurately reported; license fee receipts and disbursements were used for fish and wildlife purposes; and the hunting and fishing license certifications accurately reported license holders. The State also had adequate legislation that assented to the provisions of the Acts and prohibited the use of license fees for anything other than the administration of the Division.

We found that the Division:

- ♦ Claimed costs of \$394,315 (Federal share) pertaining to indirect costs calculated using negotiated indirect cost rates that did not limit costs of central services to three percent of the annual Sport Fish or Wildlife apportionments.
- ♦ Did not report program income of \$980,616.
- ♦ Needed to make improvements in the annual license certifications and asset management.

A. Indirect Costs

The Division applied indirect cost rates negotiated with the U. S. Environmental Protection Agency (EPA) to calculate indirect costs for Federal Assistance grants. Each year, the Department submitted an Indirect Cost Proposal to the EPA detailing the basis of the proposed indirect rate. After the rate was negotiated, it was applied to all of the Department's Federal agreements, subject to statute. Our review of the proposals indicated that the central services costs included in the rate were not limited to three percent of the annual Sport Fish or Wildlife apportionments.

The Sport Fish Restoration Act and the Wildlife Restoration Act require that costs of central services outside the State fish and game department applied to Federal Assistance grants be limited to three percent of the annual apportionments under each Act. OMB Circular A-87, Attachment E, Section c 4 (b) states:

“...there are some Federal statutes which restrict the reimbursement of certain indirect costs. Where such restrictions exist, it may be necessary

to develop a special rate for the affected award. Where a “restricted rate” is required, the procedure for developing a non-restricted rate will be used except for the additional step of the elimination from the indirect cost pool those costs for which the law prohibits reimbursement.”

The Department officials who prepared the Indirect Cost Proposals were unaware of the requirements of the Sport Fish and Wildlife Restoration Acts pertaining to the allocation of central services costs. As a result, \$668,504 of unallowable indirect costs was claimed under Federal Assistance grants for State fiscal years 2001 and 2002, of which \$394,315 was reimbursed as the Federal share.

Recommendations

We recommend that FWS:

1. Resolve the \$394,315 of questioned costs.
2. Ensure that the Department adjusts the indirect cost rates applied to Federal Assistance grants limiting the costs of central services to three percent of the annual Sport Fish and Wildlife apportionments.
3. Work with the Department to ensure that a restricted indirect cost rate is negotiated with the cognizant Federal agency for use in Sport Fish and Wildlife Federal Assistance grants.

Department Response

The Department did not concur with the finding and recommendations. Its response stated that a basic tenant of all cost allocation plans is the equitable distribution of costs and cited 50 CFR 80.15(c). The Statewide Cost Allocation Plan allocated costs incurred by the State’s central service support agencies to the remaining agencies (which included the Department) based on a methodology accepted and approved by the Federal government. It is impossible for these costs to be accumulated for each division (such as the Division of Fish, Wildlife and Marine Resources). The Department explained that since it is the State’s fish and wildlife agency, only the Department is eligible to receive Federal Assistance grants and added that limiting central agency costs on those grants to three percent of the annual apportionments is inappropriate since it violates the equitable distribution of costs required by 50 CFR 80.15(c). The response also took issue with the manner in which the questioned indirect costs were calculated.

**FWS
Response**

FWS did not comment on the finding and recommendations.

**OIG
Comments**

Indirect costs for State central services outside of the State fish and wildlife agency, according to 50 CFR 80.15(d), must be in accord with an approved cost allocation plan and shall not exceed three percent of the annual apportionment. The State identified what agency would be the state fish and wildlife agency for purposes of obtaining Federal Assistance grants through the Sport Fish and Wildlife Restoration Acts. If the State had defined the Division as the state fish and wildlife agency for Federal Assistance purposes, central service costs incurred outside of the State fish and wildlife agency may not have exceeded three percent of the apportionment.

Allowable costs, according to 50 CFR 80.15 should comply with the cost principles of OMB Circular A-87. OMB Circular A-87 contained the guidance we used to develop the amount of questioned costs.

FWS should address the finding and recommendations in the corrective action plan.

B. Program Income

The Division earned \$980,616 in revenue generated on wildlife management areas receiving Federal Assistance funds for their operation and maintenance. Sources of the revenue were timber sales, agriculture and local sales. These revenues were not identified as program income in Grants WE-173-G-12 and WE-173-G-13 or reported on the respective Financial Status Reports, SF-269s.

Schedule of Unreported Program Income

	WE-173-G-12	WE-173-G-13	Totals
Timber Sales	\$819,000	\$ 97,968	\$916,968
Agriculture	41,441	12,687	54,128
Local Sales	2,229	7,291	9,520
Totals	\$862,670	\$117,946	\$980,616

According to 43 CFR § 12.65, program income is gross income received by a grantee directly generated by a grant-supported activity. Program income should be deducted from total grant costs to determine net costs on which the grantor's share will be based, or 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.

While the Division reported revenue earned on wildlife management areas where Federal Assistance funds were used to acquire the land, the Division was unaware of requirements regarding program income earned on wildlife management areas receiving Federal Assistance funds for their operation and maintenance.

Recommendations

We recommend that FWS:

1. Resolve the issue of the \$980,616 of unreported program income.
2. Assist the Division in training its staff to ensure proper reporting of program income in future grants.

**Department
Response**

The Department did not concur with the finding and took issue with the amount of unreported program income, stating that the total should be \$882,398. The Department stated that FWS staff indicated that program income need only be reported on lands acquired with Federal Assistance. The response also cited contradictions in program income reporting requirements described in the draft guidance prepared by the Joint State/Federal Task Force on Federal Assistance Policy. The Department indicated that Financial Status Reports filed for grants WE-173-G-12 and WE-173-G-13 show cost overruns of \$982,308 and \$1,327,534 respectively, which would offset any unreported program income.

**FWS
Response**

FWS did not comment on the finding and recommendations.

**OIG
Comments**

We consider the finding unresolved. FWS should address the finding and recommendations in the corrective action plan.

**C. Annual License
Certifications**

The Division completed and submitted annual License Certifications for license years (LYs) 2000 and 2001. In preparing the annual license certifications, the Division used rates based on data not representative of statewide license sales to eliminate duplicate license holders. The rates used were generated from computerized files located at the headquarters sales office in Albany, NY, which contained LY 1996 license sales information only for licenses sold at that location and through the mail. This location was one of 1600 sales outlets statewide and Division personnel estimated that the duplication

rates were derived from the 27,000 license holders at this location, or 1.8 percent of the 1.5 million total state license holders.

According to 50 CFR § 80.10(c)(5) the state fish and wildlife director, in certifying license information to the Director, is responsible for eliminating duplication or multiple counting of single individuals in the figures certified. Sampling and other statistical techniques may be utilized by the certifying officer for this purpose. The Division used this data because it was easily acquired and it was believed to be representative.

Since the rates used for eliminating duplication or multiple counting of single license holders were not representative of statewide license sales, the number of licenses certified in LYs 2000 and 2001 may be inaccurate.

Recommendation

We recommend that FWS ensure that Division personnel preparing the license certifications use valid and representative sampling or other statistical techniques to eliminate the number of duplicate license holders.

**Department
Response**

The Department did not concur with the finding, stating that using the database at its central office was more than adequate to determine duplication rates with a high degree of precision. It added that starting with license year October 2002, the Department will be using a new statewide automated licensing system to prepare the Annual License Certification and statistical techniques will not be used.

**FWS
Response**

FWS did not comment on the finding and recommendation.

**OIG
Comments**

The Department's action to implement a statewide automated licensing system may resolve this issue. FWS should address the finding and recommendation in the corrective action plan.

**D. Asset
Management**

The Department of Environmental Conservation's Property Management Unit (Unit) is responsible for managing all personal property, except fleet vehicles, for the Department, including the Division. The inventory database maintained by the Unit does not identify property by funding source. Therefore, property purchased with Federal Assistance funds could not be readily identified. Federal Assistance property must be used only for Federal Assistance activities and must be identified and controlled in order to properly manage the property in accordance with the requirements in 50 CFR § 80.18. Division

and Unit officials indicated that while the funding source is recorded on purchase documents, it is not recorded in the property inventory database. Because the Department did not identify the funding source in its inventory database and because the Division did not control Federal Assistance personal property, we could not determine whether Federal Assistance property was being used for the purpose for which it was originally acquired.

As reported in the previous audit report, the Unit has not completed the annual verification and certification of formally controlled property since 1991. The Department of Environmental Conservation's Property Management System Policies and Procedures Manual (dated June 1995) provides the framework for the management of all the Department's assets. Section 4.4 of the Manual and Property Management Bulletin PM #12 describe the verification and certification process. Verification of all formally controlled property should be completed annually by a "hands on" physical count based on a written schedule submitted by regional and program directors and approved by the Unit. Certification of the completed annual physical count should be done in writing by regional and program directors for all accountable organizations under their supervision. Personal property requiring formal control includes items of significant value with long useful lives or special control concerns such as furniture, cameras, computers, and computer software.

The property management responsibilities are performed substantially by one employee of the Unit, who cannot ensure that all Property Management System operational requirements are followed. As a result, there is no assurance that the database of formally controlled property is accurate because it has not been updated based on the results of annual physical inventories. As a result, property acquired with Federal Assistance funds or license fees cannot be verified.

Recommendations

We recommend that FWS require the Division to:

1. Account for and control Federal Assistance property in a manner to assure that it is used for the purpose for which it was acquired.
2. Follow its operational requirements for the management and control of property acquired with Federal Assistance and license fee funds by conducting the annual verification and certification process.

**Department
Response**

The Department stated that it will examine ways in which it can implement the recommendations.

**FWS
Response**

FWS did not comment on the finding and recommendations.

**OIG
Comments**

The Department's action is appropriate. FWS should address the finding and recommendations in the corrective action plan.

**NEW YORK DIVISION OF FISH, WILDLIFE
AND MARINE RESOURCES
FINANCIAL SUMMARY OF REVIEW COVERAGE**

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Total	Federal Share
F-38-D-14	\$1,468,331	\$1,149,483	\$17,477	\$6,991
F-38-D-15	750,323	750,323	15,009	9,408
F-46-D-1	1,000,000	1,000,000	0	0
F-48-R-1	3,163,033	2,897,227	48,170	36,127
F-48-R-2	5,485,803	5,485,802	107,725	40,688
F-49-R-1	2,492,379	2,492,379	49,707	37,280
F-49-R-2	3,472,157	3,472,157	57,762	43,322
F-50-E-1	411,335	349,075	2,395	1,796
F-50-E-2	346,667	421,766	3,969	2,350
F-51-D-1	566,667	0	0	0
F-52-D-1	1,665,942	980,193	2,610	929
FW-47-T-25	1,452,297	1,452,297	49,129	22,789
FW-47-T-26	1,465,528	1,465,528	61,468	25,321
R-1-1	616,700	218,213	3,587	2,691
R-2-1	1,305,412	25,514	481	360
R-3-1	1,186,679	221,367	3,792	2,806
W-125-S-30	1,168,055	1,109,023	14,090	7,321
W-125-S-31	1,458,099	1,329,002	17,259	12,677
WE-173-G-12	6,330,515	6,330,515	107,377	80,533
WE-173-G-13	4,358,645	4,358,645	106,497	60,926
Totals	\$40,164,567	\$35,508,509	\$668,504	\$394,315

Note:

All amounts questioned pertain to indirect costs that were claimed using negotiated indirect cost rates that did not limit costs of central services to three percent of the annual Sport Fish or Wildlife apportionments (see Finding A., Indirect Costs).

**NEW YORK DIVISION OF FISH, WILDLIFE
AND MARINE RESOURCES
SITES VISITED**

Fishing/Boating Access

Bemus Point
 Black Creek Boat Launch
 Carmans River
 Cattaraugus Creek-Sunset Bay
 Conesus Lake Fishing Access No. 1
 Conesus Lake Fishing Access No. 2
 Eaton Brook Reservoir
 Edwards Avenue Boating Access
 Forge Pond Boating Access
 Genesee River Boat Launch No. 1
 Genesee River Boat Launch No. 2
 Lebanon Reservoir
 Long Pond
 Lower Peconic River Boating Access
 Madison Reservoir
 Moriches Bay Waterway Boating Access
 Oatka Boat Launch
 Oneida Lake, South Shore
 Ponquogue Bridge Fishing Access
 Skaneateles Lake
 Smith Point County Marina Boating Access
 Upper Lelunds Pond
 West River Fishing Access
 West River #2
 Woodville Boat Launch

Wildlife Management Areas

David Sanroff Pine Barrens
 Deer Creek Marsh
 Happy Valley
 Hi-Tor
 Little John
 Otis Pike
 Rocky Point
 Tillman Road
 Tonawanda
 Westhampton

Fish Hatcheries

Caledonia Hatchery
 Chautauqua Hatchery
 Oneida Hatchery
 South Otselic Hatchery

STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS

Recommendation	Status	Action Required
A.1, A.2, A.3, B.1, B.2, C, D.1 and D.2	Finding unresolved and Recommendation Unimplemented.	Provide a response to the recommendation that states concurrence or non-concurrence. Provide a corrective action plan that includes the target date and the official responsible for implementation of the recommendation or an alternative solution. Unresolved findings and unimplemented recommendations remaining at the end of 90 days (after August 6, 2004) will be referred to the Assistant Secretary of PMB for resolution and/or tracking of implementation.

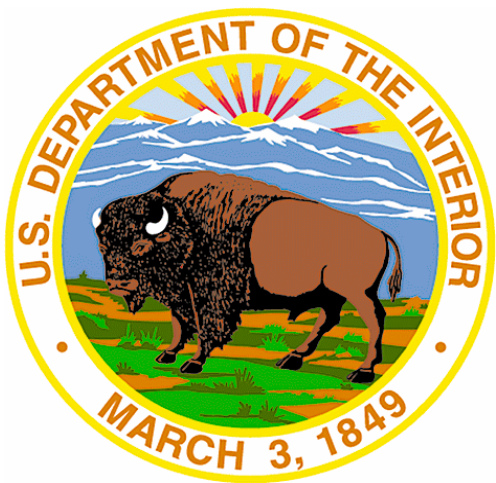
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