

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
South Dakota, Department of
Game, Fish and Parks, from
July 1, 2001, through
June 30, 2003**

Report No. R-GR-FWS-0026-2003

April 2004



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

External Audits

12030 Sunrise Valley Drive, Suite 230

Reston, VA 20191

April 22, 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 South Dakota, Department of Game, Fish and Parks, from July 1, 2001, through June 30, 2003 (No. R-GR-FWS-0026-2003)

This report presents the results of our audit of costs incurred by the State of South Dakota, Department of Game, Fish and Parks (Department), under its hunting and fishing programs and costs claimed under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS) from July 1, 2001, through June 30, 2003 (see Appendix 1).

We questioned \$42,089 of ineligible costs and found that the Department's asset management system did not identify the funding source for personal property acquisitions.

The Department and FWS Region 6 responded to a draft of this report on March 26, 2004. Based on the responses, we modified the findings and recommendations to incorporate additional information provided and to clarify the report. We included the Department and FWS responses after our recommendations and summarized the status of the report recommendations in Appendix 3.

Please provide us with your written response by July 26, 2004. Your response should provide the information requested in Appendix 3. If you have any questions regarding this report, please contact me or Mr. Lawrence Kopas, Audit Team Leader, at (703) 487-5345.

cc: Regional Director, Region 6, 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 wildlife and sport fish 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 administration of the state fish and game agency.

We performed an audit of the Federal Assistance grants to the State of South Dakota as requested by FWS. The objective of our audit was to evaluate: (1) the adequacy of the Department'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 Department's hunting and fishing license fees collection, certification, and disbursement process; (4) the adequacy of the Department's asset management system and related internal controls with regard to purchasing, maintenance, control and disposal; and (5) the adequacy of the Department's compliance with the Acts' assent legislation requirements. The audit was also to include a review of other issues considered sensitive and/or significant by the FWS. The audit work at the Department included claims totaling approximately \$19 million on FWS grants that were open during the State's fiscal years ended June 30, 2002, and 2003 (see Appendix 1).

Our audit was performed in accordance with the 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 South Dakota Single Audit Report auditors to the extent possible in order to avoid a duplication of effort. Our tests included an examination of evidence supporting selected expenditures charged by the Department to the grants, interviews with employees to ensure that all 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 were used for program purposes. The South Dakota

single audit was conducted by the State's Department of Legislative Audit for State Fiscal Year (SFY) 2003. We reviewed the audit work performed by the Department of Legislative Audit and determined there were no significant findings reported. Based on our review of the audit work of the Department of Legislative Audit, we were able to reduce the amount of our internal control testing and reduce audit work in the areas of grant expenditure testing, assent legislation, drawdowns, indirect costs, license fee revenue, and program income. We did not evaluate the economy, efficiency, and effectiveness of the Department's operations.

Our audit was performed at the South Dakota Department of Game, Fish and Parks headquarters in Pierre, South Dakota. We also visited a lake improvement project, state fish hatcheries, several boating and fishing access ramps, and game production areas (Appendix 2).

Prior Audit Coverage

On December 30, 1998, we issued audit report No. 99-E-172, "Audit of U.S. Fish and Wildlife Service Federal Aid Grants to the State of South Dakota, Department of Game, Fish and Parks, for the Fiscal Years Ended June 30, 1996, and 1997." We reviewed this report, followed up on all findings, and determined they had been resolved prior to our review.

At the time of our fieldwork, the Department of Legislative Audit had completed fieldwork for its Single Audit Report on the State of South Dakota for the period July 1, 2002 through June 30, 2003. The auditors had not identified any findings relative to the South Dakota Department of Game, Fish and Parks.

RESULTS OF AUDIT

Summary

Except for the issues discussed in the following sections, the Department's accounting system and related internal controls adequately and accurately accounted for grant and license receipts and disbursements; direct and indirect costs were accurately reported and claimed; and the asset management system accurately identified and tracked personal and real property with regard to control and disposal. 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 Department.

We found that the Department:

- Claimed ineligible costs of \$42,089 (\$31,567 Federal share).
- Did not identify the source of funding (i.e., Federal Assistance, license fee funds, or other) for personal property acquisitions in the asset management system.

A. Ineligible Use of Federal Assistance Funds

The Department maintained the Coteau Game Production Area, Cleghorn Springs State Fish Hatchery Visitor Center building, and Blue Dog Lake State Fish Hatchery operations building with Federal Assistance funds. However, the property was purchased and the buildings were constructed with Federal funds provided under the Land and Water Conservation Fund Act of 1965. FWS regulations as well as the Land and Water Conservation Act do not permit the use Federal Assistance funds to operate or maintain properties acquired with Land and Water Conservation funds.

We also found that advertising costs for the Cleghorn Visitor Center were paid with Federal Assistance grant funds.

Advertising costs may not be charged to Federal Assistance grants under Office of Management and Budget (OMB) Circular A-87.

From 1974 to 1980, the Department purchased land to add to the Coteau Game Production Area, constructed a visitor center building at the Cleghorn Springs State Fish Hatchery, and constructed the operations building at the Blue Dog Lake State Fish Hatchery with Land and Water Conservation funds. In SFYs 2002 and 2003, we found that the Department was using Federal Assistance funds to operate and maintain the land and buildings. The Land and Water Conservation Fund Act (and related laws) states that no financial aid may be given under any other Federal

program or activity for or on account of any project with respect to which such aid has been given or promised under the Land and Water Conservation Fund Act. In addition, 522 FW 7.5B of the Service Manual states that Federal Assistance funds may not be used to operate or maintain properties or facilities purchased or constructed under the Land and Water Conservation Fund Act.

In addition, we found that the Department paid \$3,639 (\$2,729 Federal share) for membership in the Black Hills Badlands and Lakes Association. Membership in the Association allowed the Cleghorn Springs Aquatic Center and Hatchery to be included in a listing of Family Approved Attractions and receive more than \$11,000 worth of internet marketing. The internet marketing included a 50-word business listing that mentioned learning about fish management in South Dakota. We concluded that this listing was promotion of the Hatchery; i.e., promotion of a governmental unit, instead of aquatic education. Since OMB Circular A-87, Attachment B, Item 2, states that unallowable advertising costs include the costs of promoting the governmental unit, the cost of the association membership should not be allowed.

Department officials said that over time, expenses were charged to Federal Assistance grants for the operation and maintenance of the land and buildings that should not have been charged. They also said that the advertising charges were designed to promote the objectives of the aquatic education program, not to promote the hatchery. They added there is a need to provide greater internal control to ensure that operation and maintenance expenses for these sites are no longer charged to Federal Assistance.

As a result, Federal Assistance funds were used improperly on the following grants:

Location	Grant Number	Questioned Costs	Federal Share
Coteau Game Production Area	W-81-D-44	\$16,250	\$12,188
Coteau Game Production Area	W-81-D-45	300	225
Cleghorn Springs State Fish Hatchery Visitor Center	F-45-E-15	5,815	4,361
Cleghorn Springs State Fish Hatchery Visitor Center	F-45-E-16	4,941	3,706
Blue Dog Lake State Fish Hatchery Operations Building	F-41-D-13	14,783	11,087
	Total	\$42,089	\$31,567

In an email to the regional office of FWS dated February 4, 2004, the Department stated that actions to reduce current claims for reimbursement of its aquatic education program, a Pittman-Robertson Wildlife Restoration project, and a Dingle-Johnson Sport Fish Restoration project would be initiated in order to reinstate Federal funds that were improperly charged.

Recommendations We recommend that FWS:

1. Resolve the questioned costs of \$42,089 (Federal share \$31,567) that were used for maintenance and operation of the land and facilities and for advertising of the Cleghorn Springs Visitor Center.
2. Identify and resolve the issue of Federal Assistance funds improperly used during SFY 2004, if any, to maintain the Coteau Game Production Area, operate and maintain the Cleghorn and Blue Dog buildings, and advertise the Cleghorn Springs Visitor Center.
3. Assist the Department to adopt a methodology to discontinue using Federal Assistance funds to operate and maintain or advertise the game production area and the two hatcheries starting with the fiscal year 2005 grant cycle for the Statewide Land Management and Development grant (for Coteau); the Aquatic Education Program grant (for Cleghorn); and the Statewide Fish Hatchery Operation, Maintenance and Development grant (for Blue Dog).

Department Response

The Department concurred with Recommendation A.3 and non-concurred with Recommendations A.1 and A.2.

As to Recommendation A.1, the Department disagreed that all of the questioned costs are ineligible. The Department's position was that ineligible costs associated with the operation and maintenance of the Coteau Game Production Area (GPA) should be limited to the \$4,200 incurred to maintain land actually acquired with Land and Water Conservation Funds, not the entire GPA. However, the Department did concur that advertising costs and expenses incurred for the operation and maintenance of the Cleghorn Springs State Fish Hatchery Visitor Center and expenses incurred for the operation and maintenance of the Blue Dog State Fish Hatchery Operations Building should not have been charged to Federal Assistance.

In addition, the Department did not agree with the statement in the draft report that an email to the FWS regional office indicating that the "state would initiate actions to reduce claims for

reimbursement to repay for improperly claimed operation and maintenance costs.” Instead, the email indicated that the Department would make corrections for charges it considered ineligible such as the costs for the operation and maintenance of the land actually acquired with Land and Water Conservation Funds. Accordingly, we revised our reference to the subject email.

The Department did not completely agree with Recommendation A.2. Their concurrence was only related to SFY 2004 ineligible expenses for the Cleghorn Springs Visitor Center and the Blue Dog State Fish Hatchery. The non-concurrence related to the ineligible expenses for the Coteau GPA as explained above for Recommendation A.1. The Department will negotiate with FWS the formulation of a Corrective Action Plan that will identify the types of expenses that are ineligible.

**FWS
Response**

FWS concurred with the Department’s request that ineligible costs associated with the operation and maintenance of the Coteau Game Production Area be limited to the costs incurred on the land actually acquired with Land and Water Conservation Funds, not the entire game production area. FWS did not comment on the remaining portion of the finding or recommendations.

**OIG
Comments**

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. We believe that Section 6 (f) (1) restrictions apply to the entire management area included in the original funding proposal and not just the property acquired with the Land and Water Conservation Funds. Therefore, it is possible that all the operation and maintenance expenses related to the Coteau GPA may be ineligible for Federal Assistance.

As a result, we consider the finding unresolved. FWS should reconsider its response to the finding relating to whether all of the operation and maintenance costs for Coteau GPA are ineligible and address this finding and the recommendations in the corrective action plan.

**B. Personal
Property**

The South Dakota Fixed Asset System used by the Department did not identify personal property by funding source. Therefore, we could not determine if property purchased with Federal Assistance funds, license fee funds, or other funds was being used only by Division of Wildlife employees within the Department, and not by Division of Parks and Recreation employees or others.

50 CFR § 80.18(c) specifies that the State's responsibilities in conducting activities funded by Federal Assistance grants include the accountability and control of all assets to assure that they serve the purpose for which they were acquired. Although the Fixed Asset System database included a data field to record the funding source, as noted on purchase documents, the data field was not always completed. As a result, we were unable to identify the source of funding used to acquire equipment and to determine whether equipment purchased with Federal Assistance and license fee funds was used for the purpose for which it was acquired.

Recommendations We recommend that FWS require the Department to identify equipment purchased with Federal Assistance and license fee funds in its asset management database.

Department Response The Department concurred with the finding and recommendation and will propose a correction to this issue in their comments on the final audit report.

FWS Response FWS did not have any comments.

OIG Comments We consider the actions taken by the Department to be appropriate. FWS should address this finding in the corrective action plan.

**STATE OF SOUTH DAKOTA
DEPARTMENT OF GAME, FISH AND PARKS
FINANCIAL SUMMARY OF REVIEW COVERAGE**

Grant Number	Amount	Claimed Costs	Questioned Costs		Notes
			Total	Federal Share	
F-15-R-36	\$679,693	\$442,873			
F-15-R-37	546,220	465,575			
F-15-R-38	436,399	76,336			
F-21-R-34	1,168,500	544,218			
F-21-R-35	1,073,500	1,161,194			
F-21-R-36	1,128,500	491,336			
F-38-DB-30	721,435	542,165			
F-38-DB-31	1,073,898	944,459			
F-38-DB-32	1,585,749	1,130,244			
F-38-DB-33	172,089	25,964			
F-38-DB-34	2,143,111	279,056			
F-38-DB-35	272,388	9,256			
F-41-D-13	1,073,534	299,740	\$14,783	\$11,087	1
F-43-D-13	135,870	445			
F-43-D-14	275,800	143,080			
F-43-D-15	95,800	21,002			
F-45-E-15	265,380	155,055	5,815	4,361	2
F-45-E-16	290,600	158,851	4,941	3,706	2
F-54-R-4	20,000	20,000			
F-55-R-2	161,400	185,258			
F-55-R-3	227,400	163,528			
F-56-D-1	2,335,869	1,550,935			
F-57-R-1	117,798	22,078			
W-75-R-44	723,774	643,534			
W-75-R-45	849,475	758,195			
W-81-D-44	1,577,800	1,497,891	16,250	12,188	3
W-81-D-45	1,720,000	1,870,527	300	225	3
W-92-D-37	231,098	231,098			

Grant Number	Amount	Claimed Costs	Questioned Costs		Notes
			Total	Federal Share	
W-92-D-38	257,382	257,382			
W-92-D-39	263,377	98,294			
W-95-R-35	541,520	362,361			
W-95-R-36	472,640	528,306			
W-95-R-37	736,400	91,495			
W-96-E-30	328,522	240,181			
W-96-E-31	299,712	219,298			
W-96-E-32	438,292	42,406			
W-107-R-13	217,233	198,008			
W-107-R-14	161,333	139,614			
W-114-R-10	116,000	96,409			
W-114-R-11	46,667	46,667			
W-117-L-11	1,187,336	1,001,247			
W-117-L-12	1,241,202	1,134,246			
W-117-L-13	1,272,617	32,540			
W-142-E-1	100,000	22,602			
W-142-E-2	93,860	55,277			
W-143-L-1	213,300	213,300			
	\$29,090,473	\$18,613,526	\$42,089	\$31,567	

Notes:

1. Questioned costs pertain to the Statewide Fish Hatchery Operation, Maintenance and Development funds that were ineligible to be used to operate and maintain the Blue Dog State Fish Hatchery Building (see A. Ineligible Use of Federal Assistance Funds).

2. Questioned costs pertain to the aquatic education funds that were ineligible to be used to operate and maintain and to advertise the Cleghorn Springs State Fish Hatchery Visitor Center (see A. Ineligible Use of Federal Assistance Funds).

3. Questioned costs pertain to the Statewide Land Management and Development funds that were ineligible to be used to maintain the Coteau Game Production Area (see A. Ineligible Use of Federal Assistance Funds).

**STATE OF SOUTH DAKOTA
DEPARTMENT OF GAME, FISH AND PARKS
SITES VISITED**

Fishing Access Sites:

Bear Butte
Cox Lake
Curlew Lake
Mirror Lake

Boating Access Sites:

New Wall
Tisdale Lake

Game Production Areas:

Moe Slough
Roth

State Fish Hatcheries:

Blue Dog Lake
Cleghorn Springs
McNenny

Offices/Other Locations:

Region 1, Rapid City
Region 3, Sioux Falls
Mobridge District Office
Missouri River Reservoir Fisheries
American Creek Fisheries Station
Lake Henry

STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS

Recommendation	Status	Action Required
A.1, A.2, A.3, and B	Finding unresolved and Recommendations 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 alternative solution. Unresolved findings and unimplemented recommendations remaining at the end of 90 days (after July 23, 2004) will be referred to the Assistant Secretary of PMB for resolution and/or tracking of implementation.

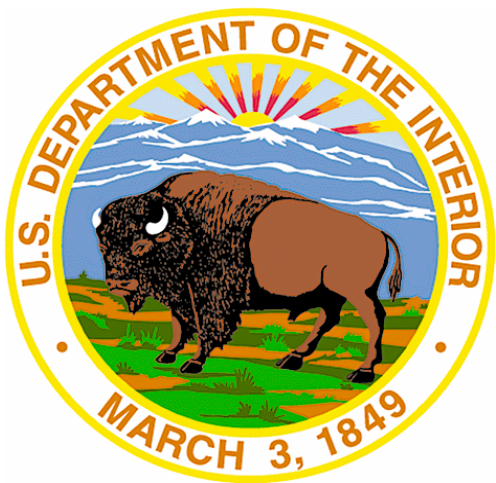
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