



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
Washington, Department of
Fish and Wildlife from July 1,
2000, through June 30, 2002**

Report No. R-GR-FWS-0029-2003

March 2004



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

External Audits
12030 Sunrise Valley Drive, Suite 230
Reston, VA 20191

March 31, 2004

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Joe Ansnick
Director of External Audits

Subject: Final Audit Report on the State of Washington, Department of Fish and Wildlife from July 1, 2000, through June 30, 2002 (No. R-GR-FWS-0029-2003)

This report presents the results of our audit of costs incurred by the State of Washington, Department of Fish and Wildlife (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, 2000, through June 30, 2002 (see Appendix 1).

We found that the Department did not keep time sheets or other adequate documentation to claim hours worked by aquatic education volunteers; did not report regional wildlife managers' salaries and benefits according to projects actually worked on; both understated and overstated its applicable direct and overhead costs on its claims for reimbursement; omitted State program income from a final financial report and five drawdowns for reimbursements for a wildlife grant; and, as reported in the prior Federal Aid audit of the Department, did not allocate overhead costs, such as annual and sick leave, in accordance with the projects actually worked on by employees.

The Department and FWS Region 1 responded to a draft of this report on March 5, 2004. The Region concurred with the five report recommendations. 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 June 30, 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 at 703-487-5345 or Mr. Tom Nadsady, Audit Team Leader, at (916) 978-5623.

cc: Regional Director, Region 1, 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 the sport fish and wildlife program and the Federal Assistance grants to the State of Washington at the request of FWS. The objectives of our audit were 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 incurred under the sport fish and wildlife programs and those 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 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 included license fees of \$61 million and claims totaling approximately \$24.6 million on FWS grants that were open during the State's fiscal years ended June 30, 2001 and 2002 (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 Washington 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 had been used for program purposes. We did not evaluate the economy, efficiency, and effectiveness of the Department's operations.

Our audit was performed at the Washington Department of Fish and Wildlife headquarters in Olympia, Washington. We also visited the Naches and Issaquah hatcheries, the regional office in Montesano, and several wildlife areas (see Appendix 2).

**Prior Audit
Coverage**

On January 14, 1998, we issued audit report No. 98-E-226, "Audit of U.S. Fish and Wildlife Service Federal Aid Grants to the State of Washington, Department of Fish and Wildlife, for Fiscal Years 1995 and 1996." The Washington State Auditor's Office annually audits the various aspects of the Department.

We reviewed these reports and followed up on all significant findings to determine whether they had been resolved prior to our review. We included one finding in this report from our January 14, 1998, report because it had not been addressed satisfactorily: the charging of common costs. As reported in the prior Federal Aid audit of the Department, overhead costs, such as annual and sick leave, were not allocated in accordance with the projects actually worked on by employees.

RESULTS OF AUDIT

Summary

Except for the issues identified below, we concluded that 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 were adequately reported and supported; the asset management system adequately identified and tracked personal and real property with regard to acquisition, maintenance, control and disposal; and 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 costs as in-kind contributions for the Aquatic Education program based on unsupported estimates of volunteer hours.
- Did not report regional wildlife managers' salaries and benefits according to projects actually worked on.
- Both understated and overstated its applicable direct and overhead costs on its claims for reimbursement.
- Omitted \$36,019 in program income from one wildlife grant and failed to report program income on six interim Financial Status Reports for another wildlife grant.

A. Questioned Costs

We questioned \$185,550 (Federal share \$139,162) charged to the Aquatic Education programs (Watershed Stewardship, and Salmonids in the Classroom) during State fiscal years 2001 and 2002 because the Department claimed estimated labor hours as its matching share under the grant without obtaining time sheets, sign-in sheets or any other form of certification from the volunteers. The Code of Federal Regulations (CFR) at 43 CFR § 12.64 (b)(6) states that "Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantees or cost-type contractors... To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs." The same requirements are also identified in Office of Management and Budget (OMB) Circular No. A-87, Attachment B, Part 11.i. The Department used time sheets to support the labor hours worked by

regular personnel. The Department estimated in-kind contributions for the following projects:

- Nature Mapping (under the Watershed Stewardship Program). This estimate was developed by website group leaders once each year. The estimate was based on the number of hours worked by volunteers who monitored websites. The volunteers included not only adults but also students from elementary schools through the college level. The Department estimated that 3,141 volunteers spent 13,971.5 hours monitoring the websites.
- Salmonids in the Classroom Program. This estimate was developed by the Department based on estimates of the number of hours worked by school teachers in the classroom. The Department estimated that 600 to 700 teachers worked on the program and that each teacher worked from 25 to 100 hours annually conducting the program. Using the most conservative estimates (600 teachers times 25 hours), the Department estimated that teachers volunteered a minimum of 15,000 hours annually.

Using the estimates prepared by the Department, these two programs would account for volunteer hours at a value (cost) of \$434,580 (28,972 hours @ \$15.00/hour), which if supported, would be significantly more than the \$185,550 claimed (12,370 hours @ \$15.00).

Recommendations

We recommend that FWS:

1. Resolve the \$185,550 of questioned costs.
2. Work with the Department to establish a timekeeping system that will enable the Department to record and certify volunteer hours concurrent with when they are worked for the Nature Mapping and the Salmonids in the Classroom Programs.

Department Response

The Department concurred with the findings and recommendations, and it provided us with documentation of the work performed by the volunteers in order to adequately resolve the questioned costs. In addition, a corrective action plan was established to implement recommendation 2. The plan included procedures to (1) identify and record volunteer information and activity data, (2) assign staff responsibilities and develop processes to insure the valuation of these contributions, and (3) provide a

summary showing the value of the third party in-kind contributions.

FWS Response

FWS concurred with the finding and recommendations, and after reviewing the documentation and the corrective action plan, considered the questioned costs reinstated and the Department's corrective actions implemented.

OIG Comments

The Department's and the FWS' responses were considered sufficient to consider the finding resolved and the recommendations implemented. No further action on the recommendations is necessary.

B. Payroll

The Department did not report regional wildlife managers' salaries and fringe benefits according to actual work performed. OMB Circular A-87, Attachment A, item C.3.a states "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." We found that regional wildlife managers worked on several different projects and grants, but charged their time according to prearranged time codes. The Region 3 wildlife manager charged 32 percent of his time and all other regional wildlife managers charged 38 percent of their time to Grants W-96-R-9 and W-96-R-10 (the State Wildlife Management Grant) during the audit period. In Region 1, the wildlife manager worked on seven other projects and two other grants, but no time was charged to these projects and grants. The practice of charging the State Wildlife Management Grants a prearranged percentage of regional wildlife managers time had been established prior to the period of our audit and the reason for using these percentages was not known.

For the two State fiscal years reviewed and for all six regions, \$389,823 was reported by the Department as salary and fringe benefit expenses for Statewide Wildlife Management. However, we were unable to determine if this was an appropriate amount to charge to Grants W-96-R-9 and W-96-R-10. We were also unable to determine how much of these costs or other regional wildlife manager costs should have been charged to other grants and projects. Based on the response to the draft report, we added Recommendation 1 below.

Recommendations

We recommend that FWS:

1. Resolve the issue of charging predetermined percentages of time for the Department's regional wildlife managers to Grants W-96-R-9 and W-96-R-10.

2. Require the Department to review its payroll procedures over accounting for employee time, and issue new guidance or provide training on the current guidance in order to ensure that salaries and fringe benefits are charged to the projects and grants upon which the employees actually work.

Department Response

The Department concurred with the finding and developed a corrective action plan to implement Recommendation 2. The plan included an electronic communication issued to all Department staff requiring daily coding of time sheets for projects worked that day. Because Recommendation 1 was not included in the draft report, it was not addressed.

FWS Response

FWS concurred with the finding and Recommendation 2 and considered the Department's corrective action implemented. Because Recommendation 1 was not included in the draft report, it was not addressed.

OIG Comments

The responses were considered sufficient to consider the finding resolved and Recommendation 2 implemented. The Department and FWS should address Recommendation 1. Accordingly, we consider the finding as it relates to Recommendation 1 unresolved and Recommendation 1 unimplemented.

C. Drawdowns

The Department did not correctly allocate grant direct and indirect costs between the Federal and State shares when calculating overhead costs for Federal Assistance grants. Standards for Financial Management Systems specified in 43 CFR § 12.60 (a) require that a State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to (1) permit preparation of reports required by this part and the statutes authorizing the grant, and (2) permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

In addition, 31 CFR § 205.11(a) provides that "A State and a Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds."

We found that the Department overbilled and underbilled the Federal portion of Federal Assistance grants as shown in the following examples:

- The accounts receivable report for Grant No. R-1-D-1, Wildlife Conservation & Restoration Program, shows that for the month of May 2002, the Department overbilled the Federal portion of the costs by using a split of 83 percent Federal and 17 percent State, instead of the grant allowed 75 percent Federal and 25 percent State. This resulted in an overpayment of \$1,153 to the State by FWS.
- The accounts receivable report for Grant No. W-96-R-10, Statewide Wildlife Management, shows that for the month of February 2002, the Department underbilled the Federal portion of the costs by using a split of 58 percent Federal and 42 percent State, instead of the grant allowed 75 percent Federal and 25 percent State. This resulted in an underpayment of \$11,611 by FWS to the State.

Recommendations

We recommend that FWS require the Department to review Financial Status Reports to:

1. Ensure the correct allocation was made for the Federal and State shares of grant costs.
2. Verify the appropriate percentages for Federal Aid grants were entered into the Department's financial reporting system.
3. Ensure that the appropriate allocation percentages are applied monthly.

Department Response

The Department concurred with the finding, with the exception of the inclusion of Grant R-1-D-1 from the Wildlife Conservation and Restoration Program, which was not a Federal Assistance grant, and developed a corrective action plan to implement the recommendations. The Department submitted to FWS an Audit and Adjustment Statement verifying the appropriate percentages for Federal Assistance grants and made adjustments to correct variances.

FWS Response

FWS concurred with the finding and recommendations and considered the Department's corrective action fully implemented.

OIG Comments

Grant R-1-D-1 was included in the audit scope based on a preliminary determination to include Wildlife Conservation and Restoration Program grants in the review of Federal Assistance grants. By the time we determined that Wildlife Conservation and Restoration Program grants should be excluded from our scope, the exception had been identified. The responses were considered sufficient to consider the finding resolved and the recommendations implemented. Therefore, no further action is necessary.

D. Program Income

The Department did not accurately report program income. The Department accounted for program income from lands maintained with Federal Aid funds in two separate accounts according to the 75/25 percentage split between Federal and State funding. When the financial status report for the Wildlife Area Program Grant W-94-D-19 was completed, only the Federal amount was reported.

Program income is defined in 43 CFR §12.65(b) as gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. For Federally maintained lands, all income is considered directly generated by the grant and is program income.

For fiscal year 2002, program income was understated by \$36,019 on Grant W-94-D-19. It should be noted, however, that the Department spent and reported \$91,407 more than the required matching share on this grant. We also noted that program income was omitted on interim Financial Status Reports through December 2002 (cumulative total of \$12,550) on Grant W-94-D-20. The Department correctly reported the amount in January 2003 (\$18,864).

Recommendation

We recommend that FWS require the Department to report all program income on interim as well as final Financial Status Reports in order to ensure the accurate and timely reporting of all program income and to facilitate accurate drawdowns.

Department Response

The Department concurred with the finding and submitted a report indicating that training of Financial Service Division staff to improve internal controls for accurately accounting for program income had been completed.

FWS Response

FWS concurred with the finding and recommendation and considered the Department's corrective action fully implemented.

OIG Comments

The responses were considered sufficient to consider the finding resolved and the recommendation implemented. Therefore, no further action is necessary.

E. Prior Audit Finding - Direct Charging for Overhead Costs

As reported in the prior Federal Assistance audit of the Department, employee fringe benefits such as annual and sick leave were not accurately charged to projects actually worked on. The Department did not charge vacation (annual) leave, sick leave, and associated employer paid labor costs to an overhead account nor did it charge the costs to the projects at the time the employees earned them. Instead, these employee leave benefits were charged to projects that the employees worked on during the month when leave was taken.

Employee benefits such as leave can be charged as indirect costs in accordance with the policies and procedures of the State. OMB Circular A-87, Attachment A, Subpart F item 1, defines indirect costs as those costs incurred for a common or joint purpose benefiting more than one cost objective that are not readily assignable to the cost objectives specifically benefited. To facilitate the equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit.

The Department's response to the prior finding was "The agency is reviewing its current practice of allocating vacation and sick leave as a direct cost. Changes in practice will most likely include a more representative base (versus one month) to distribute these direct costs." However, we found no evidence that the Department addressed the resolution of this issue and the practice has continued through the current audit period. We found that at year end, some cost codes were overstated due to commingling of actual costs with allocated overhead costs attributable to other projects worked on during the year, while other cost codes were understated because they had not been allocated their fair share of overhead costs. If the Department wants to charge employee leave benefits directly, it must do so in accordance with how the leave was earned.

Recommendation

We recommend that FWS require the Department to either directly charge employee leave benefits in accordance with how they were earned or develop a system to charge leave accruals to an overhead pool and then equitably allocate the overhead costs from the pool to projects worked on.

Department Response

The Department did not concur with the recommendation as written in the draft because it did not provide for direct charging of employee leave benefits. Officials believe that the practice of

charging actual leave taken complies with requirements of Office of Management and Budget Circular A-87 and fairly charges costs to Federal Assistance and other projects. Fringe benefits, such as vacation and sick leave, were a direct charge in the period that the leave was taken and paid. The actual cost of the leave taken was charged to projects based upon the actual hours worked for each employee in that month. Department officials performed a comparison of the direct charging practice to a composite rate it developed for allocation of vacation and sick leave costs. The composite rate was based on a review of 14 Departmental employees that worked on Federal Assistance projects from July 1, 2002 through June 30, 2003. Based on the results of the comparison, the composite rate resulted in \$22,945 of additional vacation and sick leave costs that should have been charged to Federal Assistance projects. However, Department officials believe “that these differences would vary and over time the amounts would be materially the same.”

FWS Response

FWS concurred with the finding but disagreed with the recommendation. FWS reviewed the analysis comparing actual charges to the use of the composite rate and agreed that Federal Assistance grants were undercharged \$22,944 for leave benefits. As a result, FWS disagreed with the recommendation requiring that employee leave benefits be charged to an indirect cost pool as stated in the draft report.

OIG Comments

Costs can be charged either directly or indirectly, depending on how the State handles similar costs. Accordingly we changed our recommendation to provide for either the direct or indirect charging of employee leave benefits. We found no evidence that the Department changed any of its procedures to resolve this issue. While the composite rate that was developed indicated that FWS may have been undercharged, the Department stated that this situation would vary and the application of the composite rate could also result in an overcharge. We believe that this indicates that directly charging leave to the projects that an employee worked on during the month that the leave is taken is not an accurate way of charging employee leave costs and is easily subject to manipulation. The most accurate method would be to charge the leave costs directly to the activity worked on when they are earned, not when they are used. We believe that a methodology needs to be developed that is equitable and not easily manipulated. Accordingly, we revised the recommendation and consider the finding unresolved. FWS and the Department should address this finding and the revised recommendation in their corrective action plan.

**STATE OF WASHINGTON
DEPARTMENT OF FISH AND WILDLIFE
FINANCIAL SUMMARY OF REVIEW COVERAGE**

Grant Number	Budgeted Grant Amount	Claimed Costs	Questioned Costs		Note
			Total	Federal Share	
F-43-D-44	\$58,361	\$58,361			
F-43-D-45	76,364	66,224			
F-80-R-15	175,000	175,000			
F-84-B-15	856,834	855,433			
F-84-B-16 B&X	791,890	791,890			
F-85-B-11	353,333	249,292			
F-85-B-12	357,400	139,038			
F-91-AE-15	473,080	453,692	\$0	\$0	1
F-91-AE-16	496,530	330,942	0	0	1
F-97-R-14	49,333	44,061			
F-97-R-15	52,231	46,921			
F-110-R-8	429,872	414,021			
F-112-R-8	1,473,220	1,387,768			
F-112-R-9	1,673,220	1,540,473			
F-115-R-4	2,516,266	2,207,164			
F-115-R-5	1,685,791	1,453,920			
F-118-D-2	600,000	597,548			
F-118-D-3	600,000	585,149			
F-122-B-1	67,707	41,331			
FW-2-T-18	533,513	525,050			
FW-2-T-19	536,180	536,180			
W-41-D-50	485,333	485,333			
W-41-D-51	715,363	715,363			
W-42-L-49	255,130	255,130			
W-42-L-50	255,130	255,130			
W-83-HS-30	462,000	446,008			
W-83-HS-31	656,666	556,146			

Grant Number	Budgeted Grant Amount	Claimed Costs	Questioned Costs		Note
			Total	Federal Share	
W-94-D-18	1,344,867	1,515,581			
W-94-D-19	1,874,378	2,020,453			
W-96-R-9	2,034,026	2,034,026			
W-96-R-10	2,924,000	2,924,000			
W-98-E-1	162,778	92,241			
R-1-D-1	1,355,896	781,950			
Totals	\$26,381,692	\$24,580,819	\$0	\$0	1

Note:

1: We questioned \$185,550 (\$139,162 Federal share) of grant costs claimed by the Department as in-kind contributions for the Aquatic Education program in the draft report because the costs represented unsupported estimates of volunteer hours. Subsequently, the Department reconstructed time sheets to provide adequate support to reinstate these questioned costs.

**STATE OF WASHINGTON
DEPARTMENT OF FISH AND WILDLIFE
SITES VISITED**

Chelan Wildlife Area
Columbia Basin Wildlife Area
Moses Lake Wildlife Area
Cowiche Wildlife Area
L. T. Murray Wildlife Area
Ellensburg Wildlife Area
Oak Creek Wildlife Area
Olympic Wildlife Area
Issaquah Hatchery
Naches Hatchery
Headquarters Office, Olympia, WA
Region Six Office, Montesano, WA

STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS

Recommendation	Status	Action Required
A1, A2, B2, C1, C2, C3, and D	Finding resolved and Recommendation Implemented	No further action is required.
B1 and E	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 alternative solution. Unresolved findings and unimplemented recommendations remaining at the end of 90 days (after June 30, 2004) will be referred to the Assistant Secretary of PMB for resolution and/or tracking of implementation.

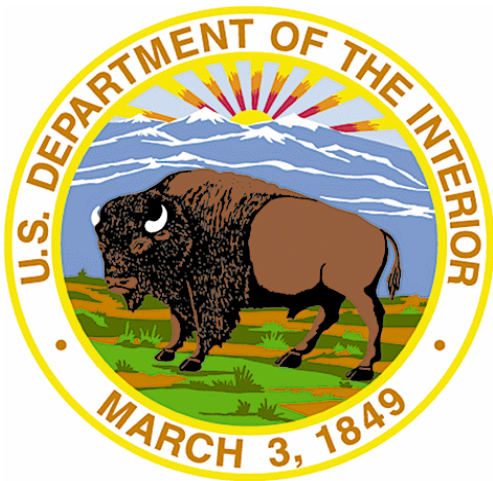
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