



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

ADVISORY REPORT

**COSTS CLAIMED BY THE
STATE OF OKLAHOMA,
DEPARTMENT OF WILDLIFE
CONSERVATION, UNDER FEDERAL
AID GRANTS FROM THE
U.S. FISH AND WILDLIFE SERVICE
FROM JULY 1, 1996 TO JUNE 30, 1998**

September 2002

Report No. 2002-E-0012



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20240

September 9, 2002

ADVISORY REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Roger La Rouché
Assistant Inspector General for Audits

Subject: Final Advisory Report on Costs Claimed by the State of Oklahoma,
Department of Wildlife Conservation, Under Federal Aid Grants from the
U.S. Fish and Wildlife Service from July 1, 1996 through June 30, 1998
(No. 2002-E-0012)

Introduction

This report presents the results of our performance of procedures to review another audit agency's work related to costs claimed by the State of Oklahoma Department of Wildlife Conservation (Department) under Federal Aid grants from the U.S. Fish and Wildlife Service (FWS) for the period July 1, 1996 to June 30, 1998.

Background and Scope

The Federal Aid in Wildlife Restoration Act, as amended (16 U.S.C. 669) and the Federal Aid in Sport Fish Restoration Act, as amended (16 U.S.C. 777) authorize FWS to provide Federal Aid grants to the states to enhance their sport fish and wildlife programs. The Acts provide for FWS to reimburse the states up to 75 percent of all eligible costs incurred under the grants. Additionally, the Acts specify that state hunting and fishing license revenues cannot to be used for any purpose other than the administration of the state's fish and game agencies. In addition, FWS provides grants to the states under the Clean Vessel Act and the Endangered Species Act.

In August 2001, another audit agency issued a draft report entitled "Audit of Oklahoma Federal Aid Program Grants and Payments Awarded by the U.S. Fish and Wildlife Service, Division of Federal Aid, Fiscal Years 1997 and 1998." The scope of its audit work, as stated in the announcement letter to the Department, was to evaluate (1) the adequacy of the Department's accounting system and related internal controls as they pertain to the FWS Federal Aid grant agreements; (2) the adequacy and reliability of

the Department's license fees collection and disbursement system; (3) the adequacy of the Department's accounting system as it relates to the accumulation and reporting of costs charged to grants; and (4) the adequacy and eligibility of direct costs claimed on grants. The audit was also to include an analysis of other issues considered to be sensitive and/or significant to the FWS. The audit work at the Department covered \$32 million in FWS grants that were open during the Department's fiscal years ended June 30, 1997 and 1998 (see Appendix 1). The Department submitted its response to the draft report in December 2001. However, the audit agency's agreement with FWS expired prior to receipt of the response and the issuance of a final report.

From 1996 through September 2001, the audit agency conducted audits of Federal Aid grants under a reimbursable agreement with FWS. The FWS did not renew or extend its agreement with the audit agency. At the time of expiration, final audit reports on several uncompleted audits had not been issued and the audits were in various stages of the audit and reporting processes. The audit agency indicated in a September 20, 2001 memorandum that although the supervisory and management reviews of the Oklahoma draft report had been completed, the audit assignment was considered incomplete because the Department's response had not been received and therefore a draft final report had not been prepared and the supervisory and management reviews of the supporting working papers had not been completed.

On September 20, 2001, FWS and the Office of Inspector General (OIG) entered into an Intra-Departmental Agreement under which FWS requested OIG to (1) review the audit work performed by the audit agency including its working papers, summaries, and draft reports for these audits and (2) issue reports on the findings that were supported by the working papers. Accordingly, our review was limited to performing the agreed-upon procedures set forth in the Agreement and the conclusions presented in the report are limited to the findings substantiated by the working papers. We did not perform any additional audit work of the Department's records and the limited work performed under these procedures does not constitute an audit by the OIG in accordance with Generally Accepted Government Auditing Standards.

Major issues impacting Oklahoma's administration of the Federal Aid program are presented in the body of the report and other management issues are presented in Appendix 3. In addition, we have included in Appendix 4 a list of all findings included in the draft report, along with the results of our own corresponding analysis.

Results of Review

The results of our review of the audit agency's working papers disclosed the following:

- The Department needs to obtain a refund of \$330,705 from the State for excess employee health insurance payments, of which \$104,828 should be used to reduce the costs charged to Federal Aid grants and \$225,877 should be deposited into the license fee fund (Fund 200).
- The Department did not report revenues totaling \$1,610,935 that it received from grazing leases (\$526,659), agricultural leases (\$595,523), oil and gas production (\$235,275), oil and gas damage assessments (\$49,769), oil and gas leases (\$750), timber sales (\$199,809), and communication tower leases (\$3,150).
- The eligibility for reimbursement of costs totaling \$633,000 was questioned, representing subgrantee costs incurred outside the grant period (\$337,393), State matching costs that were also used to match other Federal grants (\$206,000), Department costs incurred outside the grant period (\$82,483), and miscellaneous unallowable costs (\$7,124).
- The Department's accounting system was not adequate for accumulating and reporting the use of license fee revenues.
- The Department did not comply with certain grant requirements regarding performance reports, grant amendments, and program income.
- The Department did not have adequate policies and procedures to ensure proper identification, accumulation, and reporting of eligible costs for in-kind contributions.

A. Use of Hunting and Fishing License Revenues

The State & Education Employees Group Insurance Board administered a self-insurance fund to pay for Oklahoma employees' health and medical costs. In fiscal year 1997, \$31.5 million of insurance premiums that had been paid by the State on behalf of its employees were transferred out of the fund to the State Regents for Higher Education. Included in the transfer was \$330,705 of premium payments made on behalf of Department employees that was initially funded with license revenues. Subsequently \$104,828 of this amount, which was related to employees working on Federal Aid grants, was reimbursed to the Department by FWS. In accordance with the provisions of Office of Management and Budget (OMB) Circular A-87, contributions to a reserve for certain self-insurance programs are allowable. However, the transfer of some of the reserve funds to the State Regents for Higher Education was contrary to Attachment B, Paragraph 25.d.(5) of OMB Circular A-87, which states that whenever funds are transferred from a

self-insurance reserve to other accounts (e.g. general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer.

Furthermore, the transfer of insurance premiums resulted in a diversion of license revenue because the Department's contribution of \$225,877 ($\$330,705 - \$104,828 = \$225,877$) was funded using license fee revenue. In this regard, the Code of Federal Regulations (50 CFR 80.4) states, "Revenues from license fees paid by hunters and fishermen shall not be diverted to purposes other than administration of the State fish and wildlife agency."

The draft report recommended that the Office of State Finance reimburse the Department \$330,705, and that the Department should reimburse the FWS \$104,828 for the health insurance premiums that were paid under the Federal Aid grants in fiscal year 1997. We have classified the \$104,828 as a questioned cost; however, there was insufficient information in the working papers to identify the individual grants to which the \$104,828 was charged.

Department's Response

The Department agreed with the recommendation, but stated that the Oklahoma Office of Attorney General advised the Department that this issue was in litigation and that no action should be taken until the lawsuit is settled. The Department proposed to demand reimbursement of the \$330,705 paid when the lawsuit is settled. In addition, the Department proposed to offset the amount due the FWS by removing one-half of the costs from those incurred under grant F-43-D-11 and one-half of the costs from those incurred under grant W-138-M-12. The Department stated that since it incurred more than the amount necessary to justify the reimbursements received from the FWS under these two grants even after removing the \$104,828 from them, no reimbursement to FWS would be necessary.

Office of Inspector General Comments

We do not agree with the proposed resolution regarding the \$104,828 reimbursement. To properly resolve this matter, the Department should identify the grants to which the questioned health insurance premiums were charged and determine whether those grants had excess allowable costs that were reported on the Financial Status Reports, SF-269s. FWS may then determine whether the excess allowable costs for each grant may be used to offset the portion of the \$104,828 allocable to that grant. Any remaining portion of the \$104,828 should be reimbursed to FWS. The Department's proposed resolution to use excess allowable costs from grants F-43-D-11 and W-138-M-12 to offset the \$104,828 would be contrary to Attachment B, Section 42 of OMB Circular A-87, which states, "Any excess costs over the Federal contribution under one award agreement are unallowable under other award agreements." Regarding the Oklahoma Attorney General's position that no action should be taken until the lawsuit is settled, we suggest that FWS consult the Solicitors Office for guidance.

Recommendation

We recommend that the FWS:

1. Resolve the \$330,705 in health insurance premiums diverted to the State Regents for Higher Education, which includes the \$104,828 in questioned costs for health insurance premiums related to the Federal Aid grants. The resolution should include advice from the Solicitor's Office regarding whether to wait for any lawsuits to be settled regarding recovery of the insurance premiums paid from license fee funds that were diverted to the Regents for Higher Education.

B. Program Income and Income from the Sale of Real Property

During fiscal years 1997 and 1998, the Department received income totaling \$1,610,935 that it did not properly report or credit to the grant-supported activity that generated the income as required by the provisions of the Code of Federal Regulations (43 CFR 12.65(b)) and (43 CFR 12.71(g)).¹ The income was generated from various activities on lands acquired by the Department with Federal Aid grant funds and/or license fee revenues. The potential unreported income by year by income type is summarized below and further details are provided in Appendix 2:

Unreported Income			
Income Type	FY 1997	FY 1998	Total
Grazing	\$243,439	\$283,220	\$526,659
Agriculture Leases	276,641	318,882	595,523
Oil & Gas Production	125,206	110,069	235,275
Oil & Gas Damage	22,596	27,173	49,769
Oil & Gas Lease	0	750	750
Timber Sales	2,399	197,410	199,809
Communication Tower Leases	0	3,150	3,150
Total	\$670,281	\$940,654	\$1,610,935

The income was generated from lands, designated as wildlife management areas (WMAs), which the Department managed with Federal Aid grants. Each year, the Department received FWS grants for, among other things, the operation and maintenance,

¹ The Code of Federal Regulations identify two types of grant-related income: program income and income from the sale of real property. The Code (43 CFR 12.65(b)) define program income 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." Also, the Code (43 CFR 12.65(g)(1)) state that, "Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs." Regarding the disposal of real property, the Code (43 CFR 12.71) require that the grantee request disposition instructions from the awarding agency.

habitat development, and habitat management of these WMAs. These grants covered all WMAs without regard to whether the original acquisition of the WMAs was funded with license fees, Federal Aid, or other funds. The WMA grant agreements specifically identified grazing and agricultural leases as grant-supported activities. The WMA agreements also estimated program income from mineral production and leasing and stated that such income would be “deducted from total project costs.” However, no mention of the other types of revenue was made in the WMA grant agreements.

In practice, revenues from grazing, oil and gas exploration and production, timber harvesting, and communication tower activities generated from lands acquired with Federal Aid funds were credited against grant costs. The Department, however, did not credit WMA grant costs with revenue it received from activities that took place on lands acquired with license fees. Furthermore, the Department did not credit grant costs with any revenue from agricultural activities, regardless of the funding source for the land acquisition.

It appears that the revenue generated from the activities described above represents program income as defined by 43 CFR 12.65 for the following reasons: (1) the revenue was generated by a grant-supported activity, namely the operation and maintenance of the wildlife management areas; (2) the revenues were earned during the grant period, with the FWS issuing a new grant to the Department for the same general activities each year; and (3) the grants covered lands acquired with either grant funds or with license fees.²

The draft report recommended that the Department compensate the FWS for the Federal share of the unreported program income related to grazing, oil and gas damage, oil and gas leasing, agricultural leases, and communication tower leasing. The draft report did not recommend that the Department compensate the FWS for income from timber sales because FWS had provided guidance indicating that timber sales constituted the sale of real property. The draft report did not recommend that the Department compensate the FWS for income from oil and gas production because Federal Aid funds were not used to purchase the lands from which the oil and gas was produced.

The draft report also recommended that the Department develop and implement written policies, procedures, and accounting controls that clearly denote the difference between revenue from the sale of real property subject to the provisions of 43 CFR 12.71 and revenue from grant supported activities (program income) which is subject to the provisions of 43 CFR 12.65. Regarding the revenue generated from activities other than timber sales, we suggest that the FWS consult the Solicitor’s Office for advice on what revenue should be considered program income and what should be considered the sale of real property.

² On June 6, 2002, the Director, FWS, issued a policy memorandum to his Regional Directors clarifying that revenue from timber sales on Federal Aid lands was program income. This was based on a December 5, 2000, Solicitor’s Opinion on whether timber was real or personal property. No policy has been issued on the other types of revenue.

Department's Response

The Department disagreed with the recommendation with respect to grazing and agricultural leases, stating that the Department administered these leases from its headquarters office and that none of these costs were charged to the FWS grants. Although the Department acknowledged that field personnel did check on these leases occasionally, it stated that the monitoring was incidental to their primary wildlife management duties. The Department also stated that only 11 per cent of the acreage that it managed was acquired with Federal Aid funds. The Department concluded that the revenue did not fit the definition of program income contained in 43 CFR 12.65(b) because the revenue was not generated directly from a grant-supported activity during the grant period. The Department also disagreed with the recommendation with respect to income from communication tower leases, oil and gas damage, and oil and gas leases, stating that the income was from properties not acquired with Federal Aid funds.

Office of Inspector General Comments

Federal Aid grant funds were used to manage the lands that generated this income and the grant agreements specifically identified grazing and agricultural leases as grant-supported activities. Although the other revenue-generating activities were not specifically identified in the agreements and the amount of time spent by employees at the sites that was related to these activities could not be determined, it seems likely that field employees spent some time monitoring these activities to ensure that they were being conducted properly. In addition, the Department applied its indirect cost rate to the direct costs of these grants; thus, a portion of the costs of the Department's headquarters staff (which administered the leases) was funded by the wildlife management area Federal Aid grants.

Recommendation

We recommend that the Regional Director:

1. Resolve the issue of the \$1,610,935 of unreported program income and income from the sale of real property. The resolution should follow the advice obtained from the Solicitor's Office regarding whether the income types listed above are program income or income from the sale of real property.
2. Ensure that the Department has developed and implemented written policies, procedures, and accounting controls that clearly denote the difference between revenue from the sale of real property and revenue from grant-supported activities (program income) and that these revenues are properly reported.

C. Questioned Costs

The eligibility for reimbursement of costs totaling \$633,000 (Federal share) was questioned, representing subgrantee costs incurred outside the grant period (\$337,393), State matching costs that were also used to match other Federal grants (\$206,000), Department costs incurred outside the grant period (\$82,483), and miscellaneous unallowable costs (\$7,124).

1. Out-of-Period Subgrantee Costs. Costs totaling \$339,226 (Federal share) were questioned in the draft report because the costs were incurred prior to the time period covered by the grant agreement segment to which the costs were charged. We adjusted the amount to \$337,393 based on our review of the working papers. The Code of Federal Regulations (50 CFR 80.15(b)), Allowable Costs states, “Costs incurred prior to the effective date of the project agreement are allowable only when specifically provided for in project agreement.” The following costs were incurred prior to the inception of the grant agreement segments to which the costs were charged:

Grant Number and Location	Total Questioned	Federal Share
F-45-D-11		
Carter Lake	\$4,345	\$3,259
Lake Konawa	73,646	55,235
Lake Davenport	15,799	11,849
	<u>\$93,790</u>	<u>\$70,343</u>
F-45-D-12		
Boomer Lake	<u>\$40,332</u>	<u>\$30,249</u>
F-45-D-13		
Lake Taylor boat ramp	\$33,318	\$22,500
Lake Pawhuska	87,439	65,579
Lake Taylor signs	400	300
	<u>\$121,157</u>	<u>\$88,379</u>
F-44-D-13		
Pretty Water Lake	\$49,494	\$28,272
Lakes Duncan & Humphries	160,200	120,150
	<u>\$209,694</u>	<u>\$148,422</u>
Total Questioned Costs	<u><u>\$464,973</u></u>	<u><u>\$337,393</u></u>

The Department entered into cooperative agreements with local municipalities in which the municipalities agreed to install, develop, and maintain facilities such as boat docks, boat ramps, restrooms, and piers on lakes that were owned by the municipalities. In return, the Department would provide these subgrantees with Sport Fish Restoration funds to cover a portion of the work. Subgrantees billed the Department, the Department

reimbursed the subgrantees, and in return, the Department received reimbursement from FWS by including the subgrantee's costs in the grant agreement segment open at the time the subgrantee's bill was received.

The subgrantees, however, did not bill the Department on a timely basis. This resulted in costs being incurred by the subgrantee prior to the timeframe covered by the grant agreement segment to which the Department subsequently billed the FWS for the costs. In some instances, the costs were incurred by the subgrantee as much as 23 months prior to the billing of the costs to a grant agreement. The Department did not have specific FWS approval to charge these out-of-period costs to the grant agreement segments that were charged.

The draft report recommended that the Department (1) reimburse the FWS the Federal share of the out-of-period subgrantee costs and (2) develop and implement written policies and procedures that include adequate internal controls to screen out-of-period costs from future requests for reimbursement, thereby ensuring compliance with the provisions of 50 CFR 80.15.

Department's Response

The Department disagreed with the recommendation. In its response, the Department stated that the costs were not out of period because the Department incurred the costs in the period in which it paid them. In addition, the Department provided a detailed response that described why the work was done in one period and paid for in another period and it took the position that costs were incurred when the subgrantee invoiced the Department.

Office of Inspector General Comments

The deciding factor about which grant to charge a cost to should not be when the subgrantee invoices the grantee or when the grantee reimburses the subgrantee. It should be when the service is rendered or the work is performed by the subgrantee. Even though the Department incurred the costs in the period in which it paid them, it should be recognizing the obligation to pay for the costs when the service is provided or the work is substantially completed by the subgrantees.

FWS Region 2 officials stated that the standard operating procedure is that no more than one segment of a grant should be open at a time and that incomplete activities and associated fiscal transactions are routinely carried forward into the next segment for payment purposes. We do not agree with this procedure because the grant segment period during which the work is done should be the grant segment that is charged. In the interests of better cash management, the grant segment under which the work is done could be left open (the grant period of performance could be amended to extend the time period to the date when all subgrantees are able to submit their invoices). This would require that the FWS standard operating procedure regarding no more than one segment of a grant be open at a time be changed.

Recommendation

We recommend that the FWS:

1. Resolve the \$337,393 (Federal share) in out-of-period costs.
2. Provide guidance to the Department on accounting for and reporting costs incurred by subgrantees to ensure that costs are charged to the proper grant segment.

2. Duplicate Match of State Share. We questioned costs of \$206,000 (Federal share) because the subgrantee apparently used the same costs as its matching share on two different Federal grants. In accordance with the provisions of 43 CFR 12.64(b)(3), costs counted toward satisfying the cost sharing or matching requirement of one Federal grant agreement cannot be counted toward satisfying the cost sharing or matching requirement of another Federal grant agreement or any other award of Federal funds. Questioned costs relate to the following grant agreements:

Grant	Subgrantee	Federal Share Amount
F-45-D-12	Pauls Valley Municipal Authority	\$100,000
F-45-D-13	Pottawatomie County Development Authority	106,000
	Total	<u>\$206,000</u>

a. Pauls Valley Municipal Authority - \$100,000. In September 1994, Pauls Valley Municipal Authority entered into an agreement with the U.S. Department of Agriculture, Soil Conservation Service (SCS), to construct “recreational facilities” at the R.C. Longmire Lake. The SCS and Pauls Valley each agreed to fund 50 percent of the total cost, originally estimated to be \$900,000, but later changed to \$1,060,000. The project was completed in two phases. The total cost of Phase 2 was \$803,252, including \$15,880 for the cost of showers that Pauls Valley agreed to fund at 100 percent. The SCS paid \$393,686, its 50 percent share of the adjusted total costs (\$803,252 minus \$15,880 equals \$787,372; \$787,372 divided by 2 equals \$393,686), and Pauls Valley paid the remaining \$409,566 (matching share of \$393,686 plus \$15,880).

In April 1996, Pauls Valley entered into a cooperative agreement with the Department for construction of boat parking areas, boating access roads, and restroom facilities at the Lake. The cost estimate for this work was \$400,000, with the Department’s share being \$100,000 (25 percent). The Department reimbursed Pauls Valley for the amount requested (\$100,000). In turn, the Department claimed the \$100,000 cost under grant F-45-D-12 and was reimbursed by the FWS for that amount. It appears, however, that this work and related costs were also included under Phase 2 of Pauls Valley’s agreement with the SCS. Accordingly, we are questioning the entire \$100,000 reimbursed to the Department by FWS under grant F-45-D-12.

b. Pottawatomie County Development Authority - \$106,000. In June 1996, the Pottawatomie County Development Authority entered into a subgrant with the Department for construction of restrooms, boat docks and parking facilities at North Deer Creek Reservoir. The total estimated cost of the project was \$338,411. The Authority agreed to fund 25 percent and the Department agreed to fund 75 percent of the project costs.

In April 1997, the Authority entered into an agreement with the U.S. Department of Agriculture, Natural Resources Conservation Service (NRCS), to construct recreational facilities, including roads and parking lots at the Reservoir. The total estimated cost of the project was \$842,965. The agreement stated that the Authority would fund the first \$106,000 associated with asphalt and concrete costs, and the costs above \$106,000 would be shared equally by NRCS and the Authority.

The only documentation in the working papers regarding the costs incurred under either agreement was Invoice No. 3 from the contractor. The invoice showed that NRCS paid the contractor \$556,534, and requested payment of \$331,267 from the Authority (\$106,000 plus \$225,267, its 50 percent share of the total costs in excess of \$106,000). The Authority paid the bill and requested reimbursement from the Department of \$106,000 under the subgrant. The Department paid the Authority for the amount requested. In turn, the Department requested and received reimbursement from FWS of \$106,000 under grant F-45-D-13.

Considering the transactions involving Invoice No. 3 that occurred among the three parties involved in this project (the Department, NRCS, and the Authority), it appears that the \$106,000 the Authority received under the FWS grant were for costs that were part of the Authority's cost sharing responsibilities under its agreement with NRCS. Therefore, in accordance with the provisions of 43 CFR 12.64(b)(3) and OMB Circular A-87, Attachment A, part C.1.h, it appears that these costs are not be allowable under grant F-45-D-13. However, a full accounting of the costs incurred under these two agreements is needed to determine the eligibility of these costs. Specifically, Invoice No. 3 indicated that additional costs of \$233,000 had been paid under prior invoices and that the work was only 94 percent completed, indicating that further costs may have been incurred. There was no information indicating how these costs may have been shared among the three parties. Therefore, we consider the entire \$106,000 as unsupported costs. A full accounting of the costs incurred under the two agreements is needed to resolve this issue

The draft report recommended that the Department (1) reimburse the FWS the Federal share of the subgrantee duplicate match costs³ and (2) develop and implement written policies and procedures that include adequate internal controls that ensure reimbursement is not made to subgrantees for expenditures that are being included as matching costs on more than one grant.

³ The draft report questioned \$96,030 on the Pauls Valley project and \$53,212 on the Pottawatomie County project. Based on our review, we have revised those amounts to \$100,000 and \$106,000, respectively.

Department's Response

The Department did not agree that it violated the duplicate match prohibition. It stated that both Federal Government parties were aware of what each was doing, and that they acceded to each other's participation in the activities.

Office of Inspector General Comments

As a result of the Department's response and our review of the issue and the supporting working papers, we revised the recommendation regarding reimbursement to the FWS.

Recommendation

We recommend that the FWS:

1. Resolve the questioned costs of \$100,000 (Federal share) related to the costs claimed by the Department for work performed by its subgrantee, the Pauls Valley Municipal Authority under grant F-45-D-12.
2. Resolve the unsupported costs of \$106,000 (Federal share) related to the costs claimed by the Department for work performed by its subgrantee, the Pottawatomie County Development Authority under grant F-45-D-13 by requesting a full accounting of the total costs incurred for the project at the North Deer Creek Reservoir by the Natural Resources Conservation Service and the Authority and determine whether any of the costs incurred by the Authority are eligible for Federal Aid participation.
- 3. Out-of-Period Department Costs.** The draft report identified out-of-period costs of \$84,540 (Federal share) that were incurred prior to the effective date of the grant agreement segment charged. We reviewed the claims and the supporting invoices in the working papers and found one claim for a Federal share of \$2,057 that was for services provided within the grant's period of performance. This reduced the questioned costs to a Federal share of \$82,483.

In accordance with the provisions of 50 CFR 80.15(b), costs incurred prior to the effective date of the grant agreement are allowable only when specifically provided for in project agreements. There were no such provisions in the grant agreements.

The Federal share of questioned costs by grant are as follows:

Grant	Period of Performance	Cost Incurred Date	Claim Number	Total Amount Questioned	Federal Share Amount Questioned
F-45-D-13	03/01/98 - 02/28/99	2/03/98	828	\$86,357	\$64,768
F-45-D-13	03/01/98 - 02/28/99	2/25/98	828	5,439	4,079
Totals for F-45-D-13				\$91,796	\$68,847
F-43-D-12	01/01/97 - 12/31/97	6/30/96	12514	785	589
F-44-D-12	01/01/97 - 12/31/97	6/30/96	12514	785	589
W-143-D-11	07/01/97 - 06/30/98	6/26/97	1521	6,980	5,235
W-144-M-3	07/01/96 - 06/30/97	8/07/97	3432	9,630	7,223
Total Questioned Costs and Federal Share				\$109,976	\$82,483

The draft report recommended that the Department (1) reimburse the FWS for the Federal share of the out-of-period claimed costs and (2) develop written policies and procedures that include adequate internal controls designed to screen out those costs that were incurred prior or subsequent to the performance period of the grant agreement segment being charged.

Department's Response

The Department agreed with the report's conclusions on three of the four questioned claims. In addition, the Department stated that internal control procedures have been changed to require the project leader and the grants assistant to review each claim for proper coding prior to submitting the claim for payment. The Department did not indicate whether the new internal control procedures have been issued as a written document.

The Department did not agree that claim 828 was an out-of-period cost. It stated that the claim was for expenses incurred for its boating access facilities development program, a program that has been in Oklahoma since 1986. The Department referred to the grant as F-45-D, which does not identify a segment number. Segment numbers identify the period of performance, among other things. For the other three claim numbers and associated questioned costs, the Department agreed with the findings and proposed to offset the questioned costs with excess costs that it incurred over the grant agreement matching requirements.

Office of Inspector General Comments

Regarding claim 828, the costs of renovating boat ramps, parking facilities, and road access were incurred on February 3, 1998. Grant F-45-D-13, which had a period of performance from March 1, 1998 through February 28, 1999, was for boating access facilities development and maintenance. Grant F-45-D-12 was a boating access facilities development and maintenance grant for the period from March 1, 1997 through February 28, 1998. The Department claimed the cost under grant F-45-D-13, not grant F-45-D-12. The working papers did not indicate whether claim 828 would have been an allowable cost if it had been claimed under grant F-45-D-12. We noted that Grant F-45-D-12 had sufficient available funds at the end of the grant period to cover these costs.

Regarding the Department's proposal to use costs incurred in excess of the matching requirements to offset questioned costs, FWS has advised that this would be acceptable if the excess costs were incurred for the same grant number and the excess costs had been reported on the Department's Financial Status Reports, SF-269s. However, the use of excess costs incurred under one grant to offset questioned costs of another grant is unallowable. Accordingly, the Department's proposal to offset questioned costs with excess allowable costs under grants W-143-D-11 and W-144-M-3 may be appropriate subject to FWS approval if there are excess allowable costs that equal or exceed the total amount of out-of-period costs for each grant. The Department's proposal to offset the \$589 in questioned costs under grant F-44-D-12 with excess allowable costs under grant F-44-D-11 is inappropriate.

Recommendation

We recommend that the FWS resolve the \$82,483 (Federal share) of out-of-period questioned costs.

4. Costs In Excess of Agreement. Costs of \$2,445 were questioned because the amount paid by the Department to the Oklahoma Division of State Parks (ODSP) was greater than the amount agreed to by both parties. The Department and the ODSP entered into a cooperative agreement dated January 17, 1996 to remodel and repair boat docks at Lake Thunderbird. The agreement identified total costs to be \$30,000 with the Department's share being 75 percent, or \$22,500. The total actual cost of this effort was \$33,260. The Department reimbursed the ODSP 75 percent of the total actual costs, or \$24,945. The Department received reimbursement for these costs through grant F-45-D-12. The \$2,445 is the difference between the amount actually reimbursed by the Department, \$24,945, and the maximum amount identified in the agreement, \$22,500.

The draft report recommended that the Department reimburse the FWS \$2,445, which represented the Federal share of the costs in excess of the Department's agreement with the ODSP. In addition, the report recommended that the Department develop and implement written policies and procedures that contain adequate internal controls to ensure subgrantees are not paid more than the agreed upon amount.

Department's Response

The Department disagreed with this finding. It stated that a change order to increase the total reimbursable amount to \$25,849 was issued on October 14, 1996.

Office of Inspector General Comments

The grant's period of performance was from March 1, 1997, to February 28, 1998, which was subsequent to the change order date cited in the Department's response. Furthermore, the invoice that cited the cooperative agreement under which the ODSP claimed \$24,945 did not refer to the change order. The amount questioned could be considered allowable if the Department can provide a copy of a valid change order.

Recommendation

We recommend that the FWS resolve the \$2,445 (Federal share) of questioned costs that were in excess of the amount authorized in the Department's cooperative agreement with the Division of State Parks.

5. Ineligible Vehicle Costs. The Department claimed costs of \$2,428 (Federal share) for unleaded fuel and tires. However, these types of costs were already provided for in the mileage rates for vehicles that were charged to the grants and reimbursed by Federal Aid funds. That is, it was the Department's practice to charge vehicle costs based on a computed mileage rate which included the costs of tires and fuel. However, the Department directly charged fuel and tires costs to Federal Aid grants in addition to the computed mileage rate. This practice resulted in the duplicate recovery of costs which were claimed and questioned on the grants that follow:

Grant	Claim Number	Questioned Costs	Federal Share of Questioned Costs
W-139-M-13	4981	\$298	\$224
W-139-M-13	21943	330	248
Subtotal		\$628	\$472
W-139-M-14	20241	\$334	\$251
W-140-M-13	6375	\$365	\$274
W-140-M-13	8200	616	462
Subtotal		\$981	\$736
W-140-M-14	5894	\$372	\$279
W-144-M-3	6669	\$545	\$409
W-144-M-3	719	346	260
Subtotal		\$891	\$669
F-50-R-4	22533	\$28	\$21
Totals		\$3,234	\$2,428

The draft report recommended that the Department (1) reimburse the FWS \$2,428 which represented the Federal share of the ineligible direct charges for tires and fuel and (2) develop and implement adequate internal controls to ensure that only eligible vehicle costs are assigned to Federal Aid grants on a consistent basis.

Department's Response

The Department stated that it was likely that most of the fuel was used for tractors, ATV's, chainsaws, generators, and water pumps which were equipment items for which fuel costs were not included in the indirect cost pool. The Department also stated that because it did not keep fuel usage logs, which could prove this statement, it would not dispute the finding. The Department proposed to use costs incurred in excess of the matching requirement under grants W-139-M-14 and F-44-D-11 to offset the questioned costs.

Office of Inspector General Comments

We do not agree with this proposed resolution regarding the \$2,428 reimbursement. To properly resolve these costs, the Department should determine if those grants to which the costs were charged had excess allowable costs that were reported on the Financial Status Reports, SF-269s. Subject to FWS approval, the excess allowable costs for each grant may be used to offset the portion of the \$2,428 allocable to that grant. Any remaining portion of the \$2,428 should be reimbursed to FWS. The Department's proposed resolution to use excess allowable costs from grant W-139-M-14 may be allowable if the grant has excess costs that were reported on its SF-269 after consideration of the other questioned costs in this report that relate to that grant. Using excess costs from grant F-44-D-11 to offset the remaining portion of the \$2,428 would be contrary to Attachment B, Section 42 of OMB Circular A-87, which states, "Any excess costs over the Federal contribution under one award agreement are unallowable under other award agreements."

Recommendation

We recommend that the FWS resolve the \$2,428 (Federal share) of questioned vehicle costs.

6. Proceeds from the Sale of a House. Costs of \$3,001 were questioned because the Department did not apply proceeds from the sale of a house to the cost of the new home as required by the conditions of grant F-42-D-6. The Federal Aid share of these questioned costs is \$2,251.

As part of grant F-42-D-6, Fish Hatchery Renovation, project 2, paragraph D, Approach, the Department agreed to "sell existing house to public bidder to recover partial cost of new home." The existing home was sold for \$3,001. The Department did not credit the grant agreement for this amount as required by the terms and conditions of the grant.

The draft report recommended that the Department (1) compensate the FWS for \$2,251, which represented the Federal share of the proceeds from the sale of the existing residence and (2) develop written policies and procedures that contain adequate internal controls to ensure compliance with the terms and conditions of all Federal Aid grant agreements.

Department's Response

The Department agreed with the finding and recommendations. It proposed to offset the questioned costs with excess allowable costs incurred under the grant.

Office of Inspector General Comments

This proposed resolution of the recommendation is acceptable, subject to FWS approval, if excess costs totaling at least \$3,001 were reported on the SF-269 for this grant, and the excess allowable costs relating to this grant have not been used to offset other questioned costs.

Recommendation

We recommend that the FWS resolve the \$2,251 (Federal share) in unreported income from the sale of the existing house.

D. Accounting System

The Department's accounting system was not adequate for accumulating and reporting expenditures of fishing and hunting license revenues. Also, as discussed in the "Out-of-Period" findings in this report, the Department did not have adequate controls to ensure that costs were recorded and reported under the grant segment period in which they were incurred.

The Department operated a subsidiary accounting system to record expenditures, and classify and allocate costs to program accounts. The Department's system interfaced with the State's accounting system for recording disbursements and revenue. Basically, the Department's subsidiary system was a copy of the state's accounting system modified to add information pertaining to Federal Aid grants. The Department's system consisted of an operating fund (Fund 200) that accounted for all financial resources of the Department and a capital projects fund that accounted for the acquisition of land and construction of major capital projects. Fund 200 included license revenue, Federal Aid funds, interest earned on license revenues and revenues generated on grant supported activities (restricted funds), and revenue from other sources such as the sale of non-recreational hunting and fishing licenses, fines and penalties, motorboat taxes, pollution damage assessments, and contributions (unrestricted funds). Fund 200 was not structured to differentiate between restricted and unrestricted revenues. Once the revenues were deposited into the fund they were commingled and it was not possible to discern whether a particular expenditure was paid for with restricted or unrestricted funds. During fiscal

years 1997 and 1998, Fund 200 consisted of approximately 98 percent restricted revenue from various sources and 2 percent unrestricted revenue.

The Code of Federal Regulation (50 CFR 80.4), Diversion of License Fees states that revenue received from license fees paid by hunters and sport fishermen shall not be diverted to purposes other than the administration of the state fish and wildlife agency. Because the receipts and disbursements of restricted funds were not properly accounted for, it could not be determined whether the Department was in compliance with this provision or whether any restricted funds had been diverted.

The working papers noted that the Department's Law Division employees, whose salaries were paid out of Fund 200, performed activities that were both related and unrelated to the administration of the State's fish and wildlife department. These activities were not identified with any specificity on the employee time records nor could they be identified by activity code in the labor recording system. Therefore, it could not be determined whether restricted revenues were used to fund ineligible Law Division activities.

The draft report recommended that the Department establish subfunds within Fund 200, structured in a manner as to separate restricted and unrestricted funds and permit the tracing of expenditures to ensure that such funds have not been used for unauthorized purposes. The draft report also recommended that the Department establish specific activity codes within the Law Division to record time spent on various types of law enforcement activities and responsibilities and that the Department provide training, including guidance on the use and requirements for the law enforcement officers to record their time using the activity codes.

Department's Response

The Department disagreed with the recommendations, stating that the accounting system was adequate and tracked funds using approximately 200 revenue codes. However, the Department also stated that it would work with the State Auditor's office or a consultant to develop methodology to allocate revenues to agency programs. The Department also stated that the Law Division prepares a monthly activity report that identifies daily activity and that it will establish a tracking system to account for time spent on activities that are not eligible for Federal reimbursement. Comparing costs of these activities with unrestricted revenues will eliminate the risk of using restricted license revenues for ineligible activities.

Office of Inspector General Comments

The response is adequate to resolve these recommendations.

Recommendation

We recommend that the FWS ensure that the Department has established an adequate system and controls for accounting for license revenues.

E. Compliance with Grant Requirements

The Department did not comply with specific Sport Fish and Wildlife Restoration regulations related to grant compliance requirements. Specifically, the Department did not submit adequate performance reports, submit amendments to grant agreements, and identify program income on Financial Status Reports (FSRs).

1. Performance Reports. The Department did not submit adequate performance reports upon completion of the grants. The Code of Federal Regulations (43 CFR Part 12.80(b)(2), Monitoring and Reporting Program Performance), state that a variety of information is to be reported for each completed grant. This information includes a comparison of actual accomplishments to the objectives established for the period, the reasons for slippage if established objectives have not been met, and any additional pertinent information that might be useful to the FWS. Performance reports for grants F-45-D-11, F-45-D-12, W-82-R-27, W-138-M-14, W-140-M-13, W-140-M-14, W-141-M-13, W-145-D-10, and W-143-D-11 did not explain why some of the work identified in the grant agreement was not accomplished.

The draft report recommended that, in all performance reports, the Department identify the actual effort accomplished under the grants and provide detailed explanations of why agreed-to effort had not been completed.

Department's Response

The Department disagreed with the recommendation. It stated that adequate documentation is a matter for the FWS and the Department to mutually agree upon, not the auditors.

Office of Inspector General Comments

The FWS should ensure that the Department follows the requirements of the regulations with regard to reporting the work accomplished under the grants.

2. Grant Amendments. The Department did not submit grant agreement amendments when there was a change in the scope or objectives of grant agreement projects as required by the provisions set forth in 43 CFR 12.70, Changes. The regulations state that, "grantees or subgrantees must obtain prior approval of the awarding agency" when there is "any revision of the scope or objectives of the project (regardless of whether there is an associated budget revision requiring prior approval)."

The working papers demonstrated that the Department performed work that was not identified in the project objectives of grants F-45-D-11, F-45-D-12, W-143-D-10 and W-143-D-11 and did not submit amendments to the grant agreements requesting FWS approval for these changes in the scope of work as required by the regulations. As a result, the Department received reimbursement for work that was not part of the grant agreement. The monetary impact associated with this issue could not be computed because the costs associated with the unspecified project objectives were not accumulated separately.

The draft report recommended that the Department prepare and implement written policies and procedures that ensure grant agreement amendments are submitted whenever the scope of effort or objectives of a grant agreement are changed, as required by the provisions of 43 CFR 12.70(d)(1).

Department's Response

The Department stated that such a determination was subjective and that accomplishments were disclosed in the performance reports sent to the FWS. The Department also stated that the auditors' concern was more about project level accounting than changes in the scope of the grant agreement.

Office of Inspector General Comments

We agree that the finding was applicable to the projects within the grants. For example, grants W-143-D-10 and W-143-D-11 required the Department to work on five projects on each grant. If it worked on only four of the projects, or substituted another project for one of the five, it ran the risk of not being reimbursed fully for the Federal share of the costs, unless the FWS was made aware of the changes and approved them.

Amending the grants to incorporate any changes to the scope of work will keep both parties to the grant aware of the changes and ensure that the Department is eligible for reimbursement for the work it accomplishes.

3. Program Income. The Department deducted program income from the total costs incurred on grant F-46-D, segments 10 and 12, but did not identify the program income on its Financial Status Report, SF-269, as required by 43 CFR 12.81(b)(1), Financial Reporting. Failure to identify program income on the SF-269 could result in grants not receiving proper credit for income earned. The draft report recommended that the Department follow the instructions on the SF-269 form and identify all program income when completing the form.

Department's Response

The Department stated that the omission of program income on the SF-269 for grant F-46-D-10 and grant F-46-D-12 was an oversight.

Office of Inspector General Comments

The Department's response is considered adequate to resolve this finding. No further action is necessary.

Recommendations

We recommend that the FWS:

1. Determine if the documentation provided by the Department in its performance reports is sufficient and in compliance with 43 CFR 12.80(b)(2). If not, provide guidance to the Department on preparing its performance reports.
2. Determine if the documentation provided by the Department regarding grant amendments is adequate whenever the scope or objectives of a grant change during the grant period.

F. In-Kind Contributions

The regulations (43 CFR 12.64(b)(6)) state that, to the extent feasible, volunteer services should be supported by the same methods that the Department uses to support the allocability of its regular personnel costs. The Department, however, did not have adequate policies and procedures to ensure proper identification, accumulation, and reporting of eligible costs for in-kind contributions under FWS grants as required by the regulation. The following deficiencies related to the Department's supporting documentation for in-kind contributions:

1. Volunteer Instructors. Descriptions of classes taught, clinics held, and the locations were generally not recorded on Volunteer Time Sheets. In addition, the descriptions that were provided were usually too brief to discern the location and type of work performed by the volunteer. The draft report recommended that the Department (1) prepare written policies and procedures that contain adequate internal controls to ensure that all necessary information is included on Volunteer Time Sheets and (2) provide training to all volunteer instructors on the appropriate procedures to follow to account for their time while working as a volunteer instructor and provide refresher training as necessary.

2. Inmate Labor. The Department used donated inmate labor as the State matching share. However, inmate time records were not completed and signed by each inmate. The working papers disclosed that in one situation, an inmate's time record was partially completed, then copied for use to account for each of the four inmates' time for the period. The time records did not include the names or other unique identification of the inmates or the supervisor's signature. The draft report recommended that the Department prepare written policies and procedures that contain adequate internal controls to ensure that the time records for volunteer labor reflect the required

information and signature of the individuals performing the work and the approval of the cognizant supervisor.

Department's Response

The Department stated that written procedures for in-kind contributions have been developed and implemented. In addition, all new volunteers must attend training, and only time sheets from certified instructors are now accepted for in-kind contributions.

The Department also stated that inmate labor is no longer used and that if it decides to use inmate labor in the future, it will provide written procedures to the FWS for inmate labor as part of the grant proposal.

Office of Inspector General Comments

The Department's response adequately addresses the findings and recommendations.

Recommendation

We recommend that the FWS ensure that the procedures and time sheets for in-kind labor costs are adequate.

In accordance with the Departmental Manual, (360 DM 5.3), please provide us with your written comments by December 9, 2002 regarding the questioned costs and other issues discussed in this report. Copies of documentation related to the final disposition of the questioned costs and other issues should be provided with your response. If you have any questions regarding this report, please contact Gary Dail, Federal Assistance Audit Coordinator, at 703-487-8032.

This advisory report is intended solely for the use of grant officials of the U.S. Fish and Wildlife Service, and is not intended for, and should not be used by, anyone who is not cognizant of the procedures that were applied and who agreed to the sufficiency of those procedures.

cc: Regional Director, Region 2
U.S. Fish and Wildlife Service

**OKLAHOMA DEPARTMENT OF WILDLIFE CONSERVATION
FINANCIAL SUMMARY OF REVIEW COVERAGE
FISCAL YEARS ENDING JUNE 30, 1997 AND 1998**

Grant Number	Title	Grant Amount	Federal Share	Costs Claimed	Federal Share of Questioned Costs	Notes
Federal Aid in Sport Fish Restoration Grants						
F-5-C-32	Coordination	\$70,666	\$53,000	\$81,030		
F-5-C-33	Coordination	75,000	56,250	78,726		
F-5-C-34	Coordination	75,000	56,250	82,004		
F-41-R-18	Factors Influencing Pop	98,667	74,000	98,667		
F-41-R-19	Factors Influencing Pop	92,000	69,000	92,000		
F-41-R-20	Factors Influencing Pop	117,333	88,000	117,240		
F-42-D-6	Fish Hatchery Ren.	2,100,000	1,575,000	2,112,771	\$2,251	(1)
F-43-D-11	State Fish Hatchery	1,460,000	1,095,000	1,629,849		
F-43-D-12	State Fish Hatchery	1,565,000	1,173,750	1,555,326	589	(2)
F-43-D-13	State Fish Hatchery	1,600,000	1,200,000	1,601,379		
F-44-D-11	Fisheries Management	1,650,000	1,237,500	1,824,374		
F-44-D-12	Fisheries Management	1,904,500	1,428,275	1,674,514	589	(2)
F-44-D-13	Fisheries Management	1,906,667	1,430,000	1,955,172	148,422	(3)
F-45-D-11	Boating Access Fac.	533,333	400,000	296,607	70,343	(3)
F-45-D-12	Boating Access Fac.	800,000	600,000	651,707	132,694	(4)
F-45-D-13	Boating Access Fac.	800,000	600,000	637,971	263,226	(5)
F-46-D-10	Dev., Oper., & Maint. of Public Fishing Areas	490,308	367,731	404,782		
F-46-D-11	Dev., Oper., & Maint. of Public Fishing Areas	466,000	349,500	384,559		
F-46-D-12	Dev., Oper., & Maint. of Public Fishing Areas	460,000	345,000	419,961		
F-47-E-9	Aquatic Resources Ed.	285,000	213,750	290,336		
F-47-E-10	Aquatic Resources Ed.	330,000	247,500	321,051		
F-47-E-11	Aquatic Resources Ed.	588,800	441,600	323,703		
F-50-R-3	Fish Research for OK	127,012	95,259	117,467		
F-50-R-4	Fish Research for OK	75,600	56,700	56,178	21	(6)
F-50-R-5	Fish Research for OK	56,200	42,150	43,955		
F-51-R-2	Approval of Drugs	20,000	15,000	20,000		
F-51-R-3	Approval of Drugs	20,000	15,000	20,000		
F-51-R-4	Approval of Drugs	10,000	7,500	10,000		
Subtotal		\$17,777,086	\$13,332,715	\$16,901,329	\$618,135	

Federal Aid in Wildlife Restoration Grants

W-12-C-36	Wildlife Program Cord.	\$65,000	\$48,750	\$76,168		
W-12-C-37	Wildlife Program Cord.	64,000	48,000	64,008		
W-32-R-46	Migratory Bird Study	93,333	70,000	109,454		
W-32-R-47	Migratory Bird Study	100,000	75,000	114,168		
W-32-R-48	Migratory Bird Study	100,000	75,000	89,887		
W-80-R-35	Big Game Investigation	260,000	195,000	272,985		
W-80-R-36	Big Game Investigation	267,667	181,830	242,440		
W-80-R-37	Big Game Investigation	286,667	215,000	286,891		
W-82-R-35	Upland Game Inv.	260,000	195,000	279,024		
W-82-R-36	Upland Game Inv.	267,667	200,750	257,135		
W-82-R-37	Upland Game Inv.	280,000	210,000	285,581		
W-110-S-23	Hunter Ed. Program	253,464	190,098	206,240		
W-110-S-24	Hunter Ed. Program	280,000	189,807	253,076		

**OKLAHOMA DEPARTMENT OF WILDLIFE CONSERVATION
FINANCIAL SUMMARY OF REVIEW COVERAGE
FISCAL YEARS ENDING JUNE 30, 1997 AND 1998**

Grant Number	Title	Grant Amount	Federal Share	Costs Claimed	Federal Share of Questioned Costs	Notes
W-110-S-25	Hunter Ed. Program	\$258,812	\$172,772	\$230,362		
W-138-M-12	Central Region WMA	720,000	540,000	789,131		
W-138-M-13	Central Region WMA	733,333	550,000	771,062		
W-138-M-14	Central Region WMA	706,667	530,000	757,700		
W-139-M-12	NE Region WMA	866,666	650,000	1,018,969		
W-139-M-13	NE Region WMA	934,212	725,000	939,825	\$472	(6)
W-139-M-14	NE Region WMA	826,667	620,000	910,215	251	(6)
W-140-M-12	SE Region WMA	800,000	600,000	831,880		
W-140-M-13	SE Region WMA	900,000	675,000	906,799	736	(6)
W-140-M-14	SE Region WMA	800,000	512,417	763,223	279	(6)
W-141-M-12	NW Region WMA	350,000	262,500	439,399		
W-141-M-13	NW Region WMA	400,000	300,000	432,163		
W-141-M-14	NW Region WMA	366,667	274,319	365,758		
W-143-D-9	Wetland/Waterfowl Development	717,416	399,551	532,734		
W-143-D-10	Wetland/Waterfowl Development	484,896	363,672	545,064		
W-143-D-11	Wetland/Waterfowl Development	400,000	300,000	458,974	5,235	(2)
W-144-M-2	SW Region WMA	533,333	400,000	636,029		
W-144-M-3	SW Region WMA	533,333	400,000	616,511	7,892	(7)
W-144-M-4	SW Region WMA	533,333	400,000	552,445		
W-145-R-2	Eastern Wild Turkey	56,000	42,000	56,000		
W-145-R-3	Eastern Wild Turkey	56,000	42,000	56,000		
W-145-R-4	Eastern Wild Turkey	28,000	21,000	28,000		
Subtotal		\$14,583,133	\$10,674,466	\$15,175,300	\$14,865	
Sport Fish Restoration Grants		\$17,777,086			\$618,135	
Wildlife Restoration Grants		14,583,133			14,865	
Subtotal					633,000	
Other: Insurance Refund					104,828	(8)
Totals		\$32,360,219			\$737,828	

Explanatory Notes

- (1). Proceeds from the Sale of a House (Finding C.6)
- (2). Out-of-period Department costs (Finding C.3)
- (3). Out-of-period subgrantee costs (Finding C.1)
- (4). Out-of-period subgrantee costs (\$30,249) and subgrantee use of same costs for matching two different Federal grants (\$100,000), and costs exceeding the agreement amount (\$2,445) (Findings C.1, C.2, and C.4, respectively)
- (5). Out-of-period subgrantee costs (\$88,379), subgrantee's use of the same costs for matching two different Federal grants (\$106,000), and out-of-period Department costs (\$68,847) (Findings C.1, C.2, and C.3, respectively)
- (6). Ineligible vehicle costs (Finding C.5)
- (7). Out-of-period Department costs (\$7,223) and ineligible vehicle costs (\$669) (Findings C.3 and C.5, respectively)
- (8). Use of hunting and fishing license revenues – refund due on health insurance premium payments. This amount could not be identified with specific Federal Aid grants. (Finding A)

**SCHEDULE OF UNREPORTED PROGRAM INCOME AND
INCOME FROM THE SALE OF REAL PROPERTY
FISCAL YEARS 1997 AND 1998**

Income Type	W-138-M*	W-139-M*	W-140-M*	W-141-M*	W-144-M**	Total
Timber Sales						
FY1997			\$2,399			\$2,399
FY1998			197,410			197,410
Total			\$199,809			\$199,809
Tower Leases						
FY1997						
FY1998		\$3,150				\$3,150
Total		\$3,150				\$3,150
Grazing Leases						
FY1997	\$4,119	\$47,853	\$5,173	\$135,569	\$50,725	\$243,439
FY1998	720	60,754	23,548	81,992	116,206	283,220
Total	\$4,839	\$108,607	\$28,721	\$217,561	\$166,931	\$526,659
Agricultural Leases						
FY1997	\$108,310	\$110,792	\$7,818	\$43,350	\$6,371	\$276,641
FY1998	145,131	132,928	13,384	21,587	5,852	318,882
Total	\$253,441	\$243,720	\$21,202	\$64,937	\$12,223	\$595,523
Oil & Gas Production						
FY1997	\$182	\$(181)	\$122,033	\$2,892	\$280	\$125,206
FY1998	121		107,475	2,423	50	110,069
Total	\$303	\$(181)	\$229,508	\$5,315	\$330	\$235,275
Oil & Gas Damages						
FY1997		\$693	\$21,853		\$50	\$22,596
FY1998	\$5,978	300	4,925	\$12,720	3,250	27,173
Total	\$5,978	\$993	\$26,778	\$12,720	\$3,300	\$49,769
Oil & Gas Leases						
FY1997						
FY1998			\$50	\$700		\$750
Total			\$50	\$700		\$750
Total FY1997	\$112,611	\$159,157	\$159,276	\$181,811	\$57,426	\$670,281
Total FY1998	151,950	197,132	346,792	119,422	125,358	940,654
Total FYs97&98	\$264,561	\$356,289	\$506,068	\$301,233	\$182,784	\$1,610,935

* - The segment number for fiscal year 1997 grants was 13 and for fiscal year 1998 grants was 14.

** - The segment number for the fiscal year 1997 grant was 3 and for the fiscal year 1998 grant was 4.

MANAGEMENT ISSUES

The working papers indicated that the Department's systems and related internal controls for labor charges and drawdowns of Federal Aid funds, its required assent legislation, and its posting of Federal Aid logos were adequate for Federal Aid participation. However, the working papers identified the following management issues that the Oklahoma Department of Conservation and the Fish and Wildlife Service need to address.

A. Purchasing System

The Department's purchasing system and related internal controls in effect in fiscal years 1997 and 1998 were adequate for the acquisition of goods and services on Federal Aid grants. However, the Department's records retention policy for purchasing records was not in compliance with 43 CFR 12.82(c), which states, "... the retention period starts on the day the grantee or subgrantee submits to the awarding agency its final expenditure report. If an expenditure report has been waived, the retention period starts the day the report would have been due." Part 12.82(b) of the regulation identifies the retention period as 3 years from the starting date specified in paragraph (c). Part 12.81(b)(4) requires that the grantee submit the final expenditure report within 90 days after the grant year. The Department's written policy, however, states that the Department shall retain records for 3 years following the purchase date, which in effect results in a retention period that could end sooner than required by the Federal regulations.

The draft report recommended that the Department amend its written policies and procedures to reflect a beginning date for the retention of records period that complies with the provisions of 43 CFR 12.82(c). The Department's response to the draft report stated that the purchasing policy on the retention of records will be modified to comply with the requirements of the regulation.

B. Asset Management System

The Department's overall asset management system was adequate for the identification and tracking of assets acquired with Federal Aid funds. However, the following deficiency with the Department's asset management system was identified.

In accordance with Oklahoma Property Accounting Policy F-6, a physical inventory of assets should be taken by the Inventory Coordinator (Property Manager), or an individual may be designated to assist in this effort. The Department's practice was to designate the supervisor of the employee that had custody of the assets to physically verify the existence of the assets. However, neither the Department supervisors nor their employees adequately inspected the assets prior to initialing the asset inspection annual memo signifying the assets had been inspected and inventoried. Failure to follow the

Department's established practice could result in assets that are in need of repair or maintenance or that have been stolen or misplaced to go undetected. In addition, the working papers concluded that the requirement that the employees' immediate supervisor perform the inventory verification may not be the best internal control.

The draft report recommended that a designee, independent of the employee or the employee's supervisor, perform the asset inspection and verification, attesting to the existence and condition of assets in the custody of the employee.

In its response to the draft report, the Department disagreed with the recommendation, stating that it felt that its policy was adequate. The Department added, however, that internal controls would be put in place and monitored to ensure compliance with the current policy. We agree with the audit agency that having a person independent of the employee and his supervisor perform the asset verification would provide a better management control over the Department's assets.

C. Inadequate Enforcement of Mineral Agreements

The Department did not adequately enforce the mineral exploration and production agreements it has with gas and oil operators as they relate to road maintenance. As part of those agreements, the operators agreed to pay a portion of the annual maintenance costs of the Wildlife Management Area roads they used during the exploration and production operations. The fee was to be assessed annually by the Department and was to be prorated on the basis of use by the operator.

The Department did not assess an annual fee and collect the costs of road maintenance from the oil and gas operators. The maintenance costs were paid for with Federal Aid funds even though the maintenance needs resulted from the use of the roads by the operators' trucks. During the audit, the Department acknowledged the problem and stated that an effort was being made to correct it.

The draft report recommended that the Department enforce the requirements in the mineral agreements to ensure that Federal Aid funds were not being used to fund road repairs caused by gas and oil operators.

The Department's response to the draft report did not concur with the finding, stating that the finding was based on one site visit to the James Collins Wildlife Management Area, which has 80 miles of roads, 70 that are open to the public. The response also stated that oil and gas operators built the roads in the James Collins Wildlife Management Area, the operators allow public access to the roads, and they participate in the repair and maintenance of the roads. The Department stated that it expends a minimal amount for road maintenance. In other areas, multiple oil and gas operators use the roads and they continue to build new roads each year. Some roads in wildlife management areas are county roads and are maintained by the counties. The Department stated that these facts "confound" the implementation of a strict and clear

policy on who should pay for road repair and maintenance. However, the Department stated that it provides for coordination with the oil and gas operators and county officials to ensure that area roads are maintained. Finally, the Department stated that it would implement an annual review by the wildlife division regional supervisor to ensure compliance with the Surface Contract Agreement for Oil and Gas Operations. The Department's response provided additional information that we could not evaluate at the time of our review.

D. Inadequate Enforcement of Cooperative Agreements

The Department entered into cooperative agreements with various municipalities throughout the State for the construction of boat access facilities on lakes owned by the municipalities. As part of the cooperative agreements between the Department and the municipalities, the municipalities agreed to provide the funding for operation and maintenance of the facility for the life of the asset. The Department, through Boating Access grant agreements under the Sport Fish Restoration Act, provided partial funding for these facilities. During their site visits of these facilities, the auditors identified the following problems related to the municipalities' compliance with the cooperative agreements.

1. The Department entered into a cooperative agreement with the City of Madill to construct boating facilities at Carter Lake. It was noted that the handicapped accessible restroom that was built at this site using Federal Aid funds did not have a handicapped accessible approach. In addition, unsanitary conditions were noted in the restrooms, indicating that the site was not adequately maintained in accordance with the cooperative agreement. Partial funding for the construction of this facility was provided through grant F-45-D-11.
2. The Department entered into a cooperative agreement with the City of Pauls Valley to construct a handicapped accessible walkway and fishing dock. During a site visit to this facility, it was noted that the parking area contained numerous large potholes and the handicapped walkway to the fishing dock was in extreme disrepair, making it dangerous for not only the handicapped, but also anyone attempting to get to the fishing dock. Partial funding for the construction of this facility was provided through grant F-45-D-12.
3. The Department entered into a cooperative agreement with the City of Pawhuska to develop a boat ramp, boat dock, restrooms, parking facilities and access road at Lake Pawhuska. Although the work at this site was completed approximately 1½ years prior to the time of the site visit, it was noted that there were potholes and other evidence that the parking lot was rapidly deteriorating, indicating inadequate maintenance by the City. Partial funding for the construction of this facility was provided through grant F-45-D-12.

In summary, these municipalities did not adequately operate and maintain their respective facilities in accordance with the provisions set forth in the cooperative agreements. The lack of maintenance may have contributed to the deterioration of the

assets and subjected the users to dangerous conditions. Therefore, the draft report recommended that the Department establish a practice of inspecting these facilities periodically to ensure that the municipalities continue to comply with the provisions of the cooperative agreements.

In its response to the draft report, the Department stated that it has developed procedures and an annual inspection and monitoring form to reduce incidents of areas not receiving proper care. With regard to the Lake Pawhuska parking lot, the Department stated that the deterioration was caused by subsurface water flow under the site and that drainage around the lot and the base has been improved and the parking lot has been paved with asphalt.

E. Fish Stocking at Tinker Air Force Base (AFB)

The Department annually stocked 500 channel catfish in a lake located on Tinker AFB. A State fishing license was required for fishing on this lake, but the Department acknowledged this was not well communicated to base personnel. Due to security issues, the lake was open only to base personnel and their families and guests. Costs associated with the stocking of these fish were charged to grant F-43-D, projects 1 and 3. According to the stated approach for Project 3 of this grant, “Fish produced from the four state fish hatcheries and from other fish hatcheries will be loaded, transported and released into public waters of Oklahoma.” The stocking of fish at Tinker AFB results in stocking fish in other than public waters, because the lake is not open to everyone who purchases an Oklahoma State fishing license. Supporting this effort with Federal Aid or license revenue may be considered a diversion in accordance with the provisions of 50 CFR 80.4.

The draft report recommended that if the Department wishes to continue with this stocking at Tinker AFB, the funding for costs associated with the effort should come from other than Federal Aid or license revenue sources. In its response to the draft report, the Department stated that the cost associated with this activity is minimal, the military base is publicly owned, and the benefits equal or outweigh the cost because Tinker Air Force Base provides at least two youth and family fishing events each year for personnel, their families, and their guests.

We suggest that the FWS develop a national policy on the use of Federal Aid funds for stocking fish on military bases.

F. Identification of In-Kind Match

The Department did not identify when in-kind match was being used as the State share of grant costs on the Financial Status Reports. The draft report recommended that the Department be required to identify when in-kind match is being used as the State’s share of the grant agreement amount. In its response to the draft report, the Department

stated that it is now and has been reporting in-kind match on the Financial Status Reports for several years.

G. Indirect Cost Rates

The Department did not ensure that the amount of State Central Service Costs allocated to the Department in the approved cost allocation plan did not exceed 3 percent of the State's annual apportionment of Federal Aid funds as required by 50 CFR 80.15(d). Failure to monitor this requirement could result in excess Statewide Central Service Costs being allocated to Federal Aid grants.

The draft report recommended that the Department perform a calculation that verifies that less than 3 percent of the Statewide Central Service Costs will be allocated to Restoration Grants prior to submitting its indirect rate for approval. This calculation should be included with the supporting documentation that is provided with the indirect rate submission. In its response to the draft report, the Department stated that it would monitor and provide documentation on compliance with the 3 percent rule within its indirect cost proposals.

CROSSWALK OF FINDINGS FROM THE DRAFT TO THE FINAL AUDIT REPORT

Findings Contained in the August 2001 Draft Report	Results of the OIG Review
QUANTIFIABLE ISSUES	
1. Diversion of Restricted Funds.	Included in this report as Finding A.
2. Program Income.	Included in this report as Finding B.
3. Project Level of Accounting.	Excluded from this report because cumulative transfers did not exceed 10 percent of the total approved grant budget.
4. Out-of-Period Subgrantee Costs.	Included in this report as Finding C.1.
5. Duplicate Match of State Share.	Included in this report as Finding C.2.
6. Out-of-Period Questioned Transaction Costs.	Included in this report as Finding C.3.
7. Inaccurate Computation of Federal Share.	Excluded from the report because the Department was eligible for reimbursement of costs up to the total amount of the grant.
8. Costs in Excess of Agreement.	Included in this report as Finding C.4.
9. Ineligible Direct Charged Vehicle Costs.	Included in this report as Finding C.5.
10. Failure to Comply with Grant Requirements.	Included in this report as Finding C.6.

CROSSWASK OF FINDINGS FROM THE DRAFT TO THE FINAL AUDIT REPORT

COMPLIANCE ISSUES	
1. Accounting System.	Included in this report as Finding D.
2. Purchasing System.	Included in this report in Appendix 3, as Management Issue A.
3. Labor System.	Included in this report as a positive Management Issue remark.
4. Grant Compliance.	Included in this report as Finding E.
5. License Certification.	Excluded from this report because the questioned licenses produced revenue and thus qualified for inclusion in the certification.
6. Drawdown of Federal Aid Funds.	Included in this report as a positive Management Issue remark.
7. Assent Legislation.	Included in this report as a positive Management Issue remark.
8. In-Kind Contributions.	Included in this report as Finding F.
OTHER MATTERS TO BE REPORTED	
1. Indirect Cost Rates.	Included in this report in Appendix 3 as Management Issue G.
2. Asset Management System.	Included in this report in Appendix 3 as Management Issue B.
3. Inadequate Enforcement of Mineral Agreements.	Included in this report in Appendix 3 as Management Issue C.
4. Inadequate Enforcement Cooperative Agreements.	Included in this report in Appendix 3 as Management Issue D.
5. Fish Stocking at Tinker Air Force Base.	Included in this report in Appendix 3 as Management Issue E.
6. Identification of In-Kind Match.	Included in this report in Appendix 3 as Management Issue F.
7. Posting of Federal Aid Logos.	Included in this report as a positive Management Issue remark.

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