



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

ADVISORY REPORT

**Costs Claimed by the
State of Michigan, Department
of Natural Resources,
Under Federal Aid Grants from
the U.S. Fish and Wildlife
Service From October 1, 1995,
Through September 30, 1997**

FEBRUARY 2003

Report No. 2003-E-0017



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL


Washington, D.C. 20240

February 5, 2003

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 Michigan, Department of Natural Resources, under Federal Aid Grants from the U.S. Fish and Wildlife Service from October 1, 1995 through September 30, 1997 (No. 2003-E-0017)

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 Michigan Department of Natural Resources (Department) under Federal Aid grants from the U.S. Fish and Wildlife Service (FWS) for the period October 1, 1995 through September 30, 1997.

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), (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 all eligible costs incurred under the grants. The Acts also specify that state hunting and fishing license revenues cannot be used for any purpose other than the administration of the state's fish and game agencies. In addition, FWS provides grants to the states under the Clean Vessel Act and the Endangered Species Act.

In May 2001, another audit agency prepared a draft audit report entitled "Audit of Michigan Federal Aid Program Grants and Payments Awarded by the U.S. Fish and Wildlife Service, Division of Federal Aid, Fiscal Years 1996 and 1997." The scope of its audit work, as stated in the report to the Department, was to evaluate (1) the adequacy of the Department's accounting system and related internal controls; (2) the accuracy and eligibility of the direct and

indirect costs claimed by the Department under the Federal Aid grant agreements with FWS; and (3) the adequacy and reliability of the Department's hunting and fishing license fees collection and disbursement process. The audit also included a review of the Department's operating expenses and receipts to (1) determine the accuracy of the claimed expenses, and (2) verify that the receipts were dispensed in accordance with government regulations and grant provisions. In addition, the audit included an analysis of other issues considered to be sensitive and/or significant to FWS. The audit work at the Department covered claims totaling approximately \$48 million on FWS grants that were open during the Department's fiscal years ending September 30, 1996 and 1997 (see Appendix 1). The audit agency's agreement with FWS expired before issuance of its draft and final reports to the State of Michigan. However, the State was provided a preliminary draft report in April 2000.

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 other 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 other audit agency indicated in a September 18, 2001 memorandum that its supervisors had not reviewed the working papers for the Michigan audit to ensure that (1) sufficient, competent and relevant evidence was obtained, (2) evidential matter contained in the working papers adequately supported the audit findings in the report, and (3) sound auditing techniques and judgment were used throughout the audit.

On September 20, 2001, FWS and the Department of the Interior (DOI) Office of Inspector General (OIG) entered into an Intra-Departmental Agreement under which FWS requested the 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 procedures set forth in the Intra-Departmental Agreement and our conclusions presented in the report are limited to findings substantiated by the working papers. We did not perform any additional audit work of the grantee'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 Michigan's administration of the Federal Aid program are presented in the body of the report and other management issues, which may require corrective action, and other observations, are presented in Appendix 2

Results of Review

The results of our review of the working papers disclosed the following:

- The Department used hunting and fishing license revenues of an estimated \$3.3 million to \$4.2 million to pay the wages of conservation officers for law enforcement work unrelated to fish and wildlife.

- The eligibility for reimbursement of costs totaling \$467,087 was questioned representing duplicate claims (\$301,806), costs incurred outside of approved grant periods (\$100,432), costs for projects not included in grant agreements (\$49,375), and mischarged labor hours (\$15,474).
- The Department's certifications of paid fishing and hunting license holders were overstated by an estimated 99,634 out of the reported total of 4,711,095. The number of license holders is one of the factors used to determine the amount of Federal Aid funds provided to the State for Sport Fish Restoration and Wildlife Restoration.
- The Department did not transfer interest earned on revenue of \$210,824 to the Department's Game and Fish Protection Fund.
- The Department did not adequately account for personal property acquired with Federal Aid funds.

A. Use of Hunting and Fishing License Revenues

The Department used an estimated \$3.3 million to \$4.2 million in hunting and fishing license revenues for law enforcement activities unrelated to fish and wildlife programs during fiscal years 1996 and 1997. This range encompasses the calculation contained in the working papers adjusted to incorporate additional information provided by the Department (\$4.2 million) and our modified calculation (\$3.3 million) based on our analysis of information found in the working papers. Use of license revenues for non-fish and wildlife activities is not in compliance with the relevant regulation (50 C.F.R. § 80.4), which states that "[r]evenues from license fees paid by hunters and fishermen shall not be diverted to purposes other than the administration of the State fish and wildlife agency."

The Department's Law Enforcement Division (LED) enforces the laws of all divisions within the Department and also provides assistance to other state agencies, including the Michigan State Police. LED expenditures are funded by a number of state funding sources, including revenues from the sale of hunting and fishing licenses. For example, in fiscal year 1996, LED expenditures were about \$21 million of which approximately 72 percent were funded with license revenues, and in fiscal year 1997 approximately 66 percent of \$23 million in expenditures was funded with license revenues.

The Department used a formula for allocating the costs of LED to the different funding sources. Department officials could not, however, furnish documentation to support the percentages used to compute the allocations to the different funds. The officials indicated that the percentages were established once a year based on a committee's review of budgets. Officials informed us that they no longer use this process to assign LED costs to the restricted funds.

Because the Department did not have sufficient documentation to support its allocation, the working papers contained a calculation based on the number of hours that were deemed to be fish and wildlife activity in relation to the total hours worked by the conservation officers. Next,

the percentage of hours charged to fish and wildlife activity was compared to the percentage of law enforcement expenditures funded by license revenues. The difference between the two percentages was considered the percent of license revenues estimated to be diverted. This calculation identified \$4.2 million in license revenues that were used for law enforcement activities not related to fish and wildlife.

The calculation was based on the assumption that almost all (“over 95 percent”) of the license revenues allocated to the law enforcement division funded employees’ wages. Our review of the working papers revealed that wages in fiscal years 1996 and 1997 comprised approximately 81 and 75 percent, respectively, of total law enforcement expenditures funded with license revenues. Based on this information, we concluded that it was appropriate to apply the percentage unrelated to fish and wildlife activities to law enforcement wages rather than to total law enforcement costs because the percentage was computed based on an analysis of labor charges and labor did not represent over 95 percent of total law enforcement costs. Thus, our new calculation resulted in \$3.3 million of expenditures for labor that was spent on unrelated fish and wildlife activities. The two calculations are presented in Appendix 3.

Since the working papers did not contain any other specific information on how non-wage costs (such as costs for training and equipment) should be charged to the different funding sources, we could not determine an exact dollar value of the amount of funds used for non-fish and wildlife activities. Lacking any other analysis of costs, we believe that the range of \$3.3 million to \$4.2 million provides a reasonable estimate of the amount of license revenues used for non-fish-and-wildlife related activities. The Department should also be assessed interest on the amount of license revenue eventually restored to the Game and Fish Protection Fund based on the rate of return earned by the fund.

Recommendations

We recommend that FWS:

1. Use the estimated range as a basis to reach agreement with the Department on the final amount, plus interest associated with this amount, that should be returned to the restricted license revenue fund for use on fish and wildlife related activities.
2. Ensure that the Department implements corrective action to prevent the use of hunting and fishing license revenues for law enforcement activities unrelated to fish and wildlife programs.

Department Response

In its December 12, 2002 response, the Department stated that it believed that the estimated diversion was made up of three components: the over-appropriation of Game and Fish Protection Funds, disputed habitat protection activities (identified as activities charged to time codes 5XX), and general administrative expenses. The Department agreed that there was some over-appropriation of game and fish license revenue from the Game and Fish Protection Fund for activities in the Law Enforcement Division. It estimated the amount to be \$1,725,822. The

Department did not agree that all of the habitat protection activities were ineligible for Game and Fish Protection Fund support. It stated that “[t]hese activities are integral to Michigan meeting its obligations under its U.S. Fish and Wildlife Service grants to restore, rehabilitate and improve wildlife habitat and to manage, conserve and restore fishery resources.” It did not identify an amount with this portion of the finding. The Department also disagreed with the portion of the finding relating to the calculation of the ineligible general administrative expenses. It stated that the allocation method it used was consistent, documentable, and reasonable, making it an appropriate allocation method in accordance with OMB Circular A-87. The Department also stated that the alternative allocation method proposed by the prior audit agency was not reasonable given the Department’s budget system.

FWS Response

FWS provided us with a December 13, 2002, letter to the Department concerning the draft advisory report which stated that:

Based on the information from our meeting and other communications, we understand Michigan Department of Natural Resources (MDNR) was acting on an assumption that the law enforcement expenses charged to some *5XX codes* were eligible for license fees, and that law enforcement expenses charged to certain other *5XX codes* were partially eligible. To the extent these expenses were not eligible, we recognize that you may have been given inadequate guidance and oversight in the past from the Service indicating otherwise. Complicating the situation was the lack of training of the conservation officers as to the coding of their time and the fact that available documentation did not establish a definitive determination of the eligibility of these expenses. Therefore, we have decided to adjust the amount of the license fee revenues that would be required to be repaid accordingly. . . .

In addition, we have reviewed the information from our meeting and other communications concerning allocation of law enforcement general administrative expenses. We have concluded that repayment should be made to the appropriate State fish and wildlife agency fund concerning these expenses.

Based on all available documentation and appropriate considerations, we agree that the amount to be returned for use for the administration of the State fish and wildlife agency will be \$1.9 million due to the allocation methodology employed, and \$556,000 concerning the general administrative expenses, for a total of \$2,456,000. We further agree that this shall constitute the full amount to be repaid for the fiscal years ending September 30, 1996 and 1997. . . .

With regard to corrective action, the letter stated that the Department should make arrangements to return \$1.9 million by December 31, 2002, and the additional \$556,000 by January 1, 2004. The Department should also review its current codes and procedures to ensure better determination of eligibility of future expenses and should allow the FWS regional office to review the Department's work on this activity. The FWS agreed to postpone any audits of these activities until the FWS provides the Department with a determination of eligibility and provides the Department an opportunity to implement any changes, if necessary. The FWS further stated that a final corrective action plan should be completed as soon as practicable.

The Department responded to FWS on December 23, 2002 that it accepted the FWS conditions.

Office of Inspector General Comments

The agreement of the Department with the conditions of the FWS' December 13, 2002, letter is sufficient to consider Recommendations A.1 and A.2 resolved but not implemented. The corrective action plan should identify the dates for completing all required actions and the names of the responsible officials.

B. Questioned Costs

The working papers identified costs of \$467,087 which are questionable for reimbursement representing duplicate claims for inmate labor (\$301,806), out-of-period costs (\$100,432), costs for projects not included in grant agreements (\$49,375), and mischarged labor hours (\$15,474).

- 1. Duplicate claims for inmate labor.** A total of \$301,806 was questioned representing the cost of inmate labor that was claimed twice. The Michigan Department of Corrections provided inmate labor at a cost of \$2.50 per day per inmate plus 100 percent of the associated administrative costs and billed these costs to the Department of Natural Resources. The Department of Natural Resources charged these costs directly to the grants and also claimed these costs as the State's match on the same grants. The grants and associated questionable costs are as follows:

Grant	Amount	Federal Share
W-139-D-1	\$216,725	\$162,544
W-138-D-1	2,106	1,580
W-127-R-14	82,975	62,231
Total	<u>\$301,806</u>	<u>\$226,355</u>

- 2. Out-of-period costs.** The Department charged out-of-period costs without prior approval when it reimbursed Michigan State University (MSU) with Federal Aid grant funds for performing various fish research projects. MSU billed the Department up to a

year after incurring these costs. Due to the late billing, the Department charged these costs to current grants because the grants under which MSU originally carried out the work had expired. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, Part C, states that to be allowable, costs must conform to any limitations or exclusions set forth in Federal laws and terms and conditions of the Federal award. The Federal Aid agreements identify specific grant periods. Therefore, \$100,432 was questioned as follows:

Grant Number	Project Number	Document Number	Questioned Amount	Federal Share
F-53-R-13	230464	W6089856	\$7,687	\$5,765
	230480	W6089917	23,066	17,300
	230476	W6110099	22,052	16,539
	230471	W6110208	5,494	4,120
Subtotal			<u>\$58,299</u>	<u>\$43,724</u>
F-53-R-14	230480	W7045301	\$8,165	\$6,124
	230480	W7041370	16,423	12,317
	230464	W7052656	8,196	6,147
	230489	W7086959	9,349	7,012
Subtotal			<u>\$42,133</u>	<u>\$31,600</u>
Total			<u><u>\$100,432</u></u>	<u><u>\$75,324</u></u>

- 3. Costs for projects not included in the grant agreement.** Costs of \$49,375 were questioned representing the costs of activities that were not provided for in the grant agreements. The Department charged costs to projects that did not correspond with the approved projects listed in the agreements for grants F-53-R-13 and F-53-R-14. According to OMB Circular A-87 Attachment A, Part C, costs must conform to any limitations or exclusions set forth in Federal laws and terms and conditions of the Federal award. Questioned costs of projects not included in the grant agreement are as follows:

Grant Number	Project Number	Document Number	Vendor	Questioned Amount	Federal Share
F53-R-13	230481	W6074927	Regents of University of Michigan	\$ 2,427	\$ 1,820
	230475	W6089909	Michigan State University	41,528	31,146
	Subtotal			<u>\$43,955</u>	<u>\$32,966</u>
F54-R-14	230481	W7045265	Regents of University of Michigan	<u>\$ 5,420</u>	<u>\$ 4,065</u>
Total				<u><u>\$49,375</u></u>	<u><u>\$37,031</u></u>

4. **Mischarged labor hours.** Costs of \$15,474 were questioned representing the cost of labor for ineligible activities charged to hunter education grants. The mischarges represented the estimated cost of time charged to activity 410 associated with “Area Controls and Search/Rescue of Lost Hunters”. These activities are ineligible activities under the hunter education grant. According to OMB Circular A-87(C)(3)(a), allocable costs are those that can be charged or assigned to a particular cost objective in accordance with the relative benefits received.

Grant	Hours	Rate	Questioned Costs	Federal Share
W-120-S-27	430.5	\$22.50	\$9,686	\$7,265
W-120-S-28	252.0	\$22.97	5,788	4,341
Total			\$15,474	\$11,606

Recommendations

We recommend that the FWS:

1. Resolve the \$467,087 of questioned costs.
2. Ensure that the Department institutes controls to ensure that costs are charged to the correct grant periods, prior FWS approval is sought before charging out-of-period costs to grants, costs are claimed only for projects included in the grant agreement, and training is provided on eligible and ineligible charges to the hunter education grants.

Department Response

The Department agreed with the questioned costs, stating that it will adjust future Federal Aid billings in order to repay the Federal share. It also stated that appropriate internal controls had been instituted to prevent a further occurrence of these types of questioned costs. On December 30, 2002, the Department submitted four Financial Status Reports, SF-269s, to indicate how the questioned costs were repaid.

Office of Inspector General’s Comments

We forwarded the documents provided by the Department to the FWS for its determination of the adequacy of the Department’s proposed resolution. The FWS should review the documentation and determine whether the questioned costs have been properly repaid. In addition, the FWS should obtain a description of the Department’s new internal controls that have been instituted, including training on identification of eligible and ineligible charges to the hunter education grants, to prevent a further occurrence of these types of questioned costs, and determine if they seem adequate.

C. License Certification

States are required by regulation (50 C.F.R. § 80.10) to certify the accuracy of the reported number of paid hunting and fishing licenses each year. The number of licenses is one of the factors used by the FWS to determine the Federal Aid apportionment for Sport Fish Restoration and Wildlife Restoration. The working papers demonstrated that the fishing license holder certifications for fiscal years 1996 and 1997 and the hunting license holder certification for 1997 were overstated. These certifications included duplicate license holders and licenses which were issued free of charge. "... [A]n individual shall not be counted more than once as a hunting or fishing license holder" (50 C.F.R. § 80.10(c)(5)). "Licenses which do not return net revenue to the State shall not be included [in determining eligible licenses]" (50 C.F.R. § 80.10(c)(2)). We estimated duplicate license holders and licenses issued free of charge as follows:

Year	Fishing	Hunting	Total
1996	81,527 (a)	0	81,527
1997	1,276 (b)	16,831(c)	18,107
Total	82,803	16,831	99,634

(a) The overstated licenses were calculated by deducting from the individual fishing license holder certification of 1,464,027 the 1,382,500 individual fishing license holders developed by using an electronic query¹ of the Retail Sales System (RSS) database for License Year (LY) 1995 (ending March 31, 1996) (1,370,184), plus the Charter Boat Daily licenses included in the certification (12,316). The Charter Boat Daily licenses were added to the query results because they are still sold via a paper system and are not entered into the RSS.

(b) The individual fishing license holders certification for fiscal year 1997 is overstated by 1,276 due to the inclusion of individual Senior Fish Spouse fishing licenses that were issued free of charge. The overstated licenses were calculated by deducting from the 1,348,107 individual fishing license holder certification the 1,346,831 individual fishing license holders developed by an electronic query of the RSS database for LY 1996 that excluded the free Senior Fish Spouse licenses.

(c) The individual hunting license holders certification for fiscal year 1997 is overstated by 16,831 due to the inclusion of duplicate hunting license holders. The overstated licenses were calculated by deducting from the individual hunting license holder certification of 964,531 the 947,700 individual hunting license holders developed using an electronic query of the RSS database for LY 1996 (ending March 31, 1997) and excluding subordinate license types (those which are not supposed to be purchased without already having a primary license type) and daily and annual waterfowl area use permits (the area use permits are not a license to hunt).

¹ The electronic query is designed to include individual customers only once regardless of how many licenses an individual may have purchased.

In our exit conference on September 18, 2002, the Department agreed with the finding and stated that its license certification procedures had been changed in 1998.

Recommendation

We recommend that the FWS ensure that the Department's new procedures prevent duplicate and free licenses from being included in the certification count.

Department Response

The Department agreed with the finding and stated that it had corrected the overstatement of fishing and hunting licenses.

Office of Inspector General Comments

In responding to this final report, FWS should state whether it concurs with and has implemented the recommendation.

D. Revenue From Land Acquired With State License Revenues

The Department received revenue from the sale of gas and oil produced from property owned by the State that was initially deposited in the Michigan Natural Resources Trust Fund (MNRTF). At year-end, this revenue was to be transferred to the appropriate fund based on the acquisition source of the parcel of land from which the gas and oil was extracted. The working papers disclosed that the Department did transfer to the Game and Fish Protection Fund most of the gas and oil revenue that was generated on land acquired with State license revenues. In reconciling the fiscal year 1997 annual production report to the individual monthly journal vouchers, a discrepancy of \$210,824 in revenue was identified, which represented oil and gas revenue from land acquired with funding from the Game and Fish Protection Fund. When advised of this discrepancy, the Department corrected it. Both the MNRTF and the Game and Fish Protection Fund are interest-earning funds. Consequently, the restoration of license revenue to the Game and Fish Protection Fund should include the interest earned while the funds were in the MNRTF.

In its briefing to OIG dated February 27, 2001, the Department provided documents to show that the transfer had been made from the MNRTF to the Game and Fish Protection Fund on May 23, 2000. In our exit conference with the Department on September 18, 2002, it provided a document to show that the interest earned by the revenue while in the MNRTF was transferred to the Game and Fish Protection Fund on June 13, 2002.

Recommendation

We recommend that the FWS ensure that the amounts transferred, for which the Department provided documentation, were made as indicated.

Department Response

The Department agreed with the finding and stated that it had corrected the issue.

Office of Inspector General Comments

In responding to the final report, the FWS should indicate whether it agrees with and has implemented the recommendation.

E. Property Management

The working papers disclosed that the Department needs to improve its controls over personal property. The working papers showed that:

- Some assets did not have identification tags attached.
- Inventory records did not reconcile with the equipment observed at the site.
- Supporting documentation for some transferred property was missing.
- Loans of assets to organizations outside the Department, as well as to other sites within the same division, were not supported by required documentation.
- Identification tag numbers for some items did not correspond with the tag numbers in the fixed asset system.
- Information for items that were missing, returned as surplus, or transferred was not entered into the fixed asset system.

The Department agreed with this finding at our exit conference on September 18, 2002. It stated that it had developed Equipment Inventory and Building Inventory Asset Management Systems and placed them in operation in June 1999.

Recommendation

We recommend that the FWS determine if the new systems contain controls to adequately account for personal property acquired with Federal Aid grant funds.

Department and FWS Responses

The Department agreed with the finding and stated that it had corrected the issue.

Office of Inspector General Comments

In responding to the final report, FWS should state whether it agrees with and has implemented the recommendation.

In accordance with the Departmental Manual (360 DM 5.3), please provide us your written comments by May 6, 2003 regarding the status of the corrective action plan.

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 to the review of another audit agency's work.

If you have any questions regarding this report, please contact Mr. Joseph Ansnick, Director, External Audits, at (703) 487-8011.

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

APPENDIX 1

FINANCIAL SUMMARY OF REVIEW COVERAGE
OCTOBER 1, 1995, THROUGH SEPTEMBER 30, 1997

Grant Number	Title	Grant Amount	Year	Costs Claimed	Federal Share of Questioned Costs
<u>Sport Fish Restoration</u>					
FW-4-C-7	D.J. Administration	\$ 61,431			
			FY96	\$ 57,868	
			Total	\$ 57,868	
FW-4-C-8	D.J. Administration	61,373			
			FY97	\$ 49,754	
			Total	\$ 49,754	
F-35-R-21	Inland Fisheries Research	1,216,012			
			FY96	\$ 361,865	
			Total	\$ 361,865	
F-35-R-22	Inland Fisheries Research	1,403,820			
			FY96	\$ 363,050	
			FY97	364,760	
			Total	\$ 727,810	
F-35-R-23	Inland Fisheries Research	1,383,186			
			FY97	\$ 293,719	
			Total	\$ 293,719	
F-53-R-12	Great Lakes Fisheries Research	2,956,629			
			FY96	\$ 960,361	
			Total	\$ 960,361	
F-53-R-13	Great Lakes Fisheries Research	3,035,050			
			FY96	\$ 1,641,946	\$ 76,690
			FY97	1,139,042	
			Total	\$ 2,780,988	
F-53-R-14	Great Lakes Fisheries Research	3,351,469			
			FY97	\$ 1,457,421	\$ 35,665
			Total	\$ 1,457,421	
F-58-B-33	Fair Haven Boat Access	165,000			
			FY96	\$ 5,928	
			Total	\$ 5,928	
F-58-B-37	Lake St. Helen Boat Access	305,000			
			FY96	\$ 49,414	
			FY97	76,610	
			Total	\$ 126,024	
F-58-B-38	Selfridge Boat Access	544,218			
			FY96	\$ 339,363	
			FY97	221,314	
			Total	\$ 560,677	
F-58-B-39	Grand Haven Boat Launch	324,000			
			FY97	\$ 15,225	
			Total	\$ 15,225	

APPENDIX 1

FINANCIAL SUMMARY OF REVIEW COVERAGE OCTOBER 1, 1995, THROUGH SEPTEMBER 30, 1997

Grant Number	Title	Grant Amount	Year	Costs Claimed	Federal Share of Questioned Costs
F-62-D-9	Fish Production and Stocking	6,801,000	FY96 Total	<u>\$ 6,801,000</u> <u>\$ 6,801,000</u>	
F-62-D-10	Fish Production and Stocking	7,161,000	FY97 Total	<u>\$ 6,475,938</u> <u>\$ 6,475,938</u>	
F-72-D-5	Manistee River Restoration	50,020	FY96 Total	<u>\$ 50,010</u> <u>\$ 50,010</u>	
F-75-R-2	Drug Registration	20,014	FY96 Total	<u>\$ 20,014</u> <u>\$ 20,014</u>	
F-75-R-3	Drug Registration	20,014	FY97 Total	<u>\$ 20,004</u> <u>\$ 20,004</u>	
F-76-B-1	Rogers City Mooring Facility Expansion	3,499,448	FY96 FY97 Total	<u>\$ 474,649</u> <u>91,520</u> <u>\$ 566,169</u>	
			FY96 FY97	<u>\$11,125,468</u> <u>10,205,307</u>	<u>\$ 76,690</u> <u>35,665</u>
Total Sport Fish Restoration		<u>\$32,358,684</u>		<u>\$21,330,775</u>	<u>\$112,355</u>

Wildlife Restoration

FW-4-C-7	PR Administration	\$ 70,931	FY96 Total	<u>\$ 64,549</u> <u>\$ 64,549</u>	
FW-4-C-8	PR Administration	61,373	FY97 Total	<u>\$ 48,790</u> <u>\$ 48,790</u>	
W-120-S-27	Hunter Education	1,028,056	FY96 Total	<u>\$ 934,476</u> <u>\$ 934,476</u>	\$ 7,265
W-120-S-28	Hunter Education	1,202,952	FY97 Total	<u>\$ 1,175,781</u> <u>\$ 1,175,781</u>	\$ 4,341

APPENDIX 1

FINANCIAL SUMMARY OF REVIEW COVERAGE OCTOBER 1, 1995, THROUGH SEPTEMBER 30, 1997

Grant Number	Title	Grant Amount	Year	Costs Claimed	Federal Share of Questioned Costs
W-125-D-15	Game Area Maintenance	525,000	FY96 FY97 Total	\$ 400,510 39,611 <u>\$ 440,121</u>	
W-127-R-14	Statewide Research	3,050,193	FY96 Total	\$ 2,911,403 <u>\$ 2,911,403</u>	\$ 62,231
W-127-R-15	Statewide Research	2,614,645	FY97 Total	\$ 2,532,011 <u>\$ 2,532,011</u>	
W-134-L-1	Statewide Land Acquisition	2,668,534	FY96 FY97 Total	\$ 561,351 159,546 <u>\$ 720,897</u>	
W-136-S-1	Sharonville Shooting Range	500,350	FY96 Total	\$ 493,557 <u>\$ 493,557</u>	
W-137-S-1	Rose Lake Shooting Range	500,200	FY96 FY97 Total	\$ 263,726 229,915 <u>\$ 493,641</u>	
W-138-D-1	Statewide Wildlife Development	291,183	FY96 Total	\$ 83,422 <u>\$ 83,422</u>	\$ 1,580
W-138-D-2	Statewide Wildlife Development	326,183	FY97 Total	\$ 58,726 <u>\$ 58,726</u>	
W-139-D-1	Statewide Wildlife Management	8,742,094	FY96 Total	\$ 7,590,990 <u>\$ 7,590,990</u>	\$ 162,544
W-139-D-2	Statewide Wildlife Management	8,266,772	FY97 Total	\$ 7,774,812 <u>\$ 7,774,812</u>	
W-140-D-1	Facilities, Construction, Renovation, and Special Maintenance	838,900	FY97 Total	\$ 478,369 <u>\$ 478,369</u>	
W-140-D-2	Facilities, Construction, Renovation, and Special Maintenance	281,630	FY97 Total	\$ 67,484 <u>\$ 67,484</u>	
H-1-1	Migratory Bird Harvest Information Program	90,000	FY96 Total	\$ 90,000 <u>\$ 90,000</u>	

APPENDIX 1

FINANCIAL SUMMARY OF REVIEW COVERAGE OCTOBER 1, 1995, THROUGH SEPTEMBER 30, 1997

Grant Number	Title	Grant Amount	Year	Costs Claimed	Federal Share of Questioned Costs
H-1-1 or 98210-6-0508 98210-7-M066	Migratory Bird Harvest Information Program	Fee per name	FY96 FY97 Total	\$ 23,280 <u>30,868</u> <u>\$ 54,148</u>	
			FY96 FY97	\$13,417,264 <u>12,595,913</u>	\$ 233,620 <u>4,341</u>
Total Wildlife Restoration		<u>\$31,058,996</u>		<u>\$26,013,177</u>	<u>\$ 237,961</u>

Endangered Species

E-1-25	Michigan Endangered Species Program	\$345,819	FY96 Total	<u>\$ 21,859</u> <u>\$ 21,859</u>	
E-1-26	Michigan Endangered Species Program	322,667	FY97 Total	<u>\$ 322,667</u> <u>\$ 322,667</u>	
E-1-27	Michigan Endangered Species Program	306,207	FY97 Total	<u>\$ 352,080</u> <u>\$ 352,080</u>	
			FY96 FY97	\$ 21,859 <u>674,747</u>	
Total Endangered Species		<u>\$974,693</u>		<u>\$ 696,606</u>	

Clean Vessel Program

V-1-2	Clean Vessel Program	\$ 217,467	FY96	<u>\$ 167,967</u>	
V-1-3	Clean Vessel Program	144,000	FY97	<u>\$ 39,471</u>	
Total Clean Vessel Program		<u>\$ 361,467</u>		<u>\$ 207,438</u>	

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FINANCIAL SUMMARY OF REVIEW COVERAGE
OCTOBER 1, 1995, THROUGH SEPTEMBER 30, 1997

Grant Number	Title	Grant Amount	Year	Costs Claimed	Federal Share of Questioned Costs
<u>Other</u>					
P-1-W-1	Wildlife, Conservation, and Appreciation	\$ 24,000	FY96	\$ 10,383	
P-1-W-1	Wildlife, Conservation, and Appreciation	20,000	FY96	\$ 20,000	
Cooperative Agreement	St. Joseph River Cooperative Project	50,000	FY96	\$ 6,385	
			FY97	33,881	
			Total	\$ 40,266	
			FY 96	\$ 36,768	
			FY 97	33,881	
Total Other		\$ 94,000		\$ 70,649	
			FY96	\$24,769,326	\$ 310,310
			FY97	23,549,319	\$ 40,006
Summary Totals		<u>\$64,847,840</u>	Total	<u>\$48,318,645</u>	<u>\$ 350,316</u>

MANAGEMENT ISSUES

The working papers identified several management issues that the Michigan Department of Natural Resources and the Fish and Wildlife Service need to address and commented on the adequacy of the State's assent legislation. These matters are discussed below.

1. Financial Management

The State's accounting system and related internal controls in effect during fiscal years 1996 and 1997 were generally adequate for the accumulation and reporting of costs under Federal Aid grants. However, improvements in implementing the system are needed to ensure that employee time charges are accurate, that supporting documentation for in-kind contributions and vehicle use are sufficient, and that costs are charged to the correct grant. The Department could resolve several of the needed improvements by taking advantage of the cost recording and reporting capabilities of the existing State accounting system.

a. Time charges. A review of the labor system in effect as well as field interviews with grant employees disclosed the following weaknesses:

- Some employees were not aware of all activities that were ineligible for Federal Aid funding. Based on activity codes for time charges, the majority of the employees interviewed were aware of some activities which were ineligible for Federal Aid reimbursement. However, this did not ensure that the employees understood the types of work that should not be charged to the Federal Aid grants. For example, in certain cases the Department will respond to citizen calls for the removal of nuisance animals (such as a bear roaming into town or rounding up geese for relocation). These types of activities have been charged to a variety of activity codes including public relations, species management, population surveys, and animal relocation. In the labor recording system, all of these codes, except animal relocation, are eligible for Federal reimbursement. However, Part 522.8.2 B.(2) of the Federal Aid Manual includes in its description of ineligible activities "Activities directed to the welfare of individual animals such as caring for injured animals or removal of nuisance animals." Considering the variety of activity codes charged for these efforts, it appears that code descriptions are ambiguous.
- Employees did not always complete time and attendance forms in ink and on a daily basis. The Department Personnel Manual Chapter 15.02 I. requires that employees complete timesheets on a daily basis, in ink. Noncompliance with this procedure could result in inaccurate labor charges to Federal projects. Although, the review did not disclose any timesheets that did not reflect actual time worked, failure to comply with this requirement increases the risk of improper charges to the Federal Aid grants.

b. In-kind contributions. The working papers disclosed that the Department does not have adequate, written policies and procedures to ensure proper accumulation, recording and reporting of in-kind contributions under Federal Aid grants. As such, it could not be determined what procedures the Department followed for claiming in-kind match or what the individual volunteer's responsibilities were in recording and certifying the efforts performed. In addition, it was noted that volunteers who performed work for the Department did not always sign the sheets supporting the claimed hours. In some instances there was no signature, in others only one person signed for a group of volunteers. Sometimes the lead volunteer or a member of the Hunter Education Instructor Group recorded the hours on an activity sheet, which was signed either by the lead instructor or the person who prepared the sheet. This practice does not comply with the requirements, which states in part "...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" (43 C.F.R. § 12.64(b)(6)). Since the Department's employees were required to complete an activity sheets in support of labor costs charged to Federal Aid grants, the volunteers should do the same.

c. Vehicle Use Logs. The Department's practice is to record vehicle mileage in a log. During the review it was discovered that these logs, which were the supporting documents for the vehicle mileage entered into the system, were not available. Supporting documents which are otherwise reasonably considered as pertinent to program regulations must be retained for three years from the starting date specified in paragraph (c) (43 C.F.R. §§ 12.82(a)(1)(ii), (b)(1) and (2)). Also, 50 C.F.R. § 80.19(a) requires that supporting documents, and all other records pertinent to a project shall be retained for a period of three years after submission of the final expenditure report on the project. The vehicle log summaries are source documents for the vehicle mileage and were not kept for three years as required. The Department did not have a formal policy to retain all supporting documents for the appropriate periods and destroyed the summaries after the data was entered into the system.

d. Use of Grant Numbers. The working papers indicated that the "grant number" field in the accounting system was not filled in for accounting transactions totaling \$362,595 that may have been charged to and claimed under grant W-139-D-2. A Michigan Federal Aid Coordinator stated that charges defaulted to this grant number whenever the grant number field was not filled in. The working papers did not include a verification that the accounting system had been programmed to default costs with a blank grant number to grant W-139-D-2. However, we believe that the use of a default program does not ensure that costs are charged to the correct grant.

2. Sale of Land and Easements

The Department funded expenditures of \$216,940 for non-game related activities with game revenue in fiscal year 1997. The Department collected revenue from the sale of land and from easements across State-owned property. This revenue was recorded in the Department's general fund where it was classified as game or non-game revenue. The game revenue represented revenue generated from property that was acquired with game and fish funds or with Federal Aid grants. The non-game revenue was generated from property acquired with other resources. The Department did not cross-reference the land sale or easement invoices or revenue

receipt documentation to the specific parcels of land that generated the revenue. This made it difficult for the Department to determine whether the affected land was originally acquired with license revenue or Federal Aid funds. The source of funds for the original acquisition of the affected land must be identifiable to ensure proper accounting for the proceeds from the land sale, including the issuance of easements.

For lands acquired with State license fees, the proceeds from the sale or issuance of an easement should be used for the administration of the State fish and wildlife agency (50 C.F.R. § 80.4). On the other hand, for lands acquired with Federal Aid funds, the grantee must notify FWS that the property is no longer needed and request disposition instructions (43 C.F.R. § 12.71). The FWS should then provide for one of three alternatives identified in the regulations for disposition (43 C.F.R. § 12.71(c)).

In its February 27, 2001, briefing to the OIG, the Department stated that it had properly accounted for the \$216,940 in the appropriate subfund. In addition, the Department stated that it had begun cross-referencing the invoices and revenue receipt documentation to the parcel of land involved in each transaction.

3. Useful Life Clause

Most of the grants reviewed for the acquisition of boat access sites contained a useful life clause, as well as a few grants for harbors. Pre-determining a useful life may be contrary to 43 C.F.R. § 12.71(b), which states "...real property will be used for the originally authorized purposes as long as needed for that purposes [sic]." The clause typically allows a grantee to gain control of the Federally funded property after a pre-determined period without obtaining the approvals required by the regulations. Since it cannot be determined in advance when a harbor or boat access site will no longer be needed for its intended purpose, the pre-determined useful life wording should be removed from the grants and not be used in the future. The Department agreed with the finding and indicated that it has removed the clause from current agreements and will not use the clause in the future.

4. Field Trials

Field trials were not approved in accordance with State requirements. Field trial activities include the training and competing of hunting dogs. The Department allowed field trials at designated field trial areas throughout the State. Michigan's Wildlife Conservation Order Chapter 15.3 states "A person shall not conduct a field trial without first obtaining written authorization from the director upon an application form approved by the director." Wildlife Conservation Order Chapter 15.1 defines director as "the director of the department of natural resources or an authorized representative."

The process used to obtain approval for field trials provided for field trial clubs to submit a form entitled "Field Dog Trial Application and Permit for Special State Owned Trial Areas" to the field trial association where it was signed by a representative of the field trial association and forwarded to the Department. At the Department, a Wildlife Division Permit Specialist assigned a number to the application. If the application was prepared after the first of the year, the form

required the signature of the Area Manager for the State Game Area involved before the approved permit would be returned to the field trial association representative.

None of the 65 field trial applications reviewed were signed by the Director of the Department of Natural Resources or an authorized representative of the Director. The applications showed only the signature of a field trial association representative, who is not an employee of the Department. In addition, 16 of the 65 applications were signed by the Wildlife Division Biologists and/or supervisors approving the field trial event. However, neither the field trial association representative, wildlife biologists, wildlife supervisors, nor the Wildlife Division Permit Specialist had been authorized by the Director to approve field trials.

5. Assent Legislation

The working papers indicated that State of Michigan's legislation assenting to the provisions of the Federal Aid in Wildlife Restoration and Federal Aid in Sport Fish Restoration Acts is considered adequate and in compliance with Federal requirements.

**CALCULATIONS USED TO ESTIMATE THE RANGE OF
ESTIMATION OF LICENSE REVENUES USED FOR
NON-FISH AND WILDLIFE ACTIVITIES**

Percentage of Funds Used for Purposes Unrelated to Fish and Wildlife

A	B	C	D
Fiscal Year	Percent of Total Law Enforcement Labor Hours Related to Fish & Wildlife	Percent of Total Law Enforcement Expenditures Funded by License Revenues	Percent Unrelated to Fish and Wildlife Activities (C – B)
1996	59%	72%	13%
1997	60%	66%	6%

Estimation of Funds Based on Total Law Enforcement Expenditures

E	F	G	H
Fiscal Year	Total Law Enforcement Expenditures	Percent Unrelated to Fish and Wildlife Activities (From Column D)	Amount Unrelated to Fish and Wildlife Activities (F x G)
1996	\$21,283,547	13%	\$2,766,861
1997	\$23,463,292	6%	1,407,798
	Total		<u><u>\$4,174,659</u></u>

Estimation of Funds Based on Total Labor Costs

I	J	K	L
Fiscal Year	Total Labor Expenditures	Percent Unrelated to Fish and Wildlife Activities (From Column D)	Amount Unrelated to Fish and Wildlife Activities (J x K)
1996	\$17,199,474	13%	\$2,235,932
1997	\$17,493,221	6%	1,049,593
	Total		<u><u>\$3,285,525</u></u>

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