



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

ADVISORY REPORT

**COSTS CLAIMED BY THE
STATE OF MISSOURI,
DEPARTMENT OF
CONSERVATION, UNDER
FEDERAL AID GRANTS FROM
THE U.S. FISH AND WILDLIFE
SERVICE FROM JULY 1, 1997
THROUGH JUNE 30, 1999**

JUNE 2003

Report No. 2003-E-0022



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

June 11, 2003

ADVISORY REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Roger La Rouche
Assistant Inspector General for Audits

Subject: Final Advisory Report on Costs Claimed by the State of Missouri, Department of Conservation, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1997 through June 30, 1999 (No. 2003-E-0022)

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 Missouri, Department of Conservation (Department) under Federal Aid grants from the U.S. Fish and Wildlife Service (FWS) for the period July 1, 1997 through June 30, 1999.

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 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 be used for any purpose other than the administration of the state's fish and game agencies. In addition, FWS also provides grants to the states under the Clean Vessel Act and the Endangered Species Act.

In February 2000, another audit agency initiated an audit of FWS Federal Aid Program grants awarded to the State of Missouri for fiscal years 1998 and 1999. The scope of the work to be performed by the audit agency, as stated in a draft report in the working papers, was to evaluate (1) the adequacy of the Department's accounting system and related internal controls to determine if the system can be relied upon to accurately accumulate and report the actual costs charged to the grants; (2) the accuracy and eligibility of the direct and indirect costs claimed by the Department under the Federal Aid grant agreements with FWS; (3) the adequacy and

reliability of the Department's hunting and fishing license fees collection and disbursement process; and (4) the adequacy of the Department's purchasing system and related internal controls. The audit was also to include an analysis of other issues considered to be sensitive and/or significant to FWS. The audit work at the Department covered claims totaling \$46.4 million on FWS grants that were open during the grantee's fiscal years ended June 30, 1998 and 1999 (see Appendix 1). The working papers contained an undated version of a draft report prepared by the audit agency, but its agreement with the FWS expired before issuance of its draft and final reports.

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 the agreement, which expired on September 30, 2001. 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 28, 2001 memorandum for the file that it had not completed its supervisory and management reviews of the working papers and draft report to ensure that (1) sufficient, competent and relevant evidence had been obtained to afford a reasonable basis for the audit findings, conclusions, and recommendations, (2) sound auditing techniques and auditor judgment were exercised throughout the audit process, and (3) the audit work was performed in accordance with Generally Accepted Government Auditing Standards.

On September 20, 2001, FWS and the Office of Inspector General (OIG) entered into an Intra-Departmental Agreement under which the 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 Agreement and the conclusions presented in our 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.

Significant findings impacting Missouri's administration of the Federal Aid programs are presented in the body of the report and other management issues are presented in Appendix 2.

RESULTS OF REVIEW

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

- The eligibility for reimbursement of costs totaling \$1,523,132 (Federal share) was questioned representing reimbursements in excess of the Federal cost-sharing percentage identified in the grant agreement (\$1,456,420), costs related to unallowable nuisance animal control (\$41,345), and operation and maintenance costs on ineligible lands (\$25,367).

- Revenues from the sale of real property were incorrectly reported as program income. In this particular case, FWS' share of the revenue from the sale of real property is greater than its share of program income. As a result, the offset of revenue against expenses was too low, resulting in excessive reimbursements to the Department totaling \$18,831.
- The Department did not report program income totaling \$104,694, consisting of rental income of \$65,520 received from employees who lived in housing located on property that had been acquired with Federal Aid funds and \$39,174 from the sale of timber from Federal Aid lands.
- The Department did not have an adequate system and controls to ensure that license revenues were used only for eligible purposes.
- The Department has been allowing private organizations to conduct dog field trials on conservation area lands throughout the State that were acquired with Federal Aid funds and/or Commission Fund monies (which included license revenues). This activity may have adversely impacted wildlife habitat.
- The Department's indirect cost pool included ineligible costs for administrative salaries and data processing related to generating license revenues, resulting in excessive indirect cost reimbursements to the Department.
- The Department was unable to provide evidence that it had passed assent legislation as required by the Sport Fish and Wildlife Restoration Acts.
- Deficiencies were identified in the Department's practices and procedures for labor reporting, accounting, purchasing, asset management, and drawdowns.
- The Department used cost-per-fish calculations for certain grant charges that were not based on actual costs.

A. QUESTIONED COSTS

The working papers identified questioned costs totaling \$1,523,132 (Federal share) representing claims in excess of the Federal share percentage identified in the grant agreement (\$1,456,420), costs related to nuisance animal control (\$41,345), and operation and maintenance costs on ineligible lands (\$25,367).

1. Cost-Sharing Percentage Exceeded. In accordance with Part 522.1.8.C of the Federal Aid Manual, "An amendment must be submitted to the [FWS] Regional Director for approval [for]... revising the rate of Federal participation shown on the Grant Agreement." The working papers questioned costs totaling \$1,456,420 (Federal share) on two grants because the Federal Aid reimbursement was based on a percentage that was greater than the percentage identified in the grant agreements. In addition, the Department had not submitted the required

amendments requesting an increase in the Federal Aid percentage. Furthermore, there was no evidence in the working papers that FWS had formally agreed to an increase in the cost sharing percentages.

The working papers stated that the Federal Aid participation rates identified in the grant agreements were 50 percent for Grant W-93-D-3 and 35 percent for Grant W-93-D-4, but that the Federal share claimed on the final Financial Status Reports (FSR) exceeded these rates. (The dollar amounts claimed, however, did not exceed the Federal share amounts shown in the grant agreements because the Department's net outlays were significantly less than the grant amounts.) The Department did not submit the required amendment in either case. Instead, it noted on the final FSR that it had changed or adjusted the cost-sharing ratio. Specifically:

- An attachment to the final FSR for Grant W-93-D-3 included the following note: "9-28-98 e-mail to [two first names shown]: change ratio from 50/50 to 60% federal/40% state – no additional obligation of funds."
- The final FSR for Grant W-93-D-4 included the following note: "In order to maximize available funds, we have adjusted the federal /state ratio [from 35 /65] to 52/48 [the Federal rate claimed was actually about 51.463 percent] as allowed by the grant proposal."

The working papers computed questioned costs of \$1,456,420, as follows:

<u>Description</u>	<u>Grant Nos.</u>		<u>Total</u>
	<u>W-93-D-3</u>	<u>W-93-D-4</u>	
A. Federal Aid Share Claimed	\$3,865,659	\$2,257,746	\$6,123,405
Net Outlays (Per Final FSR)	\$7,341,544	\$4,387,087	
Federal Aid Participation (Per Grant Agreement)	50%	35%	
Federal Aid Share	\$3,670,772	\$1,535,480	
Less: FWS Share of Revenues from Sale of Property	539,267	0	
B. Computed Federal Aid Share	\$3,131,505	\$1,535,480	\$4,666,985
C. Questioned Reimbursement (A. less B.)	\$734,154	\$722,266	\$1,456,420

In both cases, the reimbursement to the Department did not exceed the Federal share shown in the grant agreement. However, the grant agreement for Grant W-93-D-4 is unclear as to whether the Department is entitled to receive the full Federal share dollar amount identified in the agreement (not to exceed 75 percent of the net outlays) or whether the Department is limited to the cost sharing percentage shown in the agreement. (The working papers did not include a copy of the grant agreement for Grant W-93-D-3.) If the FWS determines that the Department's reimbursement is limited to the percentages in the agreement, then it needs to further determine whether it is appropriate to amend the grants to increase the Federal cost sharing percentages.

2. Nuisance Animal Control. Part 522.8.2B(2) of the Federal Aid Manual states “Activities directed to the welfare of individual animals such as caring for injured animals or removal of nuisance animals” is not eligible for Federal Aid funding. The working papers identified costs totaling \$95,924 charged to Federal Aid grants that were recorded in the Department’s Integrated Management System under code WDT. The Department defines this code as follows: “Wildlife Damage Technical Assistance - Contacts with landowners on wildlife damage problems. Urban wildlife damage control contacts. Phone contacts and visits concerning animal control.” The questioned costs by grant are summarized below:

	W-93-D-3	W-93-D-4	Total
Nuisance Animal Costs	\$51,810	\$44,114	\$95,924
Federal Aid Participation	50%	35%	-
Federal Aid Share	\$25,905	\$15,440	\$41,345

The Federal share of the questioned costs was based on the percentages shown in the grant agreements. If the FWS determines that the Department is entitled to the higher cost sharing percentages shown on the FSRs, the questioned Federal share would be higher for both grants since the actual reimbursements were based on the higher percentages.

3. Operations and Maintenance of Ineligible Lands. In accordance with the Federal Aid Manual, Chapter 522, Paragraph 7.7B, "Facilities purchased or constructed under the Land and Water Conservation Fund (LWCF) Act may not be operated or maintained with Federal Aid funds." The working papers identified questioned costs of \$55,273 (Federal share \$25,367) related to maintenance on lands acquired or developed with LWCF funds as follows:

- The Department’s charges for maintenance on Grants W-93-D-3 and W-93-D-4 included costs related to 2,313 acres of land acquired or developed with LWCF funds. The lands were located at the Pelican Natural Area (2,260 acres) and the Bush Conservation Area (53 acres, including 43 acres at Goose Lake and 10 acres at the Kraut Run Watershed). The related questioned costs (\$52,528) identified in the working papers were computed using the Department’s “forest management rates” of \$14.19 per acre for Grant W-93-D-3 and \$8.52 per acre for Grant W-93-D-4, as follows:

Grant No.	Acres	Rate	Questioned Costs	Federal Aid Participation	Federal Share of Questioned Costs
W-93-D-3	2,313	\$14.19	\$32, 821	50%	\$16,411
W-93-D-4	2,313	8.52	19,707	35%	6,897
			<u>\$52,528</u>		<u>\$23,308</u>

The Federal share of the questioned costs was based on the percentages shown in the grant agreements. If the FWS determines that the Department is entitled to the higher cost sharing percentages shown on the FSRs, the questioned Federal share would be higher for both grants.

- The Department incorrectly charged \$2,745 to Grant F-49-D-1 for maintenance work at the Blackwater Bridge Access Site, which was originally developed using LWCF monies. The Federal Aid participation on this grant is 75 percent; therefore, the Federal share of the questioned costs is \$2,059.

Recommendation

We recommend that the FWS resolved the questioned costs of \$1,523,132 (Federal share).

U.S. Fish and Wildlife Service Response

The FWS responses regarding the questioned costs were as follows:

1. Cost Sharing Percentage Exceeded. The FWS stated that it was not their intent to hold the Department to the cost sharing percentages stipulated in the grant agreements. Instead, their intent was to adjust the Federal/state ratio of the grant to allow the Department to claim the full Federal obligated amount, up to the maximum 75 percent allowed. The FWS acknowledged that, “Although we were deficient in not formally amending cost-sharing percentage changes into the grant amendments in accordance with the Federal Aid Manual, we were informally, via e-mails and oral discussion, aware of and in concurrence with MDC’s [Department’s] practice [of adjusting the cost sharing percentages.]” The FWS further stated that since this methodology did not result in the Department receiving funds exceeding the amounts in the grant agreements, it is recommending that the questioned costs of \$1,456,420 not be sustained. The FWS also stated that once it became aware of this issue during the audit, it “proactively took steps to ensure that our intent was clearly documented in writing in current grant documents.”

2. Nuisance Animal Control. The FWS provided copies of revised FSRs from the Department for Grants W-93-D-3 and W-93-D-4 which showed that credits had been made for the questioned costs. The FWS also provided a copy of an interim FSR dated March 18, 2003 for Grant W-93-D-8 showing that the Department credited a total of \$77,752 for Grants W-93-D-5 (\$29,204), W-93-D-6 (\$19,754), and W-93-D-7 (\$28,794) for similar ineligible nuisance animal control charges to these grant segments that were in effect subsequent to the period covered by our review. Further, the FWS provided additional documentation showing that code “WDT,” which had been used to accumulate nuisance animal control costs, was no longer included in the billable codes for the current grant segment.

3. Operation and Maintenance of Ineligible Lands. The FWS provided copies of revised FSRs for Grants W-93-D-3, W-93-D-4, and F-49-D-1 which showed that credits had been made for the questioned costs. The FWS also provided a copy of an interim FSR dated March 18, 2003 for Grant W-93-D-8 showing that the Department credited a total of \$71,726 for Grants W-93-D-5 (\$15,983), W-93-D-6 (\$19,036), and W-93-D-7 (\$36,707) for similar ineligible operation and maintenance charges to these grant segments that were in effect subsequent to the period covered by our review.

Office of Inspector General Comments

We believe that the FWS resolution of the finding regarding cost sharing percentages is reasonable because the Federal Aid share on these grants is still less than the 75 percent limit authorized in the Acts and additional documentation provided by the FWS and the Department indicated that both parties were aware that the percentages would be subject to revision upon completion of the grants. Accordingly, we consider the recommendation resolved and implemented. It should be noted, however, that the resolution of the cost-sharing-percentage issue will result in the Department not having to reimburse the FWS for the potential excess reimbursements related to the other findings for Grants W-93-D-3 and W-93-D-4 (Finding A.2 - Nuisance Animal Control, Finding A.3 - Operation and Maintenance of Ineligible Lands, Finding C - Program Income, and Finding F - Indirect Costs) for Grants W-93-D-3 and W-93-D-4. Specifically, even though the Department has made credits on its revised FSRs for these grants, the effect of these adjustments is simply a net decrease in eligible grant costs and an increase in the Federal cost sharing percentages, with no change in the reimbursable Federal Aid dollar amounts for those grants.

B. REVENUES FROM THE SALE OF REAL PROPERTY

Based on our review of the working papers, we determined that the Department incorrectly reported revenues from the sale of real property as program income on Grant W-93-D-4, resulting in excess Federal Aid reimbursements of \$18,831. The Department reported program income totaling \$3,364,105 on its final FSR, of which only \$3,282,230 (\$1,664,487 from crop sales and \$1,617,743 from timber sales) was actually program income. The remaining \$81,875 was revenue from the sale of real property (\$75,760 from the sale of an easement and \$6,115 from a land trade), and therefore should not have been reported as program income.

The Code of Federal Regulations (43 CFR 12.71(c)(2)) states that when a grantee sells real property that had been acquired with grant funds, it shall compensate the awarding agency. The regulations further state, "The amount due to the awarding agency will be calculated by applying the awarding agency's percentage of participation in the cost of the original purchase to the proceeds of the sale after deduction of any actual and reasonable selling and fixing-up expenses." The excess Federal Aid reimbursement occurred because the reporting of these revenues as program income resulted in FWS receiving a credit for 52 percent (the Federal Aid cost sharing percentage claimed by the Department) of these revenues whereas FWS should have received a credit of 75 percent (the Federal Aid share in the initial acquisition). The \$18,831 excess reimbursement was computed as follows:

Credit Due FWS (75% of \$81,875)	\$61,406
Credit Given to FWS on FSR (52% of \$81,875)	42,575
Excess Reimbursement	<u><u>\$18,831</u></u>

Recommendation

We recommend that the FWS resolve the issue regarding the \$18,831 excess reimbursement resulting from the misclassification of revenues from the sale of real property.

U.S. Fish and Wildlife Service Response

The FWS provided a copy of a revised FSR dated March 2, 2000 for Grant W-93-D-4 that showed that the Department had properly credited back revenue of \$81,875 at 75 percent.

Office of Inspector General Comments

The FWS response was sufficient to consider the recommendation resolved and implemented.

C. PROGRAM INCOME

The Code of Federal Regulations (43 CFR 12.65(b)) defines 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.” Part 12.65(a) specifically identifies income from the rental of real property as program income. In addition, Part 12.65(g)(1) provides that:

“Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise. Program income which the grantee did not anticipate at the time of the award shall be used to reduce the Federal agency and grantee contributions rather than to increase the funds committed to the project.”

The working papers identified program income totaling \$104,694 that was not reported to the FWS, as follows:

1. Rental Income. The working papers indicated that the Department did not report rental income totaling \$65,520 that it received from employees who lived in housing located on Department-owned property that was managed under Grant W-93-D. The income was applicable to Grants W-93-D-3 (\$32,760) and W-93-D-4 (\$32,760), which funded wildlife program activities on all Department-owned lands.

2. Timber Sales. The Department did not report income totaling \$39,174 from timber sales at the Clearwater Conservation Area (\$28,500) in fiscal year 1998 and the Rocky Creek Conservation Area (\$10,674) in fiscal year 1999. The revenues were not reported because the Department had incorrectly recorded them under revenue code 315-220, Timber Sales on State Acquired Land. These lands had been acquired with Federal Aid funds and therefore, the

revenues should have been recorded under revenue code 315-221, Timber Sales of Federal Aid Land.

The working papers also indicated that the Department did not have written policies and procedures related to the identification of timber sales revenues to the appropriate revenues code. Further, when a timber sale came from property that was purchased with both Federal Aid and State funds, there was no set method for identifying the revenue to either Federal Aid or to the State.

Recommendation

We recommend that the FWS resolve the issue regarding unreported program income of \$104,694 and ensure that the Department develops policies and procedures for recording the sale of timber from State and Federal Aid lands.

U.S. Fish and Wildlife Service Response

The FWS provided documentation showing that the Department had submitted revised FSRs dated March 18, 2003 for Grants W-93-D-3 and W-93-D-4 which included adjustments for the unreported program income. The FWS also provide a copy of an interim FSR dated March 18, 2003 for Grant W-93-D-8 which included an adjustment of \$25,470 for rental income receive under Grant W-93-D-5. That grant was in effect subsequent to the period covered by our review. The FWS response further stated that FWS has reviewed the Department's working procedures for recording income from timber sales and found the procedures to be adequate.

Office of Inspector General Comments

The FWS response was sufficient to consider the recommendation resolved and implemented.

D. HUNTING AND FISHING LICENSE REVENUES

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." According to Part 80.4(b) of the regulation, the administration of a state fish and wildlife agency "include[s] only those functions required to manage the fish and wildlife-oriented resources of the State..." The working papers concluded that the Department did not have an adequate system and controls to ensure that license revenues were used only for eligible purposes.

The Department recorded all revenues in a single fund (Commission Fund.), which resulted in revenues from restricted funding sources (primarily license fees) being commingled with revenues from unrestricted sources (primarily sales taxes). Once recorded to the Commission Fund, the original funding source can no longer be identified and the funding source for individual expenses cannot be determined. The working papers identified several

projects/activities that are funded by the Commission Fund that would not be eligible uses of license fee revenues, including the following:

- Fish stocking in private ponds
- Dog trials
- Some Forestry activities
- Protection Division support of Forestry activities

Because the funding sources for expenditures for these activities were not identified in the accounting records, it could not be determined whether license revenues had been used for ineligible activities. However, the working papers concluded that since the Fund contained a significant amount of unrestricted revenues from sales taxes (according to the working papers, revenues from unrestricted sources comprised about 60 percent of the Fund), no diversion had taken place.

Recommendation

We recommend that the FWS ensure that the Department establishes adequate procedures and controls to account for the receipt and expenditure of license revenues.

U.S Fish and Wildlife Service Response

The FWS stated, “We generally concur that establishment of separate funds for Federal Aid, license revenues, and conservation sales tax dollars would result in better accounting to distinctly separate the uses of these revenue sources ” and “would also help with the unique accounting requirements associated with accounting for personal...and real property... purchases in identifying source of funds used to purchase such assets” (which is a separate but related issue discussed in Finding K). However, the response also included documentation from the Department indicating that unrestricted revenues from the conservation sales tax exceeded ineligible expenditures by \$69 million and that the Department believes that establishing procedures to determine the exact proportions of conservation sales tax revenues used for ineligible activities would increase administrative costs and “would result in documentation of the obvious, that an amount proportional to permit revenues was not diverted.” FWS further stated that it was “open to further discussion and other possible alternatives to resolve the issue,” and that, “Due to the property accounting implications, we consider this an open issue at this time and intend to work with MDC on potential solutions.”

Office of Inspector General Comments

Based on the FWS response, we consider the recommendation unresolved.

E. DOG FIELD TRIALS

The working papers indicated that the Department has allowed private organizations to conduct dog field trials on conservation area lands that were acquired with Federal Aid funds or Commission Fund monies. The majority of trials were held at the Whetstone, Duck Creek, Pony Express, and Reed Conservation Areas (where portions of the lands were purchased with Federal Aid funds) and the Busch Conservation Area (where the lands were donated or may have been acquired with Commission Fund revenues). The working papers indicated that these dog trial activities might be in violation of the Code of Federal Regulations, as follows:

- The Code (50 CFR 80.14(b)(2)), states, “Real property acquired or constructed with Federal Aid funds must continue to serve the purpose for which acquired or constructed. When such property is used for purposes which interfere with the accomplishment of approved purposes, the violating activities must cease and any adverse effects resulting must be remedied.” The working papers indicated that none of the grant agreements cited dog trials as one of the purposes for acquiring the lands (although the preliminary project statement for one of the grants stated that the use of the lands could include dog trials). Furthermore, the working papers identified instances where the dog trials may have interfered with the purposes for which the lands were acquired, as follows:

- Whetstone CA. The project statement indicated that the area was to be developed primarily for upland wildlife and public hunting. A Department representative stated that the dog trials may have added to quail stress, and an FWS representative expressed concern that the horses used in the trials may cause damage at stream crossing areas.
- Duck Creek CA. According to grant documents, the lands were acquired primarily for the management of waterfowl, and were to serve as a refuge for waterfowl except in the hunting season. Part of the land was also to be used for “goose shooting.” During 1998 and 1999, the area was open to field trials approximately 300 days, and Department representatives have documented kills of wildlife (raccoon, fox, mink, deer, and turkey) by dogs in this area. According to the working papers, the Wildlife Manager said that he spent a significant amount of his time dealing with the dog trials.
- Pony Express CA. The lands were acquired for construction of a fishing lake and public hunting. The dog trial courses cover about two thirds of the area. The working papers indicated that the trials are held during the turkey season and that the trials held in the fall may interfere with the archery-hunting season. The working papers also indicated that Department workers provide support for the dog trials by mowing the course, opening the barn and having it ready for the horses, and picking up trash.
- Reed CA. The lands were acquired for construction of fishing lakes and resting stations for migratory waterfowl. Further, although the preliminary project statement stated that the entire area would be a refuge, it also stated that all manner of public use, except hunting, would be encouraged and permitted on the area, including dog trials. The working papers did not identify any adverse effect on the lands resulting from the trials

except that a Department representative noted that restricting the trials would allow the turkey and quail populations to grow more quickly and would benefit the rabbit populations.

- The Code [50 CFR 80.4(c)] states, “A diversion of license fee revenues occurs when any portion of license revenues is used for any purpose other than the administration of the State fish and wildlife agency.” According to Part 80.4(b), the administration of a state fish and wildlife agency “include[s] only those functions required to manage the fish and wildlife-oriented resources of the State...” The Department allowed dog trials to be held at the Busch Conservation Area, which was acquired, in part, with Commission Fund revenues (and potentially license fee revenues). The working papers concluded that these dog trial activities do not appear to meet the criteria regarding the use of license revenues. In addition, the working papers indicated that archery hunters have complained about the trials during the archery season and that some lakes in the area are closed to fishing during the trials. Also, the Department’s representative said that he believed that there is a problem with bird nesting and a high mortality due to the breakup of covies because of the dog trials.

- The Federal Aid Manual, Part 521, Paragraph 1.7(c) states that providing services or property of material value to individuals or groups for commercial purposes or to benefit such individuals or groups are ineligible activities. Participants in the dog trials were generally required to pay an entry fee to the organization conducting the dog trial activities, and prizes were awarded at some locations.

The FWS needs to determine whether the use of Department properties for dog trial activities is an appropriate use of those properties in accordance with the Code of Federal Regulations.

Recommendation

We recommend that the FWS resolve the issue related to dog trials on Department lands.

U.S. Fish and Wildlife Service Response

The FWS stated that when this issue was brought to the Department’s attention during the audit agency’s audit, the Department undertook a review of its field trial policy and procedures and issued a new policy and procedure effective January 2002. Although the FWS commended the Department for its efforts, it also stated that “There are some compliance issues, concerns, and activities associated with field trials that will require active monitorship, response, and oversight by both the MDC and the Service [FWS] to bring about satisfactory resolution. We intend to work with the MDC in developing a corrective action plan that addresses the specific issues and concerns expressed by the auditors.”

Office of Inspector General Comments

Based on the FWS response, we consider the recommendation unresolved.

F. INDIRECT COSTS

According to the Code of Federal Regulations (50 CFR 80.14(c)), "Federal Aid funds shall not be used for the purpose of producing income." In addition, Part 521 of the Federal Aid Manual (Paragraph 1.7 for Wildlife Restoration grants and Paragraph 2.7 for Sport Fish Restoration grants) specifically prohibits the use of Federal Aid funds for "all processes and procedures directly related to the sale of licenses, permits, etc., which are imposed by state law or regulation." The working papers showed that the Department's indirect cost pools for fiscal years 1998 and 1999 included costs of administrative salaries and data processing related to generating and processing license revenues. As a result, these costs were allocated to all divisions of the Department and subsequently included in requests for reimbursement of Federal Aid funds. The working papers concluded that inclusion of these costs in the pool resulted in significant costs being allocated to Federal Aid grants for ineligible activities. Accordingly, we believe that an adjustment for these charges should be made.

Recommendation

We recommend that the FWS resolve the issue regarding the indirect charges for ineligible activities for fiscal years 1998 and 1999 and ensure that the Department excludes costs related to generating license revenues from the indirect cost pool in future indirect cost proposals.

U.S. Fish and Wildlife Service Response

The FWS provided copies of the Department's revised final FSRs for Grants W-93-D-3 and W-93-D-4 and interim FSRs for the current grant segments for 13 other grants which reflected credits for excessive indirect cost charges totaling \$718,841 for the audit period, as follows:

Grant Number	Amount
W-93-D-3	\$243,259
W-93-D-4	181,040
F-1-R-47	14,781
F-1-R-48	13,888
F-49-D-1	10,958
F-41-D-12	40,184
F-50-D-1	77,860
F-44-T-11	6,235
W-13-R-52	62,732
W-13-R-53	46,492
F-42-E-12	5,618
F-42-E-13	8,375
E-1-30	2,385
E-1-31	1,175
E-1-32	3,859
Total	<u>\$718,841</u>

FWS further stated that the Department has adjusted its rates for fiscal years 2000, 2001, and 2002.

Office of Inspector General Comments

The information provided by the FWS shows that the Department has made adjustments for most, but not all, of the grants that were covered by the audit agency's review. The FWS should determine whether the Department needs to make adjustments for the remaining grants. Accordingly, we consider the recommendation unresolved pending FWS' determination.

G. ASSENT LEGISLATION

The Department was unable to provide evidence that it had passed the assent legislation which is required by the Sport Fish and Wildlife Restoration Acts and the Code of Federal Regulations (50 CFR 80.3, Assent Legislation). According to 50 CFR 80.3, a state is not eligible to participate in the benefits of the Restoration Acts until it has passed legislation which assents to the provisions of those Acts.

In March 2000, the audit agency notified the FWS that the State of Missouri did not have the required assent legislation. In its response, FWS Region 3 cited the following excerpt from a 1974 FWS Annual Report as evidence that Missouri had the required assent legislation: "Kansas was the first State to pass assent legislation on March 4, 1938, followed by Rhode Island...and Missouri by the end of 1938." However, the FWS also stated "If Missouri is unable to find a copy of those provisions, they indeed do need to provide a replacement of that early document approved by the present day Conservation Commission."

As of the end of the audit agency's fieldwork in August 2000, no legislation had been provided to the auditors. Therefore, the Department is not eligible to receive Federal Aid funds under the Wildlife and Sport Fish Restoration Acts unless it can provide the required legislation.

Recommendation

We recommend that the FWS resolve the issue regarding the lack of the required assent legislation.

U.S. Fish and Wildlife Service Response

The FWS stated, "The Missouri Conservation Commission, which is given full authority over fish and wildlife resources of the state, unanimously affirmed assent language on March 20, 2003." The March 2003 document states in part that "The Commission unanimously affirmed its commitment to the purpose and intent of the Wildlife Restoration Act... and the Sport Fish Restoration Act..., and assent to the provisions of the Act, including that money accruing to the state from fees charged for hunting and angling licenses shall not be used for any purpose other than game and fish activities and related activities under the administration of the Conservation Commission." The FWS stated that it considers the finding resolved and the action implemented.

Office of Inspector General Comments

The Federal Aid in Wildlife Restoration Act states, “No money apportioned to any State shall be expended therein until its legislature, or other State agency authorized by the State constitution to make laws governing the conservation of wildlife, shall have assented to the provision of this Act and shall have passed laws for the conservation of wildlife which shall include a prohibition against the diversion of license fees paid by hunters for any other purpose than the administration of said State fish and game department.” [Emphasis added.] Similar language is contained in the Sport Fish Restoration Act.

Each Act requires the State to pass laws assenting to the provisions of the Act. We suggest that the FWS request advice from the Solicitors Office as to whether the document prepared by the Conservation Commission satisfies the requirements of the Acts. Accordingly, we consider the recommendation unresolved.

H. LABOR REPORTING PROCEDURES

The working papers concluded that the Department did not have adequate written policies and procedures for corrections of invalid labor codes on timesheets, transfers of labor costs among projects, time keeping practices, and charges for training and meetings. The following deficiencies were noted:

1. Invalid Codes. The Department’s Fiscal Services unit made corrections to individual employee timesheets when an invalid labor code had been used. However, no documentation was prepared showing the reason for the changes and neither the employees nor their supervisors were contacted to ensure that the changes were proper.

2. Shifting Labor Charges. The Fiscal Services unit shifted labor charges between Federal Aid grants without documenting the reason for the transfers, noting the changes on the timesheets, or notifying the employee or supervisor. The auditors determined, however, that the adjustments were proper for the transactions reviewed.

3. Timesheets. The only instructions for employees on how to complete their timesheets are a one-page list of instructions on the back of the manual timesheet. These instructions did not provide adequate guidance on how to make corrections to timesheets so that a proper audit trail is maintained on what correction was made, why it was made, and who made it. The instructions also did not require that time charges be recorded on a daily basis or that timesheets be prepared in ink.

4. Training and Meeting Costs. The working papers identified inconsistencies in recording costs related to meetings and training. Some employees inappropriately charged general training and meeting costs to specific Federal Aid projects and others inappropriately charged project-specific training and meeting costs to IMS codes used for indirect costs. This occurred because the Department did not have written policies and procedures on charging training and meeting costs as direct or indirect costs.

Recommendation

We recommend that the FWS ensure that the Department corrects the deficiencies related to its labor reporting procedures.

U.S. Fish and Wildlife Service Response

The FWS provided documentation showing that the Department has developed procedures and provided training related to corrections of invalid labor codes on timesheets, transfers of labor costs among projects, time keeping practices, and charges for training and meetings. The FWS stated that it considers these actions sufficient to correct the reported deficiencies and that “no further action is required to close this finding.”

Office of Inspector General Comments

The FWS response was sufficient to consider the recommendation resolved and implemented.

I. ACCOUNTING PRACTICES

The Department did not have written policies and procedures or adequate documentation to support non-labor adjusting journal entries. The documentation did not provide an explanation of why the adjustment was made or who authorized or requested the adjustment.

Recommendation

We recommend that the FWS ensure that the Department corrects the deficiencies related to non-labor adjusting entries.

U.S. Fish and Wildlife Service Response

FWS provided examples of recent journal vouchers furnished by the Department which appear to contain adequate explanations of changes made as well as backup documentation. However, FWS stated “We believe it would be beneficial for MDC to establish a formal accounting policy and procedure on journal vouchers. At a minimum, MDC should prepare written desk procedures for accounting staff to follow.”

Office of Inspector General Comments

Based on the FWS response, we consider the recommendation unresolved.

J. PURCHASING SYSTEM

The working papers identified deficiencies in the Department's purchasing system controls relating to written policies and procedures and records retention.

1. Written Policies and Procedures. The Department did not have current formal written procedures for its procurement operations at the time of the audit. The Department's Expenditures Manual contained numerous sections that were crossed out with handwritten changes added to the document. Also, the Department initiated the use of charge cards before it had approved and finalized its written policy, and it did not have written procedures to ensure that debarred contractors are excluded from obtaining contracts with the Department. The working papers also indicated, however, that the Department had prepared a draft "Business Policy Manual" which included revised procurement and credit card policies and procedures, but the document had not been formally issued as of August 2000.

2. Records Retention. The Code of Federal Regulations (50 CFR 80.19(a)) states "Financial, 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 Department's procedures did not comply with this requirement because the Department discarded records that were three years old, without regard to the project's ending date.

Recommendation

We recommend that the FWS ensure the Department corrects the deficiencies related to its purchasing system controls.

U.S. Fish and Wildlife Service Response

The FWS provided documentation showing that the Department had finalized its Business Policy Manual, and stated that this action was sufficient to consider the recommendation with respect to policies and procedures to be implemented. The FWS also stated that the Department is currently reviewing its records retention schedule and therefore the recommendation with respect to records retention is not implemented.

Office of Inspector General Comments

The FWS adequately addressed the issue regarding written procurement policies and procedures. However, since the Department has not yet revised its record retention requirements, the recommendation is considered unresolved.

K. ASSET MANAGEMENT SYSTEM

The working papers identified the following deficiencies in the Department's asset management system for real and personal property acquired with Federal Aid funds and license revenues.

1. Real Property

a. Disposition Instructions. The Code of Federal Regulations [43 CFR 12.71(c)] requires the grantee to request disposition instructions from the awarding agency when real property is sold. The working papers noted that the Department's guidelines on the sale of real property ("Non-Expendable Inventory Manual" and "Policies and Guidelines for Area and Resource Management Disposal of Real Property or Sale of Forest Products") do not address the notification requirement or indicate that the awarding agency is to be compensated based on the amount of its participation in the purchase.

b. Funding Source. The Department's real property records did not identify property that was purchased with license fees. The Department commingled restricted funding sources (license fees) with unrestricted funding sources (sales tax revenue) into a single fund, the Commission Fund. Once recorded to the Commission Fund, the original funding source can no longer be identified. As such, the funding source for the purchase of real property acquired with the Commission Fund cannot be identified. This could result in the diversion of license fees.

c. Area Plans. The Department's Area Planning Policies and Procedures require that area plans contain the following minimum information: "Area history and historical, cultural, and heritage resources and land use history. Area history will include the acquisition history, and any legal restrictions, easements or agreements that are in effect." The working papers indicated that the Department's area plans did not consistently include sufficient information related to acquisition history, specific tracts acquired with Federal Aid funds or license revenues, or any legal restrictions on the use of the land. Therefore, the plans did not provide sufficient information for monitoring current and planned uses to ensure that the lands are not used for ineligible purposes.

2. Personal Property

a. Funding Source. The Code of Federal Regulations (43 CFR 12.72(b)) requires that "A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures." The Department's Non-Expendable Inventory Manual, Section V.D.6, requires that when adding equipment items to the inventory, funding code 1.1 (Commission Fund) should be used for all equipment that was acquired as part of a land acquisition regardless of the funding source for the acquisition. Thus, equipment acquired along with a Federal Aid-funded land acquisition would not appear in the inventory records as Federal Aid equipment.

b. Equipment Loan Logs. The Department's Non-Expendable Inventory Manual (Section V, Procedures, Paragraph F, Transfers of Inventory Items, Sub-paragraph 3, Loan Log) requires offices to maintain a log of items temporarily loaned to other units. The Manual also requires that equipment on loan for 6 months be transferred to the unit where the equipment is located. The working papers indicated that Department field personnel did not maintain the required loan logs, which could hinder the identification of equipment that is missing or that should be transferred to another unit.

Recommendation

We recommend that the FWS ensure that the Department corrects the deficiencies in its asset management system.

U.S. Fish and Wildlife Service Response

The FWS response regarding the deficiencies in its asset management system was as follows:

Real Property. The FWS stated that the Department was in the process of revising the applicable manuals to address the issue regarding disposition instructions. It also stated that the Department has completed revising its policy and procedure to address the issue regarding area plans.

Regarding the issue of identification of the source of funding used to acquire real property, the FWS stated that the Department was proposing that property acquired before 1978 would be coded as "Commission Fund" and property acquired during or after 1978 would be coded as "Conservation Sales Tax." However, the FWS further stated, "We are not clear if all real properties, or only part of the properties, proposed to be coded as 'Commission Fund' are considered 'license fee restricted use properties.'" The FWS concluded that "We believe this issue requires further detailed study and analysis of facts and consider the finding unsettled."

Personal Property. The FWS stated that the Department indicated that it had changed its manual to delete the incorrect statement regarding the funding source of equipment acquired as part of a land acquisition, but that the Department had not yet provided a copy of the manual section containing the changes. The FWS also stated that the Department has eliminated the requirement for loan logs, and therefore no further action is required to address this issue.

Office of Inspector General Comments

Based on the FWS response, we consider the recommendation unresolved. The FWS needs to ensure that the Department makes the necessary changes to its manuals to address the issue regarding the disposition of real property, resolve the issue regarding the source of funding for real property acquired with the Commission Fund, and ensure that the Department has made the necessary changes to its manual regarding equipment purchased as part of a land acquisition.

L. BILLINGS AND DRAWDOWNS

The working papers concluded that the Department's procedures and related internal controls for billings and drawdowns were adequate but identified a deficiency related to credits for revenues received for Grant W-93-D-5. Specifically, the Department did not credit monthly program outlays for program income and revenues from the sale of real property when computing reimbursable expenses. While the Department recorded the receipts for program income and the sale of real property each month, it did not use these amounts to offset grant outlays on the monthly draw down requests. Instead, the Department delayed the crediting of these revenues until the end of the fiscal year. As a result, the Department received advance funding. The Cash Management Improvement Act and the regulations (31 CFR 205.7(4)) require that a state shall request funds not more than three business days prior to the day it makes a disbursement.

Recommendation

We recommend that the FWS ensure that the Department revises its procedures to report program income and revenues from the sale of real property as an offset against reported outlays on its monthly drawdowns.

U.S. Fish and Wildlife Service Response

The FWS stated that the Department has been crediting agriculture crop income and timber sales to Federal Aid grants on a monthly basis since the issue was raised by the other audit agency, and provided documentation furnished by the Department showing that credits were being made. The FWS stated that it considered the recommendation implemented.

Office of Inspector General Comments

The FWS response was sufficient to consider the recommendation resolved and implemented.

M. COST-PER-FISH CALCULATION

The working papers indicated that costs charged to Grants F-41-D-12 and F-50-D-1 for stocking fish in public waters were not based on actual costs for the grant period. The Department annually computes an average cost per fish by species that is based on information developed by its hatcheries. The basic purpose of these calculations is to permit the allocation of costs for stocking private ponds and public waters. However, the working papers indicated that the cost-per-fish calculations for warm water species were based on actual costs for the prior calendar year and budgeted costs for the following calendar year (which overlapped the grant period) and that the calculation for coldwater species was based on a 12-month period that also overlapped the grant period. As a result, the costs charged to the grants for stocking public waters were not based on the actual costs incurred. The working papers indicated, however, that

the auditors determined that the Department's process did not result in material excessive charges to the grants for the period reviewed.

Recommendation

We recommend that the FWS resolve the issue regarding the Department's cost-per-fish calculations.

U.S. Fish and Wildlife Service Response

FWS stated that it was advised by the Department that \$1 million is charged annually to Federal Aid grants based on the cost-per-fish calculations and that, "The auditors may have concluded that MDC's practice in 1998 and 1999 did not result in excessive charges, but that doesn't mean conclusions are true for current years." FWS further stated that it noted that the Department prepares its Financial Status Reports on the cash basis of accounting and that "Without a better, more detailed understanding of MDC's accounting practice, we have difficulty seeing the problems associated with charging actual cash outlays to grants at the time actual expenses are incurred by fish hatcheries." FWS concluded that this issue requires further study and fact-finding due to the significant dollars involved before it can be resolved.

Office of Inspector General Comments

This issue was initially included in the "Management Issues" section (Appendix 2) of our draft report. However, based on the concerns expressed by the FWS in its response, we have included this issue in the body of the report. We consider the recommendation unresolved.

In accordance with the Department Manual, please provide us with your written comments by September 12, 2003 regarding the questioned costs and other issues discussed in this report. If you have any questions regarding this report, please contact Mr. Gary Dail, Federal Assistance Audit Coordinator, at (703) 487-8011.

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 3
U.S. Fish and Wildlife Service

**FINANCIAL SUMMARY OF REVIEW COVERAGE
MISSOURI DEPARTMENT OF CONSERVATION
JULY 1, 1997 THROUGH JUNE 30, 1999**

<u>GRANT AGREEMENT</u>	<u>TITLE</u>	<u>GRANT BUDGET</u>	<u>FEDERAL SHARE</u>	<u>AMOUNT CLAIMED</u>	<u>QUESTIONED COSTS (FEDERAL SHARE)</u>	<u>NOTE</u>
W-93-D-3	Statewide Wildlife Management	\$8,065,322	\$4,032,661	\$7,341,544	\$776,470	1
W-93-D-4	Statewide Wildlife Management	6,450,703	2,257,746	4,387,087	744,603	2
W-13-R-52	Wildlife Management, Planning, & Research	2,690,416	2,017,812	2,399,433		
W-13-R-53	Wildlife Management, Planning, & Research	2,266,473	1,699,855	1,982,833		
F-1-R-47	Fisheries Research Studies	888,020	666,015	676,760		
F-1-R-48	Fisheries Research Studies	841,270	630,952	606,517		
F-41-D-12	Statewide Public Lake Management	1,454,736	1,091,052	1,525,660		
F-44-T-11	Statewide Private Lake Management	459,786	344,840	236,732		
F-47-D-1	Small Public Fishing & Boating Impoundment Developments	2,400,000	1,800,000	2,157,802		
F-48-D-2	Lost Valley Hatchery Development	18,160,890	13,620,668	16,158,470		
F-42-E-12	Aquatic Resource Education	615,501	461,623	318,708		
F-42-E-13	Aquatic Resource Education	898,790	674,092	481,549		
F-49-D-1	Motorboat Access O&M	837,500	628,125	510,544	2,059	3
F-50-D-1	Statewide Fisheries Management Program	3,871,713	2,903,785	3,400,260		
F-46-D-2	Fishing and Boating Access Development	1,050,000	787,500	875,940		
F-46-D-3	Fishing and Boating Access Development	860,000	645,000	902,570		

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MISSOURI DEPARTMENT OF CONSERVATION
JULY 1, 1997 THROUGH JUNE 30, 1999**

<u>GRANT AGREEMENT</u>	<u>TITLE</u>	<u>GRANT BUDGET</u>	<u>FEDERAL SHARE</u>	<u>AMOUNT CLAIMED</u>	<u>QUESTIONED COSTS (FEDERAL SHARE)</u>	<u>NOTE</u>
F-46-D-4	Fishing and Boating Access Development	650,000	487,500	800,316		
F-46-D-5	Fishing and Boating Access Development	267,349	200,512	420,434		
F-46-D-6	Fishing and Boating Access Development	427,550	320,663	418,141		
F-46-D-7	Fishing and Boating Access Development	250,000	187,500	289,827		
F-46-D-8	Fishing and Boating Access Development	208,300	156,225	156,225		
E-1-30	Endangered Species	166,934	104,471	128,176		
E-1-31	Endangered Species	90,319	66,234	48,279		
E-1-32	Endangered Species	162,746	81,373	70,921		
V-1-1	Clean Vessel	42,667	32,000	42,605		
V-1-2	Clean Vessel	101,055	38,833	83,462		
V-1-3	Clean Vessel	54,284	40,712	0		
TOTAL		\$54,232,324	\$35,977,749	\$46,420,795	\$1,523,132	

Explanatory Notes

(1) The questioned amount includes reimbursements exceeding the Federal cost-sharing percentage (\$734,154), operation and maintenance costs ineligible for Federal Aid reimbursement (\$16,411), and costs related to nuisance animal control efforts (\$25,905).

(2) The questioned amount includes reimbursements exceeding the Federal cost-sharing percentage (\$722,266), operation and maintenance costs ineligible for Federal Aid reimbursement (\$6,897), and costs related to nuisance animal control efforts (\$15,440).

(3) The questioned amount relates to operation and maintenance costs on ineligible lands (\$2,059).

MANAGEMENT ISSUES

The working papers identified the two management issues that the Missouri Department of Conservation and the U.S. Fish and Wildlife Service need to address. The following conditions were noted during the other audit agency's visits to selected sites that were funded under Federal Aid grants.

1. Handicap Accessibility. Section 504 of the Rehabilitation Act of 1973 states that no qualified handicapped person shall, on the basis of handicap, be excluded from participation in, be denied the benefits of, or otherwise be discriminated against in any program or activity receiving Federal financial assistance. The working papers indicated that the restrooms at the Uhlmeier Boating Access were not handicap accessible due to a 3-inch lip between the sidewalk and the vault.

2. Federal Aid Logos. The Federal Aid Manual (522 FW 7.9 and 10.9) requires grantees to display appropriate symbols at areas and facilities that have been funded by Federal Aid grants. The working papers indicated that the Department had displayed the symbols at most of the areas visited, but identified three areas where logos were not posted: Swinging Access Bridge, Angeline Conservation Area, and Sunklands Conservation Area.

U.S. Fish and Wildlife Service Response

The FWS stated that the Department has provided information showing that it has implemented corrective action.

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