



Department of the Interior Office of Inspector General

Audit Report

**U.S. Fish and Wildlife Service
Wildlife and Sport Fish Restoration Program
Grants Awarded to the State of Minnesota,
Department of Natural Resources,
From July 1, 2005, Through June 30, 2007**

**Report No.
R-GR-FWS-0004-2009**

September 2009



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230


Reston, VA 20191

September 21, 2009

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Suzanna I. Park 
Director of External Audits

Subject: Audit on U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Minnesota, Department of Natural Resources, From July 1, 2005, Through June 30, 2007 (No. R-GR-FWS-0004-2009)

This report presents the results of our audit of costs claimed by the State of Minnesota (State), Department of Natural Resources (Department), under grants awarded by the U.S. Fish and Wildlife Service (FWS). FWS provided the grants to the State under the Wildlife and Sport Fish Restoration Program (the Program). The audit included claims totaling approximately \$72 million on 45 grants that were open during State fiscal years (SFYs) ended June 30 of 2006 and 2007 (see Appendix 1). The audit also covered Department compliance with applicable laws, regulations, and FWS guidelines, including those related to the collection and use of hunting and fishing license revenues and the reporting of program income.

We found that the Department complied, in general, with applicable grant accounting and regulatory requirements. However, we questioned costs totaling \$20,389 and found that the Department's controls over real property and equipment management were inadequate. We also identified findings from the Minnesota Office of the Legislative Auditor (OLA) Financial Audit Report on the Game and Fish Fund covering the period from July 1, 2005 through April 30, 2008. The OLA reported that the Department had improperly allocated central support services costs and claimed unsupported payroll costs.

In addition, the OLA issued a special report in August 2008 titled "Department of Natural Resources and the 2007 North American Wildlife Enforcement Officers Association Conference." According to that report, the Department incurred approximately \$300,000 in conference expenses unrelated to its statutory responsibilities. Although the conference took place outside the scope of our audit period, we noted that the inappropriate expenses were paid with license revenues, which under the Program, can be used only for the administration of the Department. We therefore suggest that FWS monitor this issue.

We provided a draft report to FWS for a response. We summarized Department and FWS Region 3 responses after each recommendation, as well as our comments on the responses. We list the status of each recommendation in Appendix 3.

Please respond in writing to the findings and recommendations included in this report by December 21, 2009. Your response should include information on actions taken or planned, targeted completion dates, and titles of officials responsible for implementation.

If you have any questions regarding this report, please contact the audit team leader, Mr. Jeffrey P. Wilson, or me at 703-487-5345.

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

Introduction

Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts)¹ established the Wildlife and Sport Fish Restoration Program. Under the Program, FWS provides grants to States to restore, conserve, manage, and enhance their sport fish and wildlife resources. The Acts and federal regulations contain provisions and principles on eligible costs and allow FWS to reimburse States up to 75 percent of the eligible costs incurred under the grants. The Acts also require that hunting and fishing license revenues be used only for the administration of the State's fish and game agency. Finally, federal regulations and FWS guidance require States to account for any income they earn using grant funds.

Objectives

Our audit objectives were to determine if the Department:

- claimed the costs incurred under the Program grants in accordance with the Acts and related regulations, FWS guidelines, and the grant agreements;
- used State hunting and fishing license revenues solely for fish and wildlife program activities; and
- reported and used program income in accordance with federal regulations.

Scope

Audit work included claims totaling approximately \$72 million on the 45 grants that were open during SFYs 2006 and 2007 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at Department headquarters in St. Paul, MN, and visited one regional office, three wildlife management areas, one wildlife work area office, three hatcheries, three area fisheries offices, and two water access sites (see Appendix 2). We performed this audit to supplement, not replace, the audits required by the Single Audit Act Amendments of 1996 and by Office of Management and Budget Circular A-133.

Methodology

We performed our audit in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We tested records and conducted auditing procedures as necessary under the circumstances. We believe that the evidence obtained from our tests and

¹ 16 U.S.C. §§ 669 and 777, as amended, respectively.

procedures provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our tests and procedures included:

- examining the evidence that supports selected expenditures charged to the grants by the Department;
- reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, in-kind contributions, and program income;
- interviewing Department employees to ensure that personnel costs charged to the grants were supportable;
- conducting site visits to inspect equipment and other property;
- determining whether the Department used hunting and fishing license revenues solely for administration of the Department; and
- determining whether the State passed required legislation assenting to the provisions of the Acts.

We also identified the internal controls over transactions recorded in the labor and license fee accounting systems and tested their operation and reliability. Based on the results of initial assessments, we assigned a level of risk to these systems and selected a judgmental sample of transactions recorded in these systems for testing. We did not project the results of the tests to the total population of recorded transactions or evaluate the economy, efficiency, or effectiveness of the Department's operations.

Prior Audit Coverage

On February 1, 2007, we issued "Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Grants Awarded to the State of Minnesota, Department of Natural Resources, Division of Fish and Wildlife, From July 1, 2002, Through June 30, 2004" (No. R-GR-FWS-0018-2005). We followed up on all recommendations in the report and found that the Department of the Interior, Office of the Assistant Secretary for Policy, Management and Budget considered them to be resolved and implemented.

We reviewed Minnesota's Comprehensive Annual Financial Reports and Single Audit Reports for SFYs 2006 and 2007. The Department's Wildlife and Sport Fish Restoration Program was not selected for compliance testing in either of the Single Audits. Furthermore, none of these reports contained any findings that would directly impact the Department's Wildlife and Sport Fish Restoration Program grants or programs under the grants.

We also reviewed the Minnesota OLA Financial Audit Report on the Minnesota Department of Natural Resources Game and Fish Fund covering the period July 1, 2005, through April 30,

2008. The report contained several findings that directly impacted our review. Specifically, the OLA report identified the following findings: (1) improper allocation of central support service costs; (2) unsupported and improper payroll allocation; and (3) inadequate equipment management related to lack of performing required annual physical inventories. These issues are addressed in this report.

Lastly, we considered OLA's Special Review of the Department's 2007 Wildlife Enforcement Conference. The report contained a finding on the inappropriate use of license revenues in the planning and implementation of the conference. We determined that this finding impacted our review and included it in this report.

Results of Audit

Audit Summary

We found that the Department complied, in general, with applicable grant agreement provisions and requirements of the Acts, regulations, and FWS guidance. However, we identified several conditions that resulted in the findings listed below, including questioned costs totaling \$20,389. We discuss the findings in more detail in the Findings and Recommendations section.

Questioned Costs. We questioned costs totaling \$20,389 from unsupported and unallowable grant expenditures.

Improper Allocation of Central Support Service Costs. The Department could not demonstrate whether it used dedicated funds appropriately due to inappropriate and inconsistent allocation methods.

Unsupported and Improper Payroll Allocation. The Department's Enforcement Division could not support its allocation of payroll costs to the Game and Fish Fund for SFYs 2006 and 2007.

Unreconciled Real Property Records. The Department's database on total acreage acquired with Program funds conflicted with the FWS land records because they had not reconciled their respective records.

Inadequate Equipment Management. The Department did not ensure that the Regions conducted and completed the required property inventories for SFYs 2006 and 2007.

Findings and Recommendations

A. Questioned Costs — \$20,389

To be eligible for reimbursement under the Program, grant funds cannot be used for prohibited purchases or purposes, and expenditures must be adequately supported. The Department charged \$27,122 (\$20,341 federal share) to the Public Access Development Grant (No. FW-4-D-71) without maintaining documentation to support the expenditure. In addition, during a fisheries conference, the hotel hosting the event charged the Department \$64 (\$48 federal share) for four hours of court rental unrelated to the grant.

The Code of Federal Regulations (C.F.R.), in 50 C.F.R. § 80.15, specifies that allowable costs include only those that are reasonable and necessary to accomplish approved project purposes. These regulations also require grantees to maintain support for the application of funds in the form of source documents or other records.

This issue arose because the Department did not have adequate procedures to ensure that grant expenditures were allowable and properly supported. As a result, we are

questioning \$20,389, the federal share of these costs. In addition, after the end of fieldwork, a Department official stated that the Department's accounting system does not have separate funding codes for each federal agency providing federal grant funds to the Division of Trails and Waterways. As a result, other federal agencies' grant-related expenditures were also included in the Public Access Development Grant.

Because the Department could not provide documentation to support the claimed amounts, there is no assurance that the Department expended these funds on grant related activities.

Recommendations

We recommend that FWS:

1. resolve the \$20,389 in questioned costs,
2. ensure the Department implements a procedure to maintain supporting documentation and to ensure that expenditures are necessary to accomplish approved project purposes, and
3. ensure the Department establishes separate funding codes for the Trails and Waterways Division to identify grant related expenditures for each federal agency.

Department Response

The Department concurs with the recommendations and is currently taking steps to resolve and implement them.

FWS Response

FWS Regional officials concurred with the recommendations and stated that they would work with the Department in developing a corrective action plan to resolve the recommendations.

OIG Comments

Based on both Department and FWS responses, additional information is needed in the corrective action plan, including:

- the specific action(s) taken or planned to address the recommendations;
- targeted completion dates;
- titles of officials responsible for implementing the actions taken or planned; and

- verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

B. Improper Allocation of Central Support Service Costs

The Minnesota OLA's Financial Audit Report on the Game and Fish Fund covering the period from July 1, 2005, through April 30, 2008, indicated that the Department could not provide documentation or a valid methodology to support the allocation of central support service costs to that fund. Specifically:

- Staff in the Fish and Wildlife and Trails and Waterways Divisions stated that they allocated central support service costs based on the proportion of funding received for operations. This allocation method was not appropriate because it failed to relate the allocated costs to the office or unit that actually used the central support service.
- The Enforcement Division did not attempt to allocate its central support service costs and instead charged these costs to funds and dedicated accounts with sufficient resources to cover them.

We are not making a recommendation as the Department will be responding to the recommendations in the OLA report. We therefore suggest FWS monitor these recommendations. The report contained the following recommendations:

- "The department should establish guidelines for acceptable allocation methods for its divisions to use when allocating central support service costs to funding sources."
- "The divisions should retain documentation to support their allocations of central support services costs."
- "The department should review its division's past allocations of central services costs and, to the extent possible, adjust the allocations to more reasonably approximate the actual cost of those services to the dedicated funding sources."

C. Unsupported and Improper Payroll Allocation

The OLA's Financial Audit Report also noted that the Enforcement Division could not support its allocation of approximately \$8.5 million and \$9.2 million in payroll costs to the Game and Fish Fund for SFYs 2006 and 2007, respectively.

According to Division staff, payroll costs were allocated to the Game and Fish Fund based on estimated work plans. However, they could not provide documentation, such as a comparison with prior years' data, to support the percentages used in the allocation. Furthermore, the Division did not appropriately allocate 17 of 29 payroll separation payments and 30 of 311 retroactive lump sum payments that OLA tested for SFYs 2006

and 2007. These costs, totaling \$105,300, were instead paid entirely from the Game and Fish Fund.

We are not making a recommendation as the Department will be responding to the recommendations in the OLA report. We therefore suggest FWS monitor these recommendations. The report contained the following recommendations:

- “The department should review methods used to allocate payroll charges to ensure that methods reasonably approximate actual work performed by employees.”
- “The department should monitor payroll allocations to ensure that payroll charges are consistent with allocation methods authorized.”
- “The department should review payroll costs charged to the Game and Fish Fund and its dedicated accounts to identify other payroll allocation errors.”
- “To the extent possible, the department should adjust the accounting records to correct the allocation errors noted in this finding and through its review.”

D. Unreconciled Real Property Records

The Department and FWS each maintain records on land purchased with Program grant funds; however, these two sets of records show significant differences. Specifically, FWS records accounted for over 14,000 less acres acquired with Program funds than the Department’s database.

Federal Regulations (43 C.F.R. §§ 12.82(a)(1)(i) and (c)(2)) require States to retain real property records. Furthermore, the FWS Director issued a letter in March 2007 requesting each State to maintain a real property management system that included a comprehensive inventory of lands and to ensure that this inventory is accurate and complete.

The Department has not reconciled records in its land database with FWS land records to determine their accuracy and completeness. As a result, the Department’s land records are not adequate to ensure that lands acquired with grant funds and license revenues are used only for their originally intended purposes.

Recommendation

We recommend that FWS require the Department to reconcile its real property records with FWS.

Department Response

The Department concurs with the recommendation.

FWS Response

FWS Regional officials concurred with the recommendation and stated that they would work with the Department in developing a corrective action plan to resolve the recommendation.

OIG Comments

Based on both Department and FWS responses, additional information is needed in the corrective action plan, including:

- the specific action(s) taken or planned to address the recommendation;
- targeted completion date;
- titles of officials responsible for implementing the actions taken or planned; and
- verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

E. Inadequate Equipment Management

Federal regulations require each State to have adequate controls to ensure it maintains accountability for its equipment. To test the State's controls, we reviewed its Fixed Asset System and determined that the Department did not conduct an annual physical inventory in SFY2006 or complete the SFY2007 inventory, as required.

The Department Administrative Manual (Policy Number 04:M02, Section II, "Inventory and Audits") requires that the Regions conduct an annual physical inventory and forward the certified results to the Central Management Resources Office. In addition, 43 C.F.R. § 12.72(d)(1) requires each State to have adequate controls, including current and complete property records, to ensure it maintains accountability for its equipment.

Department officials did not ensure that the Regions completed annual inventories and provided the certified results to the Central Management Resources Office. As a result, the Department has no assurance that equipment purchased with Program funds and license revenues is being used for its original intended purpose, and the equipment is at risk of being lost.

Recommendation

We recommend that FWS ensure that the Department implements its inventory procedures and conduct certified annual physical inventories.

Department Response

The Department concurs with the recommendation and is currently taking steps to resolve and implement the recommendation.

FWS Response

FWS Regional officials concurred with the recommendation and stated that they would work with the Department in developing a corrective action plan to resolve the recommendation.

OIG Comments

Based on both Department and FWS responses, additional information is needed in the corrective action plan, including:

- the specific action(s) taken or planned to address the recommendation;
- targeted completion date;
- titles of officials responsible for implementing the actions taken or planned; and
- verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

**MINNESOTA DEPARTMENT OF NATURAL RESOURCES
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2005, THROUGH JUNE 30, 2007**

Grant Number	Grant Amount	Claimed Costs	Questioned Costs (Federal Share)	
			Unsupported	Cost Exceptions
F-2-L-61	\$1,500,000	\$135,044		
F-2-L-62	1,500,000	0		
F-26-R-37	957,685	900,430		
F-26-R-38	1,130,152	1,073,763		
F-26-R-39	1,142,350	151,146		
F-29-R(P)-25	8,090,300	8,099,994		
F-29-R(P)-26	8,396,900	8,578,301		\$48
F-29-R(P)-27	8,067,698	769,760		
F-32-D-20	5,326,800	4,557,497		
F-32-D-21	5,859,734	4,900,082		
F-37-E-15	512,498	587,880		
F-37-E-16	512,498	683,811		
F-37-E-17	512,498	264,748		
FW-3-L-55	4,858,896	4,858,896		
FW-3-L-57	5,870,000	3,922,569		
FW-3-L-58	8,122,625	476,570		
FW-4-D-69	625,000	315,737		
FW-4-D-70	425,000	426,377		
FW-4-D-71	1,212,072	256,080	\$20,341	
FW-11-C(SF)-16	88,582	99,802		
FW-11-C(W)-16	59,055	66,535		
FW-11-C(W)-17	98,823	20,274		
FW-11-C(SF)-17	98,823	20,274		
FW-13-T(SF)-15	1,007,500	1,049,759		
FW-13-T(W)-15	542,500	565,255		

**MINNESOTA DEPARTMENT OF NATURAL RESOURCES
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2005, THROUGH JUNE 30, 2007**

Grant Number	Grant Amount	Claimed Costs	Questioned Costs (Federal Share)	
			Unsupported	Cost Exceptions
FW-13-T(SF)-16	\$2,112,500	\$917,113		
FW-13-T(W)-16	1,137,500	518,086		
W-27-L-117	1,732,455	0		
W-27-L-118	1,500,000	0		
W-65-D-6	5,000,000	6,674,058		
W-65-D-7	6,350,000	5,554,380		
W-65-D-8	5,850,000	1,620,843		
W-66-M-6	1,220,000	1,690,174		
W-66-M-7	1,485,000	1,430,325		
W-66-M-8	1,385,000	290,284		
W-67-T-8	1,831,904	1,987,404		
W-67-T-9	1,652,000	2,067,108		
W-68-D-8	1,564,398	1,863,038		
W-68-D-9	1,480,000	1,873,670		
W-69-S-8	391,400	492,215		
W-69-S-9	402,600	525,320		
W-70-E-1	462,463	344,117		
W-70-E-2	521,646	634,253		
W-70-E-3	430,000	563,390		
W-70-E-4	442,600	199,722		
TOTAL	\$103,469,455	\$72,026,084	\$20,341	\$48

**MINNESOTA DEPARTMENT OF NATURAL RESOURCES
SITES VISITED**

Headquarters

St. Paul

Regional Office

Region 3, St. Paul

Hatcheries

French River Hatchery

Lanesboro Hatchery

St. Paul Hatchery

Area Fisheries Offices

Duluth

Lake Superior

Lansboro

Wildlife Work Area Office

Cloquet

Water Access Sites

Lake Superior

Roberds Lake

Wildlife Management Areas

Blackhoof River

Rutledge

Whitewater

APPENDIX 3

**MINNESOTA DEPARTMENT OF NATURAL RESOURCES
STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

Recommendations	Status	Action Required
A.1, A.2, A.3, D, and E	FWS management concurs with the recommendations, but additional information is needed as outlined in the “Actions Required” column.	Additional information is needed in the corrective action plan, including the actions taken or planned to implement the recommendations, targeted completion date(s), the title of official(s) responsible for implementation, and verification that FWS officials reviewed and approved of actions taken or planned by the State. We will refer recommendations not resolved and/or implemented at the end of 90 days (after December 21, 2009) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

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