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U.S. DEPARTMENT OF THE INTERIOR



Audit




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Memorandum

To: Paul Souza
Acting Director, U.S. Fish and Wildlife Service

From: Colleen Kotzmoyer 
Director, Contract and Grant Audit Division

Subject: Final Audit Report – *Wildlife and Sport Fish Restoration Grants Awarded to the State of Minnesota by the U.S. Fish and Wildlife Service*
Report No. 2024-CGD-027

We audited the expenditures and related license revenue made by the Minnesota Department of Natural Resources (Department) under grants awarded by the U.S. Fish and Wildlife Service (FWS) through the Wildlife and Sport Fish Restoration Program. We found that the Department ensured that grant funds and license revenue were used for allowable activities and complied with applicable laws and regulations, FWS guidelines, and grant agreements. We did not identify any reportable conditions. Background information and the objective, scope, and methodology for this audit can be found in Attachment 1. A list of the sites visited during this audit is provided in Attachment 2.

Because we are not offering recommendations, we do not require a response to this report. We will notify Congress about our findings, and we will summarize this work in our next *Semiannual Report to Congress*, as required by law. We will also post a public version of this report on our website.

If you have any questions, please contact me at aie_reports@doioig.gov.

Attachments (2)

Attachment 1: Background, Objectives, Scope, and Methodology

Background

The U.S. Fish and Wildlife Service (FWS) provides grants to States¹ through the Wildlife and Sport Fish Restoration (WSFR) Program for the conservation, restoration, and management of wildlife and sport fish resources as well as educational and recreational activities. WSFR was established by the Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act.² In general, the Acts and related Federal regulations allow FWS to reimburse grantees a portion of eligible costs incurred under WSFR grants—up to 75 percent for States and up to 100 percent for the Commonwealths, territories, and the District of Columbia. The reimbursement amount is called the Federal share and the portion the States must match with their own funds is called the State share. To meet the State-share requirement, the Minnesota Department of Natural Resources (Department) used general license revenues from hunting and fishing license or permit sales, timber harvest permit sales, and other non-Federal funding sources. The Acts require that hunting and fishing license revenue be used only for the administration of participating fish and wildlife agencies. In addition, Federal regulations require participants to account for any income earned from grant-funded activities and to spend this income before requesting grant reimbursements.

Objectives

In March 2021, we entered into an intra-agency agreement with FWS to conduct audits of State agencies receiving grant funds under WSFR. These audits assist FWS in fulfilling its statutory responsibility to oversee State agencies' use of these grant funds.

The objectives of this audit were to determine whether the Department used WSFR grant funds and State hunting and fishing license revenue for allowable fish and wildlife activities and complied with applicable laws and regulations, FWS guidelines, and grant agreements.

Scope

We audited the Department's use of grant funds awarded by FWS under WSFR. The scope of our audit included grants open during the State fiscal years (SFYs) ending June 30, 2022, and June 30, 2023. We reviewed 12 of 36 grants open during our audit scope, totaling \$63 million in expenditures. We also reviewed license revenue during the same period. The universe included expenditures of \$75 million and related transactions. In addition, we reviewed historical records for the acquisition, condition, management, and disposal of real property and equipment purchased with either license revenue or WSFR grant funds.

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹ Federal regulations define the term "State" as the 50 States; the Commonwealths of Puerto Rico and the Northern Mariana Islands; the territories of Guam, the U.S. Virgin Islands, and American Samoa; and the District of Columbia (Dingell-Johnson Sport Fish Restoration Act only).

² Formally known, respectively, as the Federal Aid in Wildlife Restoration Act, 16 U.S.C. § 669, as amended, and the Federal Aid in Sport Fish Restoration Act, 16 U.S.C. § 777, as amended.

We assessed whether internal control was significant to the audit objectives. We determined that the following related principles were significant to the audit objectives:

- Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
- Management should design control activities to achieve objectives and respond to risks.
- Management should design the entity's information system and related control activities to achieve objectives and respond to risk.
- Management should internally communicate the necessary quality information to achieve the entity's objectives.
- Management should externally communicate the necessary quality information to achieve the entity's objectives.
- Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
- Management should remediate identified internal control deficiencies on a timely basis.

We tested the design, implementation, and operating effectiveness of internal controls over activities related to our audit objective. Our tests and procedures included:

- Examining the evidence that supports selected expenditures that the Department charged to grants.
- Reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, and program income.
- Interviewing Department leadership and employees.
- Determining whether the Department used hunting and fishing license revenue for the administration of allowable program activities.
- Reviewing equipment inventory records and disposal records.
- Evaluating State policies and procedures for assessing risk and monitoring subawards.
- Determining whether the State passed required legislation assenting to the provisions of the Acts.
- Determining whether the Department charged the State's unfunded pension liabilities to WSFR grants.
- Reviewing the fringe benefits charged during the payroll process to understand the coding for payroll deductions and to determine whether the fringe benefit codes are allowable, allocable, and reasonable.
- Reviewing background and reports on the sustainable timber harvest initiative to determine the potential impact of new planning processes on Wildlife Management Areas (WMAs) purchased or managed with WSFR funding.
- Visiting sites throughout the State (see Attachment 2 for a list of sites visited).

Based on the results of our initial assessments, we assigned a level of risk and selected a judgmental sample of 12 out of 36 grants with activity during our audit period. This included grants for habitat management, technical guidance research, land acquisition, and operations.

Our review of these grants included assessments on the following:

- Grant claims and corresponding drawdowns.
- Application of the negotiated indirect cost rate agreement.
- Recognition and application of program income.
- Payroll allocations.
- Management of real property and equipment.
- Progress of agreed-upon grant objectives.

We used auditor judgment and considered risk levels relative to other audit work performed to determine the degree of testing performed in each area. Our sample selections were not generated using statistical sampling, and therefore we did not project the results of our tests to the total population of transactions. We did not find deficiencies in internal control.

This audit supplements, but does not replace, the audits required by the Single Audit Act Amendments of 1996. Single audit reports address controls over Statewide financial reporting, with emphasis on major programs. Our report focuses on the administration of the Minnesota fish and wildlife agency and that agency's management of WSFR resources and license revenue.

The Department provided computer-generated data from its official accounting system and from its informal management information and reporting systems. We tested the data by sampling expenditures and verifying them against WSFR reports and source documents such as purchase orders, invoices, and payroll documentation. While we assessed the accuracy of the transactions tested, we did not assess the reliability of the accounting system as a whole.

We conducted an exit conference with FWS and the Department on June 18, 2025. After the conference, responsible officials were given the opportunity to provide their views on our results. Both FWS Region 3 and the Department provided feedback on the audit and our results. We have incorporated relevant information into this report.

Prior Audit Coverage

OIG Audit Reports

We reviewed our last two audits regarding the costs the Department claimed on WSFR grants.³ We followed up on six recommendations from the 2020 report and five from the 2014 report. Both reports had one finding in common, resulting in the same recommendations. We reviewed the Department's corrective actions and found that all recommendations have been implemented. For implemented recommendations, we verified that the State has taken the appropriate corrective actions.

State Audit Reports

We reviewed the single audit reports for SFYs 2022 and 2023 to identify control deficiencies or other reportable conditions that affect WSFR. In those reports, the Schedule of Expenditures of Federal Awards indicated \$76 million (combined) in Federal expenditures related to WSFR. In SFY 2023, the Fish and Wildlife cluster was deemed a major Federal program and the corresponding audit report included one finding related

³ 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, 2016, Through June 30, 2018 (Report No. 2019-CR-016), issued March 2020.

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, 2011, Through June 30, 2013 (Report No. R-GR-FWS-0002-2014), issued December 2014.

to payments made in lieu of tax incorrectly recorded as subrecipient payments, which was resolved. In SFY 2022, the Fish and Wildlife cluster was not deemed a major Federal program, and there were no findings related to the Department.

Other Matters

Timber Harvest Activities

The Department consists of seven divisions, three of which are directly involved in forest management activities in WMAs. These include the Fish and Wildlife (FAW) Division, which is primarily responsible for administering the WSFR program in Minnesota; the Forestry Division, which manages 4.2 million acres of Minnesota's forested land; and the Ecological and Water Resources Division, which houses the Department's nongame wildlife and rare resource expertise.

During our audit, we learned that FWS was concerned that the Department's timber harvest activities in the Minnesota WMAs may not have aligned with WSFR Program purposes. According to a 2020 draft monitoring report,⁴ FWS officials noted that the Department's Forestry Division appeared to be performing forest management activities on WMAs with limited input from the Department's FAW Division. In some cases, FAW staff had limited knowledge that the Forestry Division was conducting these activities on WMAs. Timber harvest practices conducted under grants also seemed to be lacking wildlife conservation and management objectives or appropriate procedures and accepted principles of wildlife conservation and management. The Department informed us that it disputed many of the 2020 report's conclusions and noted that if those conclusions were substantiated, the alleged actions cited in the draft report would be a violation of the Department's policy as outlined in its *Interdisciplinary Forest Management Coordination Framework*.

To ensure that timber harvest activities on WSFR-supported lands benefited fish and wildlife, FWS updated the terms and conditions of Grant No. F21AF02911 for SFY 2022 to 2023 Statewide Wildlife Habitat Management to require the Department to submit more documentation before conducting timber harvest activities on WMAs associated with the grant. Despite these additional terms, the Department continued to sell timber harvest permits without providing the necessary documentation.

As a result, in August 2023, FWS paused further disbursements of the SFY 2022 to 2023 grant funds and placed a hold on awarding the SFY 2024 to 2025 follow-on grant until the Department fully complied with the grant terms and conditions. Nearly two months later, the Department and FWS reached a mutual understanding, and FWS released funding for the SFY 2022 to 2023 grant funds and the SFY 2024 to 2025 follow-on grant. We applaud the Department's efforts to enhance operational collaboration among its divisions in accordance with the Department's interdisciplinary forest management framework. However, FWS has valid concerns regarding potentially competing priorities within the Department and the ability to ensure timber harvest activities on lands with a Federal nexus maintain wildlife conservation and management objectives.

Although the FAW Division and Forestry Division are within the Department, they maintain separate directives and guidance, which can potentially lead to competing priorities. For example, most of the FAW Division area wildlife supervisors and coordinators we contacted stated that they felt the Department Commissioner and leadership prioritized meeting timber industry cordage targets, which is a Forestry Division objective, over maintaining wildlife habitat for the maximum production of a variety of wildlife species. This created the appearance that the Forestry Division had more control over the process and outcome. During interviews, the Department's Commissioner and leadership said that timber harvests on WMAs benefited wildlife habitat.

Our interactions with the Department's area wildlife supervisors support FWS' concerns, as FAW staff indicated that they felt they did not have the ability to deny harvests on WMAs and felt pressure to meet cordage targets, regardless of the impact to wildlife habitat. In response to these known concerns, Department leadership stated that they have undertaken a continuous improvement project to address concerns from its

⁴ Based on correspondence from FWS and the Department, this report was not finalized because both parties had reached a mutual understanding. However, versions of the draft report were shared with the Department.

field staff. We did not review this effort during our audit. Furthermore, as part of their role in grant administration, it will be beneficial for States that intend to adopt a more sustainable, centralized approach to timber harvest activities to work closely with FWS to ensure that controls are in place to protect lands with a Federal nexus for conservation purposes.

Unfunded Pension Liabilities

In July 2023, we issued a management advisory to FWS regarding unfunded pension liabilities that States were allocating to WSFR grants.⁵ The management advisory discussed issues with a State charging WSFR grants to help pay down the State's unfunded liabilities, which could potentially reduce the efficiency and effectiveness of the Federal grant in accomplishing its agreed-upon objectives.

During this audit, we found that during SFYs 2022 and 2023, the Department charged approximately \$108,972 to WSFR grants to pay for the State's unfunded pension liabilities, which represents approximately 0.41 percent of the Department's WSFR grant-funded payroll. Because FWS is working to address our recommendations in the management advisory, we did not perform any testing to validate the number the Department reported or make recommendations. However, we are noting the potential effect of these unfunded pension liability costs on the WSFR Program.

⁵ *Unfunded Liabilities for Wildlife and Sport Fish Restoration Program Grants* (Report No. 2020-ER-058-A), issued July 2023.

Attachment 2: Sites Visited

Department Central Office	St. Paul, MN
Area Wildlife Offices	Brainerd Grand Rapids North Metro Park Rapids Thief River Falls Vermillion River Wildlife Complex
Wildlife Management Areas	Mille Lacs Whitewater



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