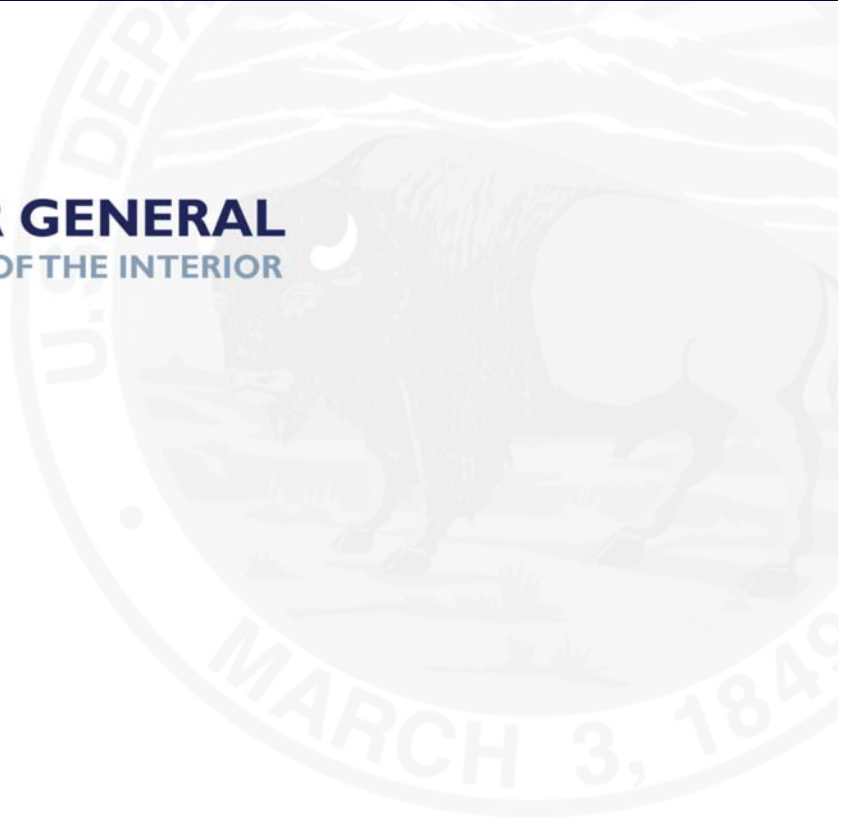




OFFICE OF  
**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR



**U.S. FISH AND WILDLIFE SERVICE WILDLIFE AND  
SPORT FISH RESTORATION PROGRAM GRANTS**

Awarded to the State of Arizona, Arizona Game and Fish Department  
From July 1, 2013, Through June 30, 2015




OFFICE OF  
**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR

AUG 27 2018

Memorandum

To: James W. Kurth  
Acting Principal Deputy Director, U.S. Fish and Wildlife Service Exercising the  
Authority of the Director, U.S. Fish and Wildlife Service

From: Charles Haman   
Audit Manager

Subject: Final Audit Report – U.S. Fish and Wildlife Service Wildlife and Sport Fish  
Restoration Program Grants Awarded to the State of Arizona, Arizona Game and  
Fish Department From July 1, 2013, Through June 30, 2015  
Report No. 2016-EXT-001

This final report presents the results of our audit of costs claimed by the Arizona Game and Fish Department, under grants awarded by the U.S. Fish and Wildlife Service (FWS). The FWS provided the grants to the State under the Wildlife and Sport Fish Restoration Program. The audit included claims totaling \$70.2 million on 11 grants that were open during the State fiscal years that ended June 30, 2014, and June 30, 2015 (see Appendix 1). The audit also covered the Department's compliance with applicable laws, regulations, and FWS guidelines, including those related to collecting and using hunting and fishing license revenue and reporting program income.

We questioned costs totaling \$3,948,965 due to 1) unallowable payroll charges, 2) out-of-period costs, 3) inadequate subrecipient financial management systems, 4) deficiencies in documenting in-kind contributions, and 5) inadequate competition. In addition, we determined that the Department:

- Potentially diverted license revenue by writing off \$21,276 from the State's accounting records without maintaining adequate documentation to justify this action
- Did not consistently comply with subaward requirements
- Submitted annual performance reports to the FWS that were missing key information
- Did not comply with all comprehensive management system requirements
- Inappropriately drew down \$23,425 in Federal funds from the FWS

We provided a draft of the report to the FWS. In this report, we summarize the Department's and FWS Region 2's responses to our recommendations, as well as our comments

on their responses. We consider all recommendations to be resolved but not implemented, and we list the status of the recommendations in Appendix 3.

Please provide us with a corrective action plan based on our recommendations by November 28, 2018. The plan should provide information on actions taken or planned to address the recommendations, as well as target dates and title(s) of the official(s) responsible for implementation. Formal responses can be submitted electronically. Please address your response to me, and submit a signed PDF copy to [WSFR\\_Audits@doioig.gov](mailto:WSFR_Audits@doioig.gov). If you are unable to submit your response electronically, please send your response to me at:

U.S. Department of the Interior  
Office of Inspector General  
12345 West Alameda Parkway, Suite 300  
Lakewood, CO 80228

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit reports issued, actions taken to implement our recommendations, and recommendations that have not been implemented.

If you have any questions regarding this report, please contact me at 303-236-9243.

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# Introduction

## Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act<sup>1</sup> established the Wildlife and Sport Fish Restoration Program. Under the Program, the U.S. Fish and Wildlife Service (FWS) provides grants to States to restore, conserve, manage, and enhance their wildlife and sport fish resources. The Acts and Federal regulations contain provisions and principles on eligible costs and allow the 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 revenue be used only for the administration of the States' fish and game agencies. Finally, Federal regulations and FWS guidance require States to account for any income they earn using grant funds.

## Objectives

We conducted this audit to determine if the Arizona Game and Fish Department:

- Claimed the costs incurred under the Program grants in accordance with the Acts and related regulations, FWS guidelines, and grant agreements
- Used State hunting and fishing license revenue solely for fish and wildlife program activities
- Reported and used program income in accordance with Federal regulations

## Scope

Audit work included claims totaling approximately \$70.2 million on the 11 grants open during the State fiscal years (SFYs) that ended June 30, 2014, and June 30, 2015 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at the Department's headquarters office in Phoenix, AZ, and visited several regional offices, wildlife areas, fish hatcheries, boat ramps, shooting facilities and ranges, and subrecipients' offices throughout the State (see Appendix 2).

We performed this audit to supplement—not replace—the audits required by the Single Audit Act.

## Methodology

We conducted this 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

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<sup>1</sup> 16 U.S.C. §§ 669 and 777, as amended, respectively.

evidence obtained 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 revenue solely for the administration of fish and wildlife program activities
- 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 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.

We relied on computer-generated data for other direct costs and personnel costs to the extent that we used these data to select Program costs for testing. Based on our test results, we either accepted the data or performed additional testing. For other direct costs, we took samples of costs and verified them against source documents such as purchase orders, invoices, receiving reports, and payment documentation. For personnel costs, we selected Department employees who charged time to Program grants and verified their hours against timesheets and other supporting data.

### **Prior Audit Coverage**

On July 8, 2011, we issued "Audit on U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Arizona, Department of Game and Fish, From July 1, 2008 Through June 30, 2010" (No. R-GR-FWS-0003-2011). We followed up on all recommendations in the report and found that the U.S. Department of the Interior, Office of the Assistant Secretary for Policy, Management, and Budget, considered the recommendations

resolved and implemented. During our audit, however, we found that the Department had not effectively implemented two of the closed recommendations regarding the requirements to 1) claim actual, rather than budgeted, payroll costs, and 2) compare the objectives established for each grant with actual accomplishments in performance reports. These are therefore high-risk issues for the Department that require special consideration, and we note them again in this report.

The Arizona Department of Administration's State Procurement Office issued "Arizona Game and Fish Division (sic) Procurement Performance Review" on August 18, 2014. The review found that:

- The Department's procurement personnel had not completed training on the State's electronic procurement system commensurate with their delegated procurement authority
- The Department's policies and procedures manual was out of date and did not provide guidance on current solicitation thresholds or the use of the State's electronic procurement system
- Contract files were not consistently complete and did not always contain accurate information

The Department concurred with 12 of the 14 recommendations provided in the report. Specifically, the Department agreed to (1) ensure personnel complete the required procurement training, (2) update the policies and procedures manual, and (3) revise its operations to produce complete electronic procurement files.

We also reviewed the State's Single Audit Reports for SFYs 2014 and 2015. Neither of these reports contained any findings directly affecting the Program grants.

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# 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. We identified, however, the following conditions that resulted in our findings, including questioned costs totaling \$3,948,965.

### A. Questioned Costs—\$3,948,965

We questioned costs related to 1) unallowable payroll charges, 2) out-of-period costs, 3) inadequate subrecipient financial management systems, 4) deficiencies in documenting in-kind contributions, and 5) inadequate competition.

### B. Potential Diversion of License Revenue—\$21,276

The Department potentially diverted license revenue by “writing off” license revenue from the State’s accounting records without maintaining adequate support to justify this action.

### C. Noncompliance with Subaward Requirements

The Department 1) used subawards to pay subrecipients for already-completed work, 2) did not assess subrecipient risk, 3) did not ensure subawards contained all required information, and 4) did not report subawards for posting on [www.USASpending.gov](http://www.USASpending.gov), a website designed to promote transparency in Federal spending.

### D. Inadequate Performance Reporting

The performance reports for four of the Department’s Program grants were missing key information needed for effective monitoring.

### E. Noncompliance with Comprehensive Management System Requirements

The Department’s operational plan did not contain all the elements required by the FWS for States that use a comprehensive management system (CMS)<sup>2</sup> to administer their Program grants.

### F. Improper Drawdowns

The Department improperly drew down \$23,425 in Federal funds for awards to two subrecipients that ultimately did not expend the Federal monies. The Department reimbursed the FWS after we brought this issue to its attention.

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<sup>2</sup> A CMS is a State’s method of operations that links programs, financial systems, human resources, goals, products, and services together into one interconnected system. It requires 1) assessing the current, projected, and/or desired status of fish and wildlife resources; 2) developing a strategic plan for the State’s fish and wildlife resources; 3) implementing the strategic plan through an operational planning process; and 4) evaluating the results.



## Findings and Recommendations

### A. Questioned Costs—\$ 3,948,965<sup>3</sup>

#### 1. Unallowable Payroll Charges—\$3,098,517

Since payroll represents about half of all expenses that the Department charged to its Program grants in SFYs 2014 and 2015, we performed a variety of tests in this area and noted four general issues:

- Thirteen supervisors charged 100 percent of their time to Program grants, but their direct reports did not; as a result, the Department charged Program grants for the supervision of non-Program projects.
- Five employees charged time to the grants based on predetermined percentages rather than on the number of hours they actually worked.
- Employees in the Department's Development Branch inappropriately charged their time to the most recent boating access grant rather than the grants supporting the projects on which they worked.
- Two employees charged unreasonable amounts of leave to a Program grant, and the Department arbitrarily charged the leave hours of two other employees to Program grants.

These issues resulted in \$47,195 (\$35,396 Federal share) in ineligible costs and \$4,084,162 (\$3,063,121 Federal share) in unsupported costs (see Figure 1).<sup>4</sup> Because the Department charged the FWS indirect costs based on the amount of payroll costs incurred, we also questioned the associated indirect costs.<sup>5</sup>

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<sup>3</sup> The sum of the ineligible and unsupported questioned costs in Appendix 1 is \$3,948,965, which is the amount presented here. The total of the amounts from each subsection of this report, however, is \$3,948,961. This difference of \$4 resulted from rounding and calculating questioned costs in two different ways: by issue in the body of this report, and by grant in Appendix 1.

<sup>4</sup> Some payroll costs were questioned for more than one reason in the sections that follow, but we eliminated duplicate counting of questioned costs from Figure 1.

<sup>5</sup> The Department's indirect cost rate for SFY 2014 was 35.06 percent, which applies to Grant Nos. F13AF00891 and F13AF01047. Its indirect cost rate for SFY 2015 was 41.93 percent, which applies to Grant Nos. F14AF01035 and F14AF01082.

Grant Number	Purpose	Total Questioned Costs		Federal Share	
		Ineligible	Unsupported	Ineligible	Unsupported
F13AF00891	Boating Access	\$0	\$392,452	\$0	\$294,339
F13AF01047	Comprehensive Management System	47,195	1,712,971	35,396	1,284,728
F14AF01035	Boating Access	0	446,131	0	334,598
F14AF01082	Comprehensive Management System	0	1,532,608	0	1,149,456
<b>Total</b>		<b>\$47,195</b>	<b>\$4,084,162</b>	<b>\$35,396</b>	<b>\$3,063,121</b>

Figure 1. Total ineligible and unsupported payroll and indirect costs.

**Charges for Supervision of Non-Program Projects.** We found that 13 supervisors charged 100 percent of their labor hours to Program grants, even though their direct reports charged at least part of their time to other funding sources. For example:

- The Funds and Planning Branch chief charged all of her time in SFYs 2014 and 2015 to Grant Nos. F13AF01047 and F14AF01082, respectively, but two of her four direct reports charged no time to the Program.
- The graphic information system program supervisor in the Information Services Branch charged all his time in SFY 2015 to Grant No. F14AF01082, but only two of his five direct reports charged 100 percent of their time to that grant. The other three charged the grant 92, 56, and 16 percent of their time.
- A wildlife specialist regional supervisor charged 100 percent of his labor in SFY 2014 to Grant No. F13AF01047. One of his two direct reports, however, served as the coordinator for the Landowner Incentive Program (LIP), a separate FWS grant program. The LIP coordinator did not charge any time to Program grants, but the Program bore the entire cost of supervising his work.

The Code of Federal Regulations (C.F.R.) prohibits one Federal grant from bearing the costs associated with another:

- For costs to be allowable, they must be necessary and reasonable for the performance of and allocable to the Federal award (2 C.F.R. § 200.403(a)).<sup>6</sup>

<sup>6</sup> Prior to December 26, 2014, this requirement was found at 2 C.F.R. § 225, Appendix A(C)(1)(a) and (b).

- The reasonableness of a given cost depends in part on whether it is “of a type generally recognized as ordinary and necessary for . . . the proper and efficient performance of the Federal award” (2 C.F.R. § 200.404(a)).<sup>7</sup>
- A cost is allocable to a Federal award if the goods or services involved are chargeable or assignable to the award in accordance with relative benefits received (2 C.F.R. § 200.405(a)).<sup>8</sup>

For example, if employees perform work benefitting the objectives of a LIP grant, their labor hours and the hours required to supervise the employees’ work should be charged to the LIP grant. Otherwise, the LIP grant would receive the benefit of the employees’ work, while another funding source would receive no benefit but still pay for the supervisory costs.

Department officials believed that they could charge supervisors’ labor costs to Program grants even if the supervisors’ direct reports did not charge time to the same grants. The officials asserted that if the supervisors were overseeing work that could be eligible under Program grants, the Department could charge the supervisory costs to the Program.

This method, however, presents a potential means to circumvent spending limits placed on individual Federal grants. For instance, if the Department did not receive sufficient Federal funding to carry out its desired work under a LIP grant, the Department’s current practice would allow it to use funds from another Federal program to make up the shortfall. This makes the Department’s use of Federal grant funds less than transparent and frustrates Federal agencies’ attempts to ensure that grant funds are used effectively and efficiently. The Department’s funding approach also disregards the intent of Congress, which appropriates different amounts to each Federal grant program.

We could not determine how much supervisory time the Program grants bore for the Department’s non-Program projects. We therefore questioned all the labor costs of supervisors who charged 100 percent of their time to Program grants but had direct reports who did not. This amounts to \$2,601,293 (\$1,950,971 Federal share) in unsupported questioned costs (see Figure 2).

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<sup>7</sup> Prior to December 26, 2014, this requirement was found at 2 C.F.R. § 225, Appendix A(C)(2)(a).

<sup>8</sup> Prior to December 26, 2014, this requirement was found at 2 C.F.R. § 225, Appendix A(C)(3)(a).

Grant Number	Purpose	Unsupported Questioned Costs			
		Payroll Costs	Indirect Costs	Total	Federal Share
FI3AF01047	Comprehensive Management System	\$1,116,302	\$272,839	\$1,389,141	\$1,041,855
FI4AF01035	Boating Access	76,317	19,497	95,814	71,861
FI4AF01082	Comprehensive Management System	879,820	236,518	1,116,338	837,255
<b>Total</b>		<b>\$2,072,439</b>	<b>\$528,854</b>	<b>\$2,601,293</b>	<b>\$1,950,971</b>

Figure 2. Unsupported payroll and indirect costs related to supervision of non-Program projects.

**Payroll Charges Based on Predetermined Work Estimates.** We interviewed 27 employees regarding their payroll charges, and 5 of them informed us that they did not charge the Program grants for the actual time they worked. Instead, they claimed labor hours based on predetermined estimates of their time. For example:

- A wildlife area manager estimated that he spent 10 percent of his time on non-Program grants in SFY 2015, but he charged 99 percent of his payroll hours to Grant No. F14AF01082 in that SFY.
- A wildlife habitat construction technician stated that he was instructed “by Phoenix” to charge 75 percent of his time to a wildlife restoration labor code and 25 percent to a sport fish restoration code in SFYs 2014 and 2015.
- A wildlife specialist regional supervisor informed us that Department headquarters budgeted his payroll costs at 80 percent from wildlife restoration and 20 percent from sport fish restoration, “so, basically, that’s what we’re supposed to charge to.” He added that headquarters has “given us very little direction” on which codes to charge for supervision.

The C.F.R. and Department policy, however, do not allow this practice. Per 2 C.F.R. § 200.430(i)(1)(viii),<sup>9</sup> estimates of personnel expenses determined before the services are performed do not by themselves qualify as support for charges to Federal awards. Furthermore, Section C3.3 of the *Arizona Game and Fish Department Operating Manual* requires employees to record actual time worked in the employee time entry system.

This issue arose because the Department did not adequately communicate the appropriate time reporting policies and procedures to its employees or enforce

<sup>9</sup> Prior to December 26, 2014, this requirement was found at 2 C.F.R. § 225, Appendix B(8)(h)(5)(e).

them. Since we have no assurance that the five employees' payroll charges were accurate, we questioned all their payroll charged to Program grants as unsupported, totaling \$954,092 (\$715,572 Federal share) (see Figure 3).

Grant Number	Purpose	Unsupported Questioned Costs			
		Payroll Costs	Indirect Costs	Total	Federal Share
F13AF00891	Boating Access	\$98,578	\$22,926	121,504	\$91,128
F13AF01047	Comprehensive Management System	249,931	52,753	302,684	227,015
F14AF01035	Boating Access	100,076	27,418	127,494	95,621
F14AF01082	Comprehensive Management System	321,915	80,495	402,410	301,808
<b>Total</b>		<b>\$770,500</b>	<b>\$183,592</b>	<b>954,092</b>	<b>\$715,572</b>

Figure 3. Unsupported payroll and indirect costs related to predetermined work estimates.

**Ineligible Payroll Charges for Projects from Prior Years' Boating Access Grants.** Department staff improperly charged Grant Nos. F13AF00891 (awarded for SFY 2014) and F14AF01035 (awarded for SFY 2015) for work they performed on boating access development projects that were funded under Program grants in prior SFYs. Each year since at least SFY 2007, the FWS has awarded the Department a multiyear grant for boating access facilities development and operations. The FWS approved specific boating access projects for funding under each of the grants. Department employees, however, did not charge payroll to the grants supporting the boating access development projects that they worked on each pay period. Instead, employees charged the most-recently-awarded Program grant for their labor, even if the benefitting boating access projects had been approved under grants for prior SFYs.

Federal awards for salaries and wages must be based on records that accurately reflect the work performed (2 C.F.R. § 200.430(i)(1)).<sup>10</sup> These records must support the distribution of the employee's salary among specific activities if the employee works on more than one Federal award or a Federal award and a non-Federal award (2 C.F.R. § 200.430(i)(1)(vii)).<sup>11</sup>

This occurred because employees did not track the number of hours they spent working on individual boating access development grants, nor did Department policy require them to do so. Thus, the Department has no records to provide

<sup>10</sup> Prior to December 26, 2014, a similar requirement was found at 2 C.F.R. § 225, Appendix B(8)(h)(4).

<sup>11</sup> Prior to December 26, 2014, a similar requirement was found at 2 C.F.R. § 225, Appendix B(8)(h)(4)(a) and (b).

assurance on the accuracy of labor costs charged to Grant Nos. F13AF00891 and F14AF01035. Therefore, we questioned all payroll and associated indirect costs charged to those two grants as unsupported, totaling \$838,583 (\$628,937 Federal share) (see Figure 4).

Grant Number	Purpose	Unsupported Questioned Costs			
		Payroll Costs	Indirect Costs	Total	Federal Share
F13AF00891	Boating Access	\$314,266	\$78,186	\$392,452	\$294,339
F14AF01035	Boating Access	343,626	102,505	446,131	334,598
<b>Total</b>		<b>\$657,892</b>	<b>\$180,691</b>	<b>\$838,583</b>	<b>\$628,937</b>

Figure 4. Unsupported payroll and indirect costs related to boating access grants.

**Unreasonable Leave Charges.** The Department used Program funds to pay for employees' excessive leave hours. Specifically:

- An employee charged 838 hours of leave to Grant No. F13AF01047 but did not charge any work hours to that grant. A second employee charged 550 hours of leave but only recorded 6 hours of work under the same grant.
- Another employee informed us that she never noted a labor code on her timesheet for her leave hours, but the Department automatically charged all her leave to a default labor code assigned to a Program activity. All 288 hours of the employee's leave in SFY 2014 were therefore charged to Grant No. F13AF01047, and all 248 leave hours in SFY 2015 were charged to Grant No. F14AF01082 even though she worked on non-Program activities more than half of the time.
- A fourth employee stated that she allocated all her leave to Program activities by evenly dividing leave charges between codes for wildlife restoration and sport fish restoration. She informed us that she coded leave in this manner to reflect the way the Department budgeted funds for her position. In SFY 2014, she charged 334 leave hours to Grant No. F13AF01047, even though she worked on non-Program activities about half of the time.

Per Federal regulations, the costs of leave are allowable if they are equitably allocated to all related activities, including Federal awards (2 C.F.R. § 200.431(b)(2)).<sup>12</sup> In addition, 2 C.F.R. § 200.404 states:

<sup>12</sup> Prior to December 26, 2014, this requirement was found at 2 C.F.R. § 225, Appendix B(8)(d)(2).

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. . . . In determining reasonableness of a given cost, consideration must be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.<sup>13</sup>

We determined that due to the principles of equitable allocation and reasonableness, a Federal grant should not bear charges for leave hours that exceed the number of hours an employee actually worked on grant activities.

These problems occurred because the Department did not have policies and procedures describing how leave hours should be distributed to Federal grants. Some employees, therefore, left the leave code on their timesheets blank, others charged a labor code assigned to them from the budgeting process, and others charged leave proportionately to the projects that they worked on during the pay period. Only the last of these three options is a valid approach.

Due to the excessive leave charges to Grant No. F13AF01047, we questioned \$47,195 (\$35,396 Federal share) in leave and indirect costs as ineligible. To develop this figure, we questioned the value of all leave hours that exceeded the number of hours the employees actually worked on the grant. We also questioned unsupported leave and indirect costs of \$21,146 (\$15,860 Federal share) under Grant No. F13AF01047, and \$13,860 (\$10,395 Federal share) under Grant No. F14AF01082 because leave hours were arbitrarily charged to those Program grants (see Figure 5). To determine those amounts, we questioned all leave costs of the employee who did not use a labor code when recording leave on her timesheets, as well as all leave costs of the employee who evenly divided leave hours between wildlife restoration and sport fish restoration.

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<sup>13</sup> Prior to December 26, 2014, this requirement was found at 2 C.F.R. § 225, Appendix A(C)(2).

Grant Number	Purpose	Type of Cost	Questioned Costs			Federal Share
			Leave Costs	Indirect Costs	Total	
F13AF01047	Comprehensive Management System	Ineligible	\$34,944	\$12,251	\$47,195	\$35,396
F13AF01047	Comprehensive Management System	Unsupported	15,657	5,489	21,146	15,860
F14AF01082	Comprehensive Management System	Unsupported	9,765	4,095	13,860	10,395
<b>Total</b>			<b>\$60,366</b>	<b>\$21,835</b>	<b>\$82,201</b>	<b>\$61,651</b>

Figure 5. Questioned payroll and indirect costs related to unreasonable leave charges.

Recommendations
<p>We recommend that the FWS:</p> <ol style="list-style-type: none"> <li>1. Resolve the \$35,396 in ineligible questioned costs, and \$3,063,121 in unsupported questioned costs</li> <li>2. Require the Department to implement policies and procedures to ensure that it does not charge Program grants for the supervision of non-Program projects</li> <li>3. Require the Department to enforce its policies and procedures on charging actual time worked and communicate them to all employees who charge time to Federal grants</li> <li>4. Require the Department to track the number of hours employees spend on boating access development projects, and charge the benefitting Program grant</li> <li>5. Require the Department to implement and communicate policies and procedures to distribute leave costs to Program grants in a reasonable and equitable manner</li> </ol>

### Department Response

The Department did not concur with three of the payroll findings and did not address one, as discussed below.

*Charges for Supervision of Non-Program Projects.* The Department did not concur with this finding. The response stated that some grant programs have



overlapping objectives and methodologies, allowing a single activity to be simultaneously eligible under multiple grant programs. Furthermore, the supervisors commonly supervised staff whose work was eligible under Grant Nos. F13AF01047 and F14AF01082, even though the staff did not charge to those grants. Lastly, the response stated that supervisors do not perform the same work as their employees. They oversee employees administratively by reviewing and approving time and travel charges and conducting annual performance reviews, which likely takes an hour or less per month.

*Payroll Charges Based on Predetermined Work Estimates.* The Department did not respond to this finding.

*Ineligible Payroll Charges for Projects from Prior Years' Boating Access Grants.* The Department did not concur with this finding. It stated that the finding suggests "no follow-up activities associated with closed grants should be allowed in open grants. If this is true, then the Department would not be able to ensure products meet useful life expectancies."

*Unreasonable Leave Charges.* The Department did not concur and noted that according to 2 C.F.R. § 200.431(b)(2), leave costs are to be equitably allocated to all related activities, including Federal awards. Thus, employees working only on grant-funded projects should charge all their leave to the grants. The first two employees discussed in the finding "both worked only [on] the Federal grants to which leave was charged for several years prior..." The Department did not address the leave charges related to the last two employees discussed in the finding.

### **FWS Response**

The FWS concurred with the findings and recommendations and has reviewed the Department's response. The FWS will work closely with Department staff to develop and implement a corrective action plan that will resolve the findings and recommendations.

### **OIG Comments**

*Charges for Supervision of Non-Program Projects.* We note the Department's claim that some programs have overlapping objectives. Each grant, however, 1) is a separate funding source, 2) may be used only for the activities described in the grant award, 3) has unique beginning and ending dates, and 4) must be accounted for separately. These characteristics promote accountability, facilitate oversight, and help ensure that Federal funds are used only as intended. The Department's method of accounting for supervisory activities blurs the lines between different grants and the activities charged to them, thereby limiting accountability and inhibiting proper oversight of Federal funds.

*Payroll Charges Based on Predetermined Work Estimates.* Because the Department did not address this issue, no further comment is necessary.

*Ineligible Payroll Charges for Projects from Prior Years' Boating Access Grants.* The finding does not state that the Department may not conduct follow-up activities at boating access sites associated with closed grants. In fact, the first objective of the boating access grants is to “acquire, develop, renovate, improve, and *maintain* public boating access facilities” (emphasis added). We noted, however, that each boating access grant funded construction or renovation at specific sites. Employees incorrectly charged their time to the most recently-awarded boating access grant, even if they worked on a construction or renovation project that was funded under a prior open grant. Moreover, the Department’s timekeeping system only allowed employees to charge time to the most recently-awarded boating access grant.

*Unreasonable Leave Charges.* According to 2 C.F.R. § 200.403(a), charges to a grant must not only be allocable to grant objectives but also be “necessary and reasonable for the performance of the Federal award.” Regarding the two employees discussed in the Department’s response, several hundred hours of paid leave—balanced by less than a day’s actual work performed in the grant period—does not meet this criterion.

Based on the FWS response, we consider these recommendations resolved but not implemented (see Appendix 3).

## 2. Out-of-Period Costs—\$709,699

During SFYs 2014 and 2015, the Department improperly charged \$946,265 (\$709,699 Federal share) in out-of-period costs to its CMS grants for public land access, a grazing lease, and subscriptions to a volunteer time management system (see Figure 6).

Grant Number	Purpose	Ineligible Questioned Costs Total	Federal
F13AF01047	Comprehensive Management System	\$48,597	\$36,448
F14AF01082	Comprehensive Management System	897,668	673,251
<b>Total</b>		<b>\$946,265</b>	<b>\$709,699</b>

Figure 6. Questioned out-of-period costs.

In each instance, the grants paid for services beyond the grant end dates. The following are examples:

- On May 19, 2015, the Department entered into an agreement with a nonprofit organization and a private landowner to allow public hunter- and wildlife-related recreational use on specific parcels of land for 10 years. On June 23, 2015, the Department paid the nonprofit organization

\$550,000 (\$412,500 Federal share) under the agreement and charged this transaction to Grant No. F14AF01082, which ended 1 week later. Only 1.15 percent of the access agreement's term fell within the grant period, so the objectives of Grant No. F14AF01082 did not materially benefit from the payment. Thus, we question \$543,675 (\$407,756 Federal share) as ineligible out-of-period costs.

- The Department charged Grant No. F14AF01082 for a 1-year subscription to a volunteer time management system, but 50.55 percent of the subscription period extended beyond the grant end date. Specifically, the Department paid \$31,083 (\$23,312 Federal share) for services from January 1, 2015, to December 31, 2015, but Grant No. F14AF01082 ended on June 30, 2015. This payment therefore resulted in out-of-period costs of \$15,712 (\$11,784 Federal share).

These transactions are contrary to 2 C.F.R. § 200.309,<sup>14</sup> which states that a non-Federal entity may only charge to grants allowable costs incurred during the period of performance.

We noted that the Department did not have policies and procedures to flag access agreements and subscriptions to ensure that Program grants paid for services only up to the grant expiration dates. In addition, Department officials argued that:

- The CMS grants' job statements indicated that the Department planned to execute long-term access agreements. We noted, however, that the job statements only covered 1 fiscal year each and did not disclose that the agreements would be long term. The FWS therefore did not approve multiple year access agreements under the grants.
- The vendor for the volunteer time management system charged for subscriptions from January 1 to December 31, which did not correspond with the Department's Program grant periods. The officials, however, should have used a journal voucher entry to charge prorated amounts of the subscriptions to the appropriate grants.

Due to the payment of out-of-period costs, the State's hunters and anglers did not benefit from nearly \$1 million that could have funded additional fish and wildlife projects in SFYs 2014 and 2015.

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<sup>14</sup> Prior to December 26, 2014, a similar requirement was found at 43 C.F.R. § 12.63(a).

## Recommendations

We recommend that the FWS:

6. Resolve the ineligible questioned costs of \$709,699
7. Require the Department to implement policies and procedures to prevent Program grants from paying for services under access agreements, leases, and subscriptions beyond the grant end dates

### Department Response

The Department did not concur with this finding. Regarding long-term agreements for recreational access, the Department claimed that “objectives are not always single-year (single grant period) focused, and stipulating that an objective must achieve full benefit within that single grant period is short-sighted.” Furthermore, the Department stated that the FWS approved job statements indicating that long-term agreements would be used, and the Department reported the agreements in its performance reports.

### FWS Response

The FWS concurred with the finding and recommendations and has reviewed the Department’s response. The FWS will work closely with Department staff to develop and implement a corrective action plan that will resolve the finding and recommendations.

### OIG Comments

Federal grants make funds available for discrete periods of time to fulfill objectives approved in each grant agreement. The \$550,000 (\$412,500 Federal share) payment for recreational access under Grant No. F14AF01082 only benefitted that grant and its objectives for 1 week. The cost of access beyond the grant’s end date therefore results in out-of-period costs, even if a successive grant had the same objectives as Grant No. F14AF01082. In addition, neither the job statement nor the performance report for Grant No. F14AF01082 informed the FWS of the Department’s intent to charge the full cost of a multiyear access agreement to the grant. The documents discussed access agreements in general terms but did not disclose that they would extend beyond the grant period.

Based on the FWS response, we consider these recommendations resolved but not implemented (see Appendix 3).

### 3. Inadequate Subrecipient Financial Management Systems—\$107,250

Five of the Department’s subrecipients—the Northeastern Arizona Sportsman’s Association, Northern Arizona Shooting Foundation, Rio Salado Sportsman’s Club, Sierra Vista Rod and Gun Club, and Tucson Rifle Club—did not track

subaward-related expenditures using fund accounting. We could not determine, therefore, which expenses were charged to their subawards. Without adequate financial management systems, we have no assurance that the subrecipients used Federal funds for appropriate purposes or obtained the best price for goods and services. Thus, we question the total amount provided to the subrecipients, \$143,000 (\$107,250 Federal share) as unsupported.

Upon further analysis, we noted that one of the Foundation's two subawards also comprised ineligible questioned costs. Its \$10,000 (\$7,500 Federal share) subaward was for the delivery of asphalt millings, and the Foundation's accounting records showed only one \$10,000 expense for this service. If we attribute that expense to the subaward, then it was an out-of-period cost because the millings were delivered almost two weeks before the subaward took effect. On the other hand, if the delivery expense was not related to the subaward, then the Foundation did not perform any allowable work under the subaward because no other asphalt millings were delivered.

According to 2 C.F.R. § 200.302(a),<sup>15</sup> a non-Federal entity's financial management system must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to Federal statutes, regulations, and the terms and conditions of the Federal award.

This situation developed because the Department official responsible for management and oversight of subawards for shooting ranges did not receive appropriate training before taking on his responsibilities. Instead, he learned about subaward management by reviewing his predecessor's files, which contained scant details, according to the official. Thus, the official could not effectively convey pertinent information on fiscal management requirements to subrecipients. Furthermore, the Department did not have any policies and procedures requiring staff to ascertain that subrecipients account for each Federally-funded subaward separately.

To avoid double-counting questioned costs, we are treating the Foundation's \$10,000 (\$7,500 Federal share) subaward only as an ineligible cost. We question the remaining subaward costs, totaling \$133,000 (\$99,750 Federal share), as unsupported (see Figure 7).

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<sup>15</sup> Prior to December 26, 2014, this requirement was located at 43 C.F.R. § 12.60(a)(2).

Grant Number	Subrecipient Name	Questioned Costs (Federal Share)	
		Ineligible	Unsupported
F13AF01047	Northeastern Arizona Sportsman's Association	\$0	\$11,250
F13AF01047	Northern Arizona Shooting Foundation	0	17,250
F13AF01047	Northern Arizona Shooting Foundation	7,500	0
F13AF01047	Rio Salado Sportsman's Club	0	11,250
F13AF01047	Sierra Vista Rod and Gun Club	0	11,250
F13AF01047	Tucson Rifle Club	0	11,250
F14AF01082	Rio Salado Sportsman's Club	0	37,500
<b>Total</b>		<b>\$7,500</b>	<b>\$99,750</b>

Figure 7. Federal share of questioned costs related to subawards.

<b>Recommendations</b>
<p>We recommend that the FWS:</p> <ol style="list-style-type: none"> <li>8. Resolve the ineligible questioned costs of \$7,500, and unsupported questioned costs of \$99,750</li> <li>9. Require the Department to train employees on subaward management and oversight before they assume those responsibilities</li> <li>10. Require the Department to develop policies and procedures to ensure that subrecipients account for each Federally-funded subaward separately</li> </ol>

### **Department Response**

The Department did not respond to this finding.

### **FWS Response**

The FWS concurred with the finding and recommendations and has reviewed the Department's response. The FWS will work closely with Department staff to develop and implement a corrective action plan that will resolve the finding and recommendations.

### **OIG Comments**

Based on the FWS response, we consider these recommendations resolved but not implemented (see Appendix 3).

#### 4. Deficiencies in Documenting In-Kind Contributions—\$22,639

Department officials did not ensure that volunteer hours used as in-kind contributions were adequately documented. We were unable to verify, therefore, approximately 26,600 hours that the Department claims were donated. The Department used the value of hours worked by volunteers as part of its matching share on Grant Nos. F13AF01047 and F14AF01082. After volunteers recorded their hours on timesheets, Department officials applied an hourly rate to determine the value of the in-kind contributions.

We reviewed volunteer hours related to hunter education, enhanced hunter education, aquatic education, and programs administered by the Department director's office, including Adopt-a-Ranch.<sup>16</sup> Our analysis disclosed systemic problems with the supporting documentation:

- Some volunteers claimed an excessive 16 to 31 hours in a single day.<sup>17</sup>
- The Department claimed the same 108 hours twice.
- The Department claimed 392 volunteer hours that were donated outside of the grant period.
- The Department could not always provide time sheets to support reported hours.
- Department officials did not consistently sign volunteers' timesheets to indicate approval.
- Hours worked over multiple days were sometimes reported as a lump sum rather than on a daily basis.
- Volunteers did not always complete the timesheets themselves, and one person appeared to fill in all the hours worked for them.

We found that 71 percent of all hours volunteered under these programs was inadequately documented (see Figure 8).

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<sup>16</sup> Under the Adopt-A-Ranch program, volunteers work directly with landowners on their ranches to mitigate problems associated with public recreational access. They visit the ranches one or two times per year to perform regular maintenance, such as rebuilding fences, hanging gates, picking up litter, or helping with various improvement projects.

<sup>17</sup> We determined that a volunteer can reasonably donate a maximum of 14 hours per day.

Project	Grant Number	Hours Claimed	Questioned Hours	Percentage of Hours Improperly Documented
Adopt-a-Ranch and Other Wildlife Restoration Activities	F13AF01047	5,046	3,592	71%
Enhanced Hunter Education	F13AF01047	4,225	1,913	45%
Hunter Education	F13AF01047	14,281	11,921	83%
Adopt-a-Ranch and Other Wildlife Restoration Activities	F14AF01082	6,422	2,701	42%
Hunter Education	F14AF01082	6,984	6,189	89%
Aquatic Education	F14AF01082	743	264	36%
<b>Total</b>		<b>37,701</b>	<b>26,580</b>	<b>71%</b>

Figure 8. Improperly documented in-kind volunteer hours.

According to 2 C.F.R. § 200.403(g), costs must be adequately documented to be allowable under Federal awards.<sup>18</sup> In addition, 2 C.F.R. § 200.306(b)(1) states that third-party in-kind contributions satisfy a cost-sharing or matching requirement if—among other requirements—they are verifiable from the records of grantees.<sup>19</sup>

The in-kind documentation was inadequate due to several reasons:

- The Department’s existing written procedures did not: 1) restrict the number of hours that volunteers could reasonably donate in a single day, 2) require volunteers to complete the timesheets themselves, 3) ensure that all timesheets were properly approved, or 4) describe specific filing procedures to avoid the loss of documentation.
- The Department did not have any written policies and procedures for completing timesheets under the projects administered by the Department director’s office.
- Department officials did not consistently review time sheets for out-of-period activity and exclude the corresponding hours from calculations of the State’s matching share.
- Volunteers’ timesheets were not formatted in a way that allowed them to report their hours on a daily basis.

<sup>18</sup> Prior to December 26, 2014, this requirement was found at 2 C.F.R. § 225, Appendix A(C)(1)(j).

<sup>19</sup> Prior to December 26, 2014, this requirement was found at 43 C.F.R. § 12.64(b)(6).



- Department officials did not adequately reconcile the timesheets with electronic spreadsheets that were used to track and calculate the value of in-kind contributions.

We therefore question unsupported costs of \$8,837 and ineligible costs of \$2,666 for the hunter education program under Grant No. F13AF01047 (see Figure 9).

<b>Unsupported Questioned Costs</b>		<b>Ineligible Questioned Costs</b>	
<b>Description</b>	<b>Amount</b>	<b>Description</b>	<b>Amount</b>
Hunter Education Outlays	\$5,326,887	Allowable Hunter Education Outlays*	\$5,089,633
Less Unsupported Questioned Contributions	237,254	Less Ineligible Questioned Contributions	3,555
Allowable Hunter Education Outlays	5,089,633	Adjusted Allowable Hunter Education Outlays	5,086,078
Federal Share Percentage	75%	Federal Share Percentage	75%
<b>Allowable Federal Share</b>	<b>\$3,817,225</b>	<b>Adjusted Allowable Federal Share</b>	<b>\$3,814,559</b>
Original Federal Share Claimed	\$3,826,062	Allowable Federal Share†	\$3,817,225
Less Allowable Federal Share (From Above)	3,817,225	Less Adjusted Allowable Federal Share (From Above)	3,814,559
<b>Questioned Costs (Federal Share)</b>	<b>\$8,837</b>	<b>Questioned Costs (Federal Share)</b>	<b>\$2,666</b>

\*After removing the unsupported questioned contributions, allowable grant outlays totaled \$5,089,633. Since this figure contains no unsupported questioned costs, we used it as the new starting point to calculate the ineligible questioned costs.

† After removing the unsupported questioned contributions and applying the Federal share percentage, the allowable Federal share totaled \$3,817,225. We used this figure to complete our calculation of the ineligible questioned costs because it reflects the exclusion of unsupported questioned costs.

Figure 9. Federal share of questioned costs related to unsupported and ineligible in-kind contributions for the hunter education program under Grant No. F13AF01047.

We also question unsupported costs of \$5,197 and ineligible costs of \$5,939 for the enhanced hunter education program under Grant No. F13AF01047 (see Figure 10).

Unsupported Questioned Costs		Ineligible Questioned Costs	
Description	Amount	Description	Amount
Enhanced Hunter Education Outlays	\$329,686	Allowable Enhanced Hunter Education Outlays*	\$298,962
Less Unsupported Questioned Contributions	30,724	Less Ineligible Questioned Contributions	7,918
Allowable Enhanced Hunter Education Outlays	298,962	Adjusted Allowable Enhanced Hunter Education Outlays	291,044
Federal Share Percentage	75%	Federal Share Percentage	75%
<b>Allowable Federal Share</b>	<b>\$224,222</b>	<b>Adjusted Allowable Federal Share</b>	<b>\$218,283</b>
Original Federal Share Claimed	\$229,419	Allowable Federal Share†	\$224,222
Less Allowable Federal Share (From Above)	224,222	Less Adjusted Allowable Federal Share (From Above)	218,283
<b>Questioned Costs (Federal Share)</b>	<b>\$5,197</b>	<b>Questioned Costs (Federal Share)</b>	<b>\$5,939</b>

\*After removing the unsupported questioned contributions, allowable grant outlays totaled \$298,962. Since this figure contains no unsupported questioned costs, we used it as the new starting point to calculate the ineligible questioned costs.

† After removing the unsupported questioned contributions and applying the Federal share percentage, the allowable Federal share totaled \$224,222. We used this figure to complete our calculation of the ineligible questioned costs because it reflects the exclusion of unsupported questioned costs.

Figure 10. Federal share of questioned costs related to unsupported and ineligible in-kind contributions for the enhanced hunter education program under Grant No. F13AF01047.

The Department's cash overmatch on grants supporting the other volunteer programs eliminated additional questioned costs. Overmatch, however, cannot be guaranteed in the future. The Department could face even greater questioned costs in subsequent audits if it does not fully address these issues and its overmatch falls short.

## Recommendations

We recommend that the FWS:

11. Resolve the \$14,034 in unsupported questioned costs and the \$8,605 in ineligible questioned costs
12. Require the Department to reformat its volunteer timesheets so that hours can be reported on a daily basis
13. Require the Department to develop and implement policies and procedures for all volunteer programs claiming in-kind match to:
  - Restrict the number of hours that volunteers can reasonably donate in a single day
  - Require volunteers to complete the timesheets themselves
  - Properly review and approve all timesheets
  - File timesheets in an orderly manner to avoid loss
  - Reconcile volunteers' timesheets to electronic records when used to calculate the matching share on Program grants
  - Review timesheets for out-of-period activity and remove the corresponding hours from calculations of the State's matching share

### Department Response

The Department partially concurred with this finding. Specifically, the Department did not question the section regarding enhanced hunter education. Furthermore, the Department agreed that some volunteer time reported as in-kind contributions did not meet Federal standards. The Department did not concur, however, with the extent of the finding. According to the response, the Department "reviewed all submitted volunteer time sheets and found significantly more hours that did meet the requirements than the auditors reported." In addition, the Department requested the methodology used in the audit to determine that a volunteer can reasonably donate a maximum of 14 hours per day.

### FWS Response

The FWS concurred with the finding and recommendations and has reviewed the Department's response. The FWS will work closely with Department staff to

develop and implement a corrective action plan that will resolve the finding and recommendations.

### **OIG Comments**

Because Department officials informed us that they disagreed with the extent of this finding during fieldwork, we reviewed all in-kind timesheets in our sample twice. This review showed that nearly three-fourths of the hours in our sample did not comply with Federal regulations. Allowing 14 hours of work per day leaves 7 hours for sleep and 3 hours for each of the three meals. Furthermore, because the Department charged up to 31 hours in a single day and had no policy regarding how many hours were allowable per day, we had to determine a reasonable number of daily hours for audit purposes.

Based on the FWS response, we consider these recommendations resolved but not implemented (see Appendix 3).

### **5. Inadequate Competition—\$10,856**

The Department did not provide evidence showing that it competed a purchase of \$14,474 (\$10,856 Federal share) under Grant No. F13AF01047 for items used in its hunter education program, including first aid kits, sports towels, memo boards, and shooting targets. Per a senior procurement analyst, this issue occurred because of an error. Thus, the Department could not demonstrate whether it obtained the best price for these goods.

According to 2 C.F.R. § 200.317, “When procuring property and services under a Federal award, a State must follow the same policies and procedures it uses for procurements from its non-Federal funds.”<sup>20</sup> In that regard, Section G1.5, Procedure D(1)(b) of the Department’s *Operating Manual* states that purchases between \$5,000 and \$25,000 require a written request for quotation from a minimum of three different vendors.

### **Recommendation**

We recommend that the FWS:

14. Resolve the ineligible questioned costs of \$10,856 resulting from inadequate competition

### **Department Response**

The Department did not concur with this finding because a contract existed. The Department stated that the purchase order for this transaction showed an incorrect contract number, under which an expired vendor was listed. The response asserted

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<sup>20</sup> Prior to December 26, 2014, this requirement was found at 43 C.F.R. § 12.76.

that the hunter education items were purchased under a contract with a new vendor. Furthermore, the Department stated that “information documenting that no competition was required was provided to the auditor on both October 13, 2017 and October 17, 2017.”

### **FWS Response**

The FWS concurred with the finding and recommendation and has reviewed the Department’s response. The FWS will work closely with Department staff to develop and implement a corrective action plan that will resolve the finding and recommendation.

### **OIG Comments**

The Department response references two emails that a senior procurement specialist sent us on October 13, 2017, and October 17, 2017. Neither email contained evidence showing that competition was obtained or not required. In the first email, the senior procurement specialist informed us that “no contract was in place for this purchase and [competitive] quotes were not requested. It has been determined that this is an error.” In the second email, the same official stated that “this is a clerical error and an isolated incident. The mistake was made because the purchase requisition and subsequent purchase order were created during the period of transition from one vendor to another.” The Department’s procurement chief was copied on both emails.

Based on the FWS response, we consider this recommendation resolved but not implemented (see Appendix 3).

## **B. Potential Diversion of License Revenue—\$21,276**

The Department potentially diverted hunting and fishing license revenue by “writing off” \$21,276 from its Game and Fish Fund without maintaining adequate documentation to demonstrate why it did so. In response to our inquiries about this transaction, Department officials provided an email in which the State’s General Accounting Office requested the Department’s help to “clear up balances that should not be there or old items that were just never taken care of.” Per Department officials, the balances were from checks returned due to insufficient funds and corrections of accidental or incorrect credit card charges. The Department did not demonstrate, however, that the \$21,276 represented any such items eligible to be written off.

According to 50 C.F.R. 80.11(c), a State becomes ineligible to receive the benefits of the Acts if it diverts hunting and fishing license revenue from the control of the State fish and wildlife agency or for purposes other than the agency’s administration. A State may not take part in the Program if the FWS Director finds that it diverted license revenue to other purposes. Without documentary information on the actual nature of the write off, we do not know

how the license revenue was used or if the State's fish and wildlife activities appropriately benefited from the funds in question.

We noted that the Department did not have policies and procedures addressing the need to maintain adequate documentation for write offs. Neither the Department's *Operating Manual* nor the *Business and Finance Process Manual* addressed this issue.

### **Recommendations**

We recommend that the FWS:

15. Resolve the potential diversion of license revenue totaling \$21,276
16. Require the Department to implement policies and procedures to maintain adequate support for journal voucher entries affecting license revenue

### **Department Response**

The Department concurred with the finding and stated that this situation occurred because the State implemented a new procurement system, which required the reconciliation of old charges. The Department did not have documentation to demonstrate whether it spent the \$21,276 on items eligible for purchase with license revenue.

### **FWS Response**

The FWS concurred with the finding and recommendations and has reviewed the Department's response. The FWS will work closely with Department staff to develop and implement a corrective action plan that will resolve the finding and recommendations.

### **OIG Comments**

Based on the FWS response, we consider these recommendations resolved but not implemented (see Appendix 3).

## **C. Noncompliance with Subaward Requirements**

We noted several problems with the Department's management of subawards funded by Program grants. We tested 10 of the 21 subawards open during our audit period and found that the Department:

- Awarded Federal funds to shooting ranges for projects they had already completed
- Did not perform risk assessments of its subrecipients

- Did not ensure that its subawards contained all the necessary elements
- Did not report any subawards for posting on [www.USASpending.gov](http://www.USASpending.gov), a public website that promotes transparency in Federal spending

Several new Federal regulations related to subrecipients became effective during our audit period. Two of the subawards in our sample began after regulations took effect covering risk assessments and required subaward elements. Only two subrecipients were therefore subject to those requirements.

**Subawards Provided for Work Already Completed.** The Department’s Shooting Sports Branch chief informed us that “95 to 99 percent” of the Department’s subawards to shooting clubs were reimbursements for completed projects. According to 2 C.F.R. § 200.309, “a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance . . . and [pre-award costs] that were authorized by the Federal awarding agency or pass-through entity.”<sup>21</sup> Pre-award costs were not authorized in any of the subawards that we tested, nor were pre-award costs for shooting range projects specifically identified and authorized in the primary award from the FWS to the Department.

We found that the Department official responsible for overseeing subawards to shooting ranges was not aware of the requirements of 2 C.F.R. § 200.309. Furthermore, the Department’s Shooting Sports Branch had no formal policies and procedures requiring awarding Federal funds based on need. By allowing the shooting clubs to apply Program funds to completed projects, the Department missed opportunities to fund shooting range improvements elsewhere in the State.

**Risk Assessments Not Performed.** According to 2 C.F.R. § 200.331(b), pass-through entities, such as the Department, must “evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.” The Department did not perform risk assessments of the two subrecipients subject to this requirement. Failure to conduct risk assessments puts Federal funds at unnecessary risk. Had staff completed thorough risk assessments, the Department could have proactively avoided many of the issues noted here.

The Department did not perform this step because it did not have procedures to do so. Once we brought this problem to the Department’s attention, however, it revised its “Agreement Tracking Checklist” to remind staff to do risk assessments. We therefore do not make any audit recommendations regarding this issue.

**Missing Subaward Elements.** According to 2 C.F.R. § 200.331(a), every subaward agreement must contain 13 specific items, including the date of the

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<sup>21</sup> Prior to December 26, 2014, a similar requirement was located at 43 C.F.R. § 12.63(a).

original Federal award, a description of the Federal award project, and the approved indirect cost rate. Neither of the two subawards subject to this requirement contained all of the requisite information because the Department did not have appropriate policies and procedures or use a subaward template containing the necessary elements. The Department risks misunderstandings with its subrecipients by not including all federally-required items in each subaward. These elements also make subrecipients aware that Federal funds are involved and should alert them to follow Federal regulations.

**No Public Reporting.** Regulations require Federal grantees to report each subaward action that obligates \$25,000 or more in Federal funds to the Federal Funding Accountability and Transparency Act Subaward Reporting System website, [www.fsr.gov](http://www.fsr.gov) (2 C.F.R. § 170, Appendix A(I)(a)(1) and (I)(a)(2)(i)). This information is then posted to [www.USASpending.gov](http://www.USASpending.gov), a public website created to promote transparency in Federal spending. We identified eight applicable subawards totaling \$290,456 that did not appear on the website.

Due to interface issues with [www.fsr.gov](http://www.fsr.gov), FWS regional officials suspended this requirement in a December 6, 2010 email. Department staff stated that they were not aware the FWS had lifted the suspension, but FWS regional officials provided evidence that they discussed this issue with grant recipients during a meeting in February 2012 and a quarterly conference call in May 2012. We also noted that the Department has not developed policies and procedures to report its subawards to [www.fsr.gov](http://www.fsr.gov). This issue is important because not reporting subaward information limits the public's ability to know how Federal funds are spent.

### Recommendation

We recommend that the FWS:

17. Require the Department to develop policies and procedures to:

- Award Federal funds based on need rather than reimbursing subrecipients for completed projects
- Require all federally-mandated elements to be included in the Department's subaward agreements
- Submit subaward information for posting on [www.USASpending.gov](http://www.USASpending.gov)

### Department Response

The Department concurred with the finding and stated that corrective action has been implemented. The Department provided policies and procedures requiring that 1) all federally-mandated elements be included in its subaward agreements and 2) subaward information be posted on [www.USASpending.gov](http://www.USASpending.gov).



### **FWS Response**

The FWS concurred with the finding and recommendation and has reviewed the Department's response. The FWS will work closely with Department staff to develop and implement a corrective action plan that will resolve the finding and recommendation.

### **OIG Comments**

While the Department responded to two of the issues recommended in the finding, it did not address the issue of awarding Federal funds based on need rather than reimbursing subrecipients for completed projects.

Based on the FWS response, we consider this recommendation resolved but not implemented (see Appendix 3).

### **D. Inadequate Performance Reporting**

The Department submitted annual performance reports to the FWS that were missing key information needed for effective monitoring. For our review, we considered the performance reports for Grant Nos. F13AF01047 and F14AF01082 for the Department's CMS, and Grant Nos. F12AF00966 and F13AF00891 for the development and operations of boating access facilities.

Due to the size of CMS Grant Nos. F13AF01047 and F14AF01082, we divided their performance reports into 155 projects and judgmentally selected a sample of 36 (23 percent) for review. Eighteen of the 36 projects (50 percent) did not meet Federal reporting requirements. The following are examples:

- The Department did not report any results for the four projects that comprised the habitat evaluation, protection, and management program under Grant No. F13AF01047. The performance report repeated the project goals from the grant's job statement but did not comment on them.
- The performance report for Grant No. F13AF01047 did not address five of the nine planned activities for the hunter education program. For instance, the Department aimed to increase the number of hunter education volunteers by 15 percent annually but never reported on the status of that goal. Significantly, the Department also planned to collect and evaluate hunting-related incident and accident reports annually, but this activity was omitted from the performance report.
- The Department did not consistently explain the reasons for and the impact of project shortfalls. Specifically, under the archery education, safety, and development program for Grant No. F13AF01047, the Department planned to administer at least 24 volunteer training courses and conduct evaluations at approximately 70 events statewide. The Department, however, only held 20 volunteer training courses and

collected 28 evaluations without explaining why its goals were not achieved.

Furthermore, the performance reports for Grant Nos. F12AF00966 and F13AF00891 for boating access provided scant details on the Department's accomplishments. These reports only listed each ongoing boating access project; a short, general description of the project; the amount allocated to the project; and the project's percentage of completion. For instance, for the \$250,000 (\$187,500 Federal share) Show Low Lake facility under Grant No. F12AF00966, the Department only stated, "This project will replace the existing restroom building [and] renovate the barrier-free boat trailer parking spaces and associate[d] access routes. This project is approximately 10% complete." Such information is not sufficient for the FWS to perform meaningful oversight of boating access construction projects.

The *FWS Manual* contains standards for performance reporting. According to 516 FW 2.12, the FWS requires grant recipients to report the following in their performance reports:

- A comparison of actual accomplishments to the goals and objectives established for the reporting period, the results, or both
- The reasons why goals and objectives were not met, if applicable
- Other information, including an analysis and explanation of cost overruns or high unit costs compared to the benefit received
- Any additional requirements specified in program legislation

The Department did not meet these criteria because it did not have an adequate process to compare the job statements from its grant agreements to information in its annual performance reports. Such a review could ensure that the Department fully reports on the status of all planned grant activities. Furthermore, staff completing performance reports for the boating access projects were not aware that the reports did not contain sufficient information to meet requirements. Until the Department implements a process to ensure that performance reporting complies with the *FWS Manual*, the FWS will have difficulty determining whether the Department is effectively and appropriately spending Program funds.

Since we conducted our review, FWS regional officials have included the following requirement for performance reporting in the terms and conditions of new boating access grants:

Interim and final performance reports must contain sufficient text and photographic detail to inform us of the current status of the grant project components. Each report must contain clear color ground-level digital photos of the work site and each project component at the time the report

is written and approved. The report must describe in detail any progress, delays or problems occurring within the grant period covered by the report. The final performance report must summarize all work completed (or not) and contain photos showing the overall site, the site of each individual project component, and what the project site looked like before work began.

### **Recommendation**

We recommend that the FWS:

18. Require the Department to implement policies and procedures to:

- Address in performance reports all objectives listed in the grant job statements
- Explain in performance reports why the Department did not completely fulfill the objectives, if applicable

### **Department Response**

The Department concurred with the finding and stated that corrective actions have been implemented. The Department asserted, however, that 516 FW 2.12 was no longer valid because 50 C.F.R. § 80 superseded it prior to the audit.

### **FWS Response**

The FWS concurred with the finding and recommendation and has reviewed the Department's response. The FWS will work closely with Department staff to develop and implement a corrective action plan that will resolve the finding and recommendation.

### **OIG Comments**

Although the Department's response stated that corrective actions have been implemented, the Department did not provide evidence that it developed the recommended policies and procedures. Furthermore, the Department's claim regarding the validity of 516 FW 2.12 is incorrect. We verified with the chief of FWS' Division of Financial Assistance Support and Oversight that 516 FW 2.12 is still in effect.

Based on the FWS response, we consider this recommendation resolved but not implemented (see Appendix 3).

## **E. Noncompliance with Comprehensive Management System Requirements**

The Department's operational plan did not contain all elements required by the FWS for States that use a CMS to administer their Program grants. According to 522 FW 4.4(H) of the *FWS Manual*, a CMS operational plan:

- Includes a description of how the State tracks and monitors expenditures of money and time (i.e., its cost accounting system)
- Describes how mid-course changes will be made to the CMS and how compliance issues related to such changes will be addressed.

The Department's operational plan did not comment on either of these issues.

Per the Funds and Planning Branch chief, the Department uses the grant amendment process to handle mid-course changes and related compliance issues. The Department, however, has not formally incorporated this process or a description of its cost accounting system into its operational plan because officials were not aware that the operational plan was missing these elements.

The FWS cannot effectively monitor the Department's use of grant funds without an understanding of its cost accounting system, particularly since the Department's major Program grants are so large, \$26.2 million for Grant No. F13AF01047 and \$34.5 million for Grant No. F14AF01082. Furthermore, without a clear plan to deal with mid-course changes and compliance issues, the Department is at risk for inadvertently overlooking key requirements of Federal environmental legislation, such as the National Environmental Policy Act, the Endangered Species Act, and the National Historic Preservation Act.

After we raised these concerns, Department officials developed a sufficient description of the Department's cost accounting system for SFYs 2017 and 2018. According to the officials, this information will be provided for all future CMS grants. The Department also revised its CMS operational plan to address mid-course changes and related compliance issues. FWS regional officials determined that the revision was not sufficient. Specifically, the revision requires the Department to obtain the FWS' approval for changes in scope to the CMS job statement, but not for changes at the more specific project level. This is significant because compliance issues, which require FWS approval, are evaluated at the project level, but the Department does not list all of its projects in the job statements.

## Recommendation

We recommend that the FWS:

19. Require the State to update its CMS operational plan to include its plan to make mid-course changes and address compliance issues related to its projects

### Department Response

The Department did not concur with the finding and asserted that 522 FW 4.4(H) is out of date and conflicts with 50 C.F.R. § 80.81.

### FWS Response

The FWS concurred with the finding and recommendation and has reviewed the Department's response. The FWS will work closely with Department staff to develop and implement a corrective action plan that will resolve the finding and recommendation.

### OIG Comments

The Department's statement that 522 FW 4.4(H) is out of date and conflicts with the C.F.R. is incorrect. We verified with the chief of the FWS' Division of Financial Assistance Support and Oversight that 522 FW 4.4(H) is still in effect. The *FWS Manual* includes additional items that FWS employees must ensure are included in States' CMS operational plans. The fact that these items are not listed in the C.F.R. does not mean that the *FWS Manual* conflicts with Federal regulations.

Based on the FWS response, we consider this recommendation resolved but not implemented (see Appendix 3).

## F. Improper Drawdowns

The Department improperly drew down \$23,425 in Federal funds for awards to two subrecipients (see Figure 11).

Grant Number	Subrecipient	Total Subaward Amount	Drawdown Amount	Unspent Federal Share (Improper Drawdown)	Amount Returned to the FWS
F13AF01047	Northeastern Arizona Sportsman's Association	\$15,000	\$11,250	\$1,675	\$1,675
F14AF01082	Grand Canyon Trust	29,000	21,750	21,750	21,750
<b>Total</b>		<b>\$44,000</b>	<b>\$33,000</b>	<b>\$23,425</b>	<b>\$23,425</b>

Figure 11. Excessive drawdowns of Federal funds awarded to subrecipients.

Specifically:

- The Department awarded \$15,000 (\$11,250 Federal share) under Grant No. F13AF01047 to the Northeastern Arizona Sportsman's Association for operations, maintenance, and repairs to fencing at the Saint John's Shooting Range. The Department drew down the full Federal share of the subaward on May 7, 2014, but the Association did not spend \$2,234 (\$1,675 Federal share) of that amount prior to the subaward's termination on June 30, 2014. In May 2017, 3 years following the initial drawdown and after we brought this issue to the Department's attention, the Department reimbursed the FWS the outstanding Federal share of \$1,675.
- The Department awarded \$29,000 (\$21,750 Federal share) under Grant No. F14AF01082 to the Grand Canyon Trust (GCT) for a cheatgrass study. Even though the Department drew down the full Federal share of \$21,750 on July 29, 2015, GCT used other funds to complete the study. After we visited GCT and discovered this issue, the Department reimbursed the FWS the \$21,750 in June 2016, nearly 1 year after the initial drawdown.

50 C.F.R. § 80.95(a) states that a State fish and wildlife agency may receive Federal grant funds through either a request for reimbursement or an advance of funds. For an advance, the State agency must maintain procedures to minimize the time between the transfer of funds and their disbursement by the State or its subrecipient.

The Department did not have any such procedures. To prevent this issue from reoccurring, the Department could require officials to verify that subrecipients are prepared to expeditiously disburse Federal funds prior to the drawdown. Alternatively, the Department could require subrecipients to expend funds before the Department draws down Federal funds and then reimburse the subrecipients.

Because the Department drew down Federal funds in advance of immediate cash needs, it kept \$23,425 in abeyance, unable to be used to further wildlife restoration objectives throughout the State.

### **Recommendation**

We recommend that the FWS:

20. Require the Department to implement policies and procedures to minimize the time between the drawdown of Federal funds by the Department and their disbursement by subrecipients

### **Department Response**

The Department concurred with the finding and stated that corrective action has been implemented.

### **FWS Response**

The FWS concurred with the finding and recommendation and has reviewed the Department's response. The FWS will work closely with Department staff to develop and implement a corrective action plan that will resolve the finding and recommendation.

### **OIG Comments**

Although the Department asserted that corrective action has been implemented, it did not provide evidence that it developed the recommended policies and procedures.

Based on the FWS response, we consider this recommendation resolved but not implemented (see Appendix 3).

# Appendix I

State of Arizona  
Arizona Game and Fish Department  
Grants Open During the Audit Period  
July 1, 2013, Through June 30, 2015

Grant Number	Grant Amount	Claimed Costs	Questioned Costs	
			Ineligible	Unsupported
<b>Fish</b>				
F06AF00010	\$1,290,940	\$1,289,273	\$0	\$0
F07AF00015	1,645,744	1,644,907	0	0
F08AF00038	1,693,475	1,689,118	0	0
F09AF00076	1,592,301	1,588,824	0	0
F10AF00166	1,595,116	1,482,747	0	0
F11AF00070	1,625,805	1,241,558	0	0
F12AF00966	1,381,032	891,441	0	0
F13AF00891	1,268,459	897,501	0	294,339
F14AF01035	1,271,000	666,229	0	334,598
<b>Fish and Wildlife</b>				
F13AF01047	\$26,170,699	\$25,946,021	\$98,805	\$1,361,014
F14AF01082	34,528,393	32,831,217	673,251	1,186,958
<b>Totals</b>	<b>\$74,062,964</b>	<b>\$70,168,836</b>	<b>\$772,056</b>	<b>\$3,176,909</b>



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## Appendix 2

**State of Arizona  
Arizona Game and Fish Department  
Sites Visited**

**Headquarters**

Phoenix

**Regional Offices**

Region I—Pinetop  
Region II—Flagstaff  
Region IV—Yuma  
Region V—Tucson  
Region VI—Mesa

**Wildlife Areas**

Allen Severson Memorial  
Becker Lake  
Bog Hole  
Cluff Ranch  
Fools Hollow Lake  
Luna Lake  
Mittry Lake  
Quigley  
Raymond  
Sipe White Mountain  
Whitewater Draw  
Willcox Playa

**Fish Hatcheries**

Page Springs  
Silver Creek  
Sterling Springs

**Boat Ramps**

Arivaca Lake  
Becker Lake  
Fools Hollow Lake  
Luna Lake  
Mittry Lake  
Parker Canyon Lake  
Pena Blanca Lake  
Rainbow Lake  
Show Low Lake

**Boat Ramps, cont.**

Upper Lake Mary

**Subrecipients**

Grand Canyon Trust

Northeastern Arizona Sportsman's Association

Northern Arizona Shooting Foundation

Rio Salado Sportsman's Club

Sierra Vista Rod and Gun Club

Tucson Rifle Club

**Other**

Ben Avery Shooting Facility

Phoenix Deer Valley Airport

# Appendix 3

**State of Arizona  
Arizona Game and Fish Department  
Status of Audit Recommendations**

Recommendations	Status	Action Required
<p>1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, and 20</p>	<p>We consider the recommendations resolved but not implemented.</p> <p>FWS regional officials concurred with these recommendations and will work with the Department to resolve all findings and recommendations.</p>	<p>Complete a corrective action plan that includes information on actions taken or planned to address the recommendations, target dates and title(s) of the official(s) responsible for implementation, and verification that FWS headquarters officials reviewed and approved of the actions taken or planned by the Department.</p> <p>We will refer the recommendations not implemented at the end of 90 days (after November 28, 2018) to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.</p>

