



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 Michigan, Department of Natural Resources from
October 1, 2013, through September 30, 2015 (Revised)




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

Memorandum

SEP 18 2018

To: James W. Kurth
Deputy Director, 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 Michigan, Department of
Natural Resources from October 1, 2013, through September 30, 2015
Report No. 2016-EXT-047

This final report presents the results of our audit of costs claimed by the State of Michigan, Department of Natural Resources (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 \$91 million on 25 grants that were open during the State fiscal years (SFYs) that ended September 30, 2014, and September 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 revenues, and reporting program income.

We questioned costs totaling \$60,306,048 related to unsupported payroll and other unsupported or ineligible costs. In addition, we found that the Department: 1) potentially diverted real property acquired with license revenue, 2) had not adequately managed equipment, and 3) had not provided sufficient oversight of subawards.

We provided a draft of the report to the FWS. In this report we summarize the Department's and FWS Region 3's responses to our recommendations, as well as our comments on their responses. We list the status of the recommendations in Appendix 3.

Please provide us with a corrective action plan based on our recommendations by January 18, 2019. 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 AIE_Reports@doioig.gov. If you are unable to submit your response electronically, please send your response to me at:

U.S. Department of the Interior
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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.

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

Table of Contents

Introduction.....	1
Background.....	1
Objectives	1
Scope.....	1
Methodology	2
Prior Audit Coverage	3
Results of Audit	4
Audit Summary.....	4
Findings and Recommendations	5
Appendix 1	21
Appendix 2.....	23
Appendix 3.....	25

Introduction

Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act¹ 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 FWS to reimburse States up to 75 percent of the eligible costs incurred under the grants. The Acts also require that hunting and fishing license revenues be used only for the administration of the 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 State of Michigan, Department of Natural Resources (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 revenues solely for fish and wildlife program activities
- Reported and used program income in accordance with Federal regulations.

Scope

Audit work included claims totaling approximately \$91 million on the 25 grants open during the State fiscal years (SFYs) that ended September 30, 2014, and September 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 in Lansing, MI, and visited one boat access facility, one creek, five customer service centers, six field offices, three fisheries research stations, two fish hatcheries, four shooting ranges, one state game areas, and nine wildlife management areas (see Appendix 2).

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

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

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 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, or changed, 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 January 6, 2012, we issued *U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Michigan Department of Natural Resources from October 1, 2008, Through September 30, 2010* (R-GR-FWS-0008-2011). 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.

We reviewed the State's single audit report for SFY 2014. This report did not contain any findings that would directly affect the Program grants.

Results of Audit

Audit Summary

We identified the following conditions that resulted in our findings, including questioned costs totaling \$60,306,048.

A. Questioned Costs—\$60,306,048

1. Unsupported Payroll—\$59,849,151²

The Department was unable to demonstrate that a total of \$54,128,440 in grant labor claimed on 25 grants (and related indirect costs of \$5,720,710) was expended solely for grant related activity. In addition, the Department was unable to demonstrate that license revenue labor charges were expended solely for the administration of the State's fish and wildlife agency.

2. Unsupported In-Kind match—\$279,108

The Department used the value of hours worked by volunteers as in-kind match. Due to insufficient oversight by Department personnel we question \$279,108 as unsupported.

3. Unsupported Direct Costs—\$114,634

The Department was unable to provide sufficient support for costs charged to the grant.

4. Ineligible Direct Costs—\$63,155

The Department was unable to demonstrate that expenses claimed were incurred for grant purposes or that it had followed its standard operating procedures.

B. Inaccurate Valuation of Third-Party Contributions—Waived Indirect Costs

The Department improperly claimed third-party waivers of indirect costs as in-kind match.

C. Potential Diversion of Real Property

The Department allowed unauthorized use of real property acquired with license revenue.

D. Inadequate Equipment Management

The Department had not adequately identified its equipment. Inventory data did not include the funding source, and the disposal process was not followed.

² Figures in this section do not sum, due to rounding.

E. Insufficient Oversight of Subawards

The Department risks misunderstandings with its subrecipients and potential noncompliance by not including all federally required elements in each subaward. Including these elements will make subrecipients aware of the compliance requirements related to Federal funds. In addition, the Department did not conduct risk assessment or monitoring of subrecipients, which puts Federal funds at unnecessary risk.

Findings and Recommendations

A. Questioned Costs—\$60,306,048

1. Unsupported Payroll—\$59,849,151³

The Department did not support payroll charges to Program grants during SFYs 2014 and 2015. In addition, the Department did not demonstrate that payroll charges to license revenue were supported.

The Department claimed \$54,128,440 in payroll expenditures on the 25 Wildlife and Sport Fish Restoration Program grants open during our audit scope. This total does not reflect the amount of payroll charged to the Fish and Game fund (license revenue fund). The Department is required to charge payroll costs to the Program grants and license revenue by recording the actual time spent on each grant or other project/activity in the State's payroll system.

We requested payroll data from the Department for the scope of our audit and although we received summary data from select Divisions, the Department did not ensure that the payroll data provided was complete. During analysis of the payroll data, we noted that the data files did not contain sufficient information to permit a review of the data on a detailed level. At best, the files showed information only at the pay period level. As such, a comprehensive analysis of the payroll was not possible.

In addition, grant files provided did not break down payroll costs charged by Division, so we could not calculate partial "credit" for payroll data provided. We were also unable to evaluate or test the payroll amounts provided by the Fisheries and Wildlife Divisions because we could not verify whether these data sets were complete, and that the data included payroll paid with both grant funds and license revenue.

Federal regulation 2 C.F.R. § 200.302(a) requires that a State's financial management systems be sufficient to permit: 1) the preparation of reports

³ Figures in this section do not sum, due to rounding.

required by general- and program-specific terms and conditions, and 2) tracing of funds to a level of expenditures adequate to establish that such funds have been used according to regulations and award terms and conditions.

Regulations 2 C.F.R. part 225, Appendix A, C.1.a., b., and j., also require that to be allowable under Federal awards, costs must be necessary for proper performance and administration of the award, be allocable to the award, and be adequately documented.

In addition, regulation 2 C.F.R. part 225, Appendix B, 8.h.(1), provides that charges to Federal awards for salaries and wages must be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of that unit.

Finally, regulations 2 C.F.R. part 225, Appendix B, 8.h.(4, 5), state that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports that must: 1) reflect an after-the-fact distribution of the actual activity of each employee, 2) account for the total activity for which each employee is compensated, and 3) be signed by the employee. This is also required per *DNR Policy and Procedures* (15.01-02), “Payroll Costs Charged to Federal Aid Grants.”

Thus, the Department was unable to demonstrate that a total of \$54,128,440 in grant labor claimed on 25 grants (and related indirect costs of \$5,720,710) was expended solely for grant related activity. In addition, the Department was unable to demonstrate that labor charges paid with license revenue were expended solely for the administration of the State’s fish and wildlife agency.

2. Unsupported In-Kind Match—\$279,108

The Program requires States to use matching, or non-Federal, funds to cover at least 25 percent of costs incurred in performing projects under the grants. States may use noncash or in-kind contributions to meet the matching share of costs but, as with costs claimed for reimbursement, the value of these contributions must be supported.

The Department used a value of hours worked by volunteers as in-kind match. For the hunter education program, we looked at Grant Nos. F12AF01087 and F14AF00989 to review in-kind. We selected a sample of 28 timesheets for volunteer workers for State fiscal year 2014, and 24 timesheets for 2015. A review of the sampled timesheets revealed:

- Classes that were claimed, but not on the approved class list

- Duplicate entries (15 percent) where an instructor claimed hours for the same day more than once for both years tested
- Difficulty determining the validity of instructors' hours due to poor oversight of timesheets by Department personnel
- Travel time included in SFY 2014—according to policy, volunteer travel costs shall not be included as an in-kind match

We also noted that the forms used to document the volunteer hours do not conform to the requirements of 43 C.F.R. §12.64, which says that, to the extent feasible, volunteer services are to be supported by the same methods that the organization uses to support its regular personnel costs. The Department's policy requires time be entered/accounted for daily, but the volunteer forms have no designation for a Department official to review and sign, thus acknowledging the legitimacy of the volunteer hours. Each class was mandated to have at least two certified instructors. If a class has 50 or more students, then more instructors are required. No maximum number of instructors per class was specified in the policy.

The Department uses an older system to document the volunteer hours for the hunter education grants. Each volunteer fills out a form. The forms are scanned, and the data is imported from the scanned details. No other verification, or review of the data, is conducted. We were told that some of the recorded volunteer hour errors we found are affected by a glitch in the system used to capture the volunteer data.

For Grant Nos. F12AF01087 and F14AF00989, we extracted both unallowable and questionable costs from the amount of in-kind reported on the Final Federal Financial Report resulting in a shortage of \$162,912 for SFY 2014, and a shortage of \$116,196 for SFY 2015.

According to the grant agreement and regulations 50 C.F.R §§ 80.83, 80.84(a), and 80.85, the grantee is required to pay 25 percent of the grant's costs, which may be in the form of cash or in-kind contributions. We determined \$279,108 to be an unsupported, in-kind match for hunter education.

3. Unsupported Direct Costs—\$114,634

The Department was unable to provide sufficient support for some costs claimed. Specifically, the Department was unable to support \$152,845 charged to Grant No. F14AF01217 as referenced on Document Number ZS000002. To be eligible for reimbursement under the Program, grant expenses must be reasonable, allowable, allocable, and adequately

supported (2 C.F.R. §§ 200.402 through 200.405). We question \$114,634 (\$152,845 x 75 percent (Federal share)), as unsupported.

4. Ineligible Direct Costs—\$63,155

The Department improperly charged Program grant funds for activity occurring outside of the specified grant period.

Federal Regulation 43 C.F.R. § 12.63(a) states that where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period, unless carryover of unobligated balances is permitted.

The Department charged Grant No. F13AF01268 for two studies (*Facilitating Urban-Suburban Deer Management in Michigan: Social, Spatial, and Population Considerations* and *Improving the Effectiveness of Wolf Management Approaches in Michigan*) totaling \$84,051 for costs incurred prior to the start of the grant period. We question \$63,038 (\$84,051 x 75 percent (Federal share)), as unallowable.

The Department charged Grant No. F14AF01221 \$156 for the cost of kiosk signs on Drummond Island that were incurred prior to the start of the grant period. We question \$117 (\$156 x 75 percent (Federal share)) as unallowable.

To be eligible for reimbursement under the Program, grant expenses must be reasonable, allowable, allocable, and adequately supported (2 C.F.R. § 200.402 through 200.405). Thus, we identified \$63,155 as unallowable costs.

Recommendations

We recommend that the FWS:

- I.A. Review the Department's labor charging methods for grant funds and license revenue, to ensure these moneys are only used for authorized purposes.
- I.B. Resolve the unsupported costs of \$59,849,151 by ensuring that payroll expenses are reasonable, necessary, allocable, and adequately supported.
- 2A. Resolve the unsupported costs of \$279,108 pertaining to volunteer hours claimed as in-kind match.

Recommendations

- 2B. Require the Department to develop and implement controls over volunteer timekeeping to ensure that claims of in-kind contributions conform to requirements similar to those for payroll costs.
3. Resolve the unsupported costs of \$114,634 pertaining to Grant No. F14AF01217.
4. Resolve the questioned costs of \$63,155 pertaining to costs incurred outside the period of performance for Grant Nos. F13AF01268 and F14AF01221.

Department Response

1. The Department did not concur with the unsupported payroll finding. According to the response, the Department stated the State's payroll system allows individuals to record their time by date, activity, project and grant. The system process payroll every 2 weeks and transmits those costs at the summary level to the accounting system. The Department also stated that during an audit, it normally provides documentation along with a detailed explanation how the system works, but they were not given the opportunity. The Department provided a few examples to demonstrate how the payroll costs could have been validated.
2. The Department did not concur with the unsupported in-kind match of \$279,108. In the response, the Department stated there were no travel costs included as in-kind match. The Department requested additional information on how the calculations were determined.
3. The Department did not concur with the unsupported direct costs of \$114,634. In the response, the Department stated the costs were associated with a construction contract that was funded with Great Lakes Restoration Initiative, private funds and hunting and fishing license revenue. The portion of the project that was charged to hunting and fishing license revenue was then used as match for a federal grant. The Department provided additional support to verify the payment.
4. The Department did not concur with the ineligible direct costs of \$63,155. In the response, the Department stated the accounting system used allows for payment to be made and applied to a previous fiscal year approximately 1 month after the new fiscal year begins. The payments in question were processed using the effective date of September 30. This date allows the costs to post to the appropriate fiscal year. The Department provided additional support for the two studies and the kiosk.

FWS Response

The FWS did not concur with the finding, stating that it (1) had not seen the audit working papers, (2) had additional questions regarding question costs, and (3) requested the OIG work with FWS Region 3 and Michigan DNR as the audit process continues.

OIG Comments

1. The Department had multiple opportunities throughout the course of the audit to provide us the payroll data. We initially requested payroll data from the Department for the scope of our audit on February 29, 2016 and clarified our request at the audit entrance conference held May 16, 2016.

We continued to request payroll data through the audit, and although we received summary data from select Divisions, the Department did not ensure that the payroll data provided was complete. During analysis of the payroll data, we noted that the data files did not contain sufficient information to permit a review of the data on a detailed level. At best, the files showed information only at the pay period level. As such, a comprehensive analysis of the payroll was not possible. At the audit exit conference, held on April 27, 2017, we clarified that the Department had not provided sufficient support for claimed grant labor charges. In response to the draft audit report the Department did provide three examples to demonstrate how the payroll costs could have been validated, however, we defer to the FWS for analysis of, and management decision regarding, the questioned payroll costs.

2. The questioned amount relates to the Federal outlays, pulled from the final SF-425 as actual Federal expenditures. Since this is required to be no more than 75 percent of total grant expenditures, the amount was used to determine the total expenditures required and the associated minimum State share. The original State share claimed was also pulled from the final SF-425. Then we obtained the in-kind claimed in the final performance report and subtracted the unsupported costs obtained from a sample of 28 timesheets for volunteer workers for SFY 2014, and 24 timesheets for 2015. We then took the original State share claimed on the SF-425 and subtracted the in-kind claimed on the final performance report. Using that total, we subtracted the supported in-kind match and came up with a shortage for both years on the hunter education grant.

We revised the recommendations from the original Notice of Potential Finding and Recommendations, to streamline implementation tracking.

3. The Department provided support to clear the finding of the unsupported direct costs of \$114,634.

4. Documentation for Grant No. F13AF01268 shows the period of performance as SFY 2014 (October 1, 2013 through September 30, 2014). However, on invoice nos. 5297 and 5299, it shows final invoice dated 10/15/13, project period 10/1/12-9/30/13 and billing period 7/1/13-9/30/13. Therefore, the charges are related to FY 2013 activity.

Based on the Department's and FWS' responses, we consider recommendations 1, 2, and 4 unresolved, and recommendation 3 resolved and implemented (see Appendix 3).

B. Inaccurate Valuation of Third-Party Contributions—Waived Indirect Costs

The Department improperly claimed third-party waivers of indirect costs as in-kind match.

The Department contracts with Michigan State University (MSU) to perform specific grant projects (Wildlife Grant F14AF01229, W-155-R-4). On these projects, the university does not charge the Department for its indirect costs. The Department claimed \$606,027.15 in waived overhead as a third-party contribution toward the State's matching funds requirement.

We found errors in the calculations, resulting in the overstatement of the indirect costs that MSU waived. Specifically, most of the projects were subject to a federally negotiated rate of 26 percent for field research, while waiver calculations most often cited MSU's full on-campus rate of 53.5 percent or other budgeted amounts.

Federal Regulation 2 C.F.R. § 200.306(c) requires that the waiver of indirect costs, when used as match, requires prior approval of the Federal awarding agency. Further, the regulation defines waived (or unrecovered) indirect costs as the difference between the amount charged and the amount which could have been charged to the Federal award under the non-Federal entity's approved negotiated indirect cost rate. In addition, 2 C.F.R. § 200.403(g) requires costs to be adequately documented to be allowable under Federal awards.

Based on our analysis of information provided by both the Department and MSU, we concluded that waived overhead is overstated by \$238,698. We note, however, that the Department cited enough match from other spending (a condition known as "overmatch") that we need not formally question costs in this instance, because the errors did not result in excess reimbursement.

Recommendation

We recommend that the FWS:

5. Develop and implement procedures to verify the application of the correct Federally-negotiated rates when third-party contributions include the value of indirect costs.

Department Response

The Department concurred with the incorrectly calculated third-party waivers of indirect costs that it claimed as match.

FWS Response

The FWS concurred with the finding and recommendations and has reviewed and accepted the Department's response. The FWS will work with Department staff to implement the recommendations, which will be considered in the corrective action plan that will resolve the finding and recommendations.

OIG Comments

Based on the Department's and FWS' responses, we consider these recommendations resolved but not implemented (see Appendix 3).

C. Potential Diversion of Real Property

To participate in the Program, States are required to protect land resources. Any real property acquired with Program funds and license revenue must be used in perpetuity for its originally intended purposes. The Department potentially diverted real property acquired with Program funds/license revenues.

Specifically:

- In 1996, there were 19 miles of hiking trails acquired with license revenue originally sanctioned at the Harlow Lake—Little Presque Isle Tract. Trails now located within the tract are a combination of those trails and a number of unauthorized trails built by users for mountain biking and hiking. The mountain biking and hiking trails are not compatible with the tract's intended use as a wildlife management area.
- In 1947 and 1979, the Department used license revenue (State game funds) to purchase 20-acre parcels at Porcupine Mountain State Park. We noted that there is a ski hill operated by a private entity located on these parcels. Managing such property for recreational use rather than

for the benefit of fish and wildlife may result in a diversion of license revenues.

Federal regulation 50 C.F.R. § 80.90 (f) (previously 50 C.F.R. § 80.18 (c)), provides that the Department is responsible for “the control of all assets acquired under the grant to ensure that they serve the purpose for which acquired throughout their useful life.” Regulation 50 C.F.R. § 80.11 also affirms that a State becomes ineligible under the Program if it diverts hunting and fishing license revenue to purposes other than administering the State fish and wildlife agency. Regulation 50 C.F.R. § 80.2 also states that only the functions required to manage the State’s fish and wildlife resources may be supported with license revenues. Furthermore, regulation 50 C.F.R. § 80.20(b) notes that real property or equipment acquired with license revenue are to be afforded the same protections as license revenues.

Potential diversion of license revenues jeopardizes the State’s continued participation in the Program and brings into question whether fish and wildlife resources appropriately benefitted from the funds.

Recommendations
<p>We recommend that the FWS:</p> <ol style="list-style-type: none">6. Determine whether lands purchased with license revenue continue to meet eligible Program purposes. Require appropriate compensation should any diversion be declared.7. Require the Department to develop and implement a procedure to ensure that real property purchased with license revenues is used only for the management of fish and wildlife resources.

Department Response

The Department concurred with the potential diversion of real property. According to the response, the Harlow Lake/Little Presque Isle Tract is being addressed and the Porcupine Mountains Wilderness State Park can be resolved through a mutually agreed-upon approach.

FWS Response

The FWS concurred with the finding and recommendations and has reviewed and accepted the Department’s response. The FWS will work with Department staff to implement the recommendations, which will be considered in the corrective action plan that will resolve the finding and recommendations.

OIG Comments

Based on the Department's and FWS' responses, we consider these recommendations resolved but not implemented. (see Appendix 3)

D. Inadequate Equipment Management

The Department had not implemented sufficient controls over equipment management. Federal regulation requires each State to have adequate controls in place to ensure accountability for its equipment (2 C.F.R. § 200.302(b)4). To determine whether the Department had maintained adequate equipment control, we requested an inventory of all equipment purchased with Program funds and State license revenue.

We reviewed the inventory data received from the State, and we found that a significant number of items were missing funding information. We selected our sample of 375 items of equipment valued at \$7,556,123.47 to verify their existence during our site visits. Of the equipment tested, 38 items could not be located or were not adequately supported. The 38 items accounted for \$838,381.42 (11.1 percent) of the \$7,556,123.47 tested. Given that the field offices were generally unaware of whether equipment was purchased with license revenue or Program funds, there was no way to determine if the equipment was used only for appropriate purposes.

While conducting site visits, we also noted that many items did not have an inventory tag. The items ranged from canoes and small boats, which may not reach the threshold for reporting, to large tractors and trailers. The total value of the items identified cannot be estimated without additional information.

We also requested a list of items disposed of during the audit period. Overall, the disposal process is not in order. The State's required listing of disposed assets does not match the list of disposed items provided by the Department's divisions. Interviews of four division equipment liaisons showed that all of them were uninformed on significant parts of the disposal process, and none of them understood what the financial numbers listed on disposal forms meant.

On the disposal paperwork, many items were missing the Department's equipment tag numbers, so they could not be matched against other data sources. Consequently, the person in charge of equipment disposal was unable to ensure that any proceeds were properly credited back to the originating program. Further, the process for trade-ins did not ensure that the new assets reflected the originating funding source for the trade-in value. Tracing of some traded equipment showed that the funding source had not been properly accounted for on any of the transactions.

Federal regulation 50 C.F.R. § 80.90(f) requires a State fish and wildlife agency to be responsible for the control of all assets acquired under program grants to ensure that they serve the purpose for which acquired throughout their useful life.

State and Department policies require assets be tagged and documented in inventory, with the funding source noted. In addition, they emphasize the need for accurate inventory and states, “The accuracy and integrity of the inventory listings is critical to the safeguarding of the State’s assets.” An annual physical inventory reconciliation is required, and guidance is provided to personnel for documenting missing equipment or equipment that is missing tag numbers, reporting on changes in inventory, and disposal of equipment.

Equipment purchased with Program funding and license revenue are at risk of loss. In addition, the Division and the FWS have no assurance that equipment is used for its originally intended purposes.

Recommendations

We recommend that the FWS:

8. Ensure that Department personnel tag and document assets in accordance with State and Department policies, and complete an annual physical inventory
9. Ensure the Department’s official asset records are accurate, and include the funding source
10. Ensure that Department personnel return remaining asset value to the Program when disposing of equipment purchased with grant funds or license revenue
11. Provide training to equipment liaisons to ensure key personnel understand inventory policies and procedures and their roles and responsibilities with respect to equipment management, tracking, and disposal

Department Response

The Department concurred with the recommendations on equipment management. In the response, the Department stated it is in the process of implementing a statewide asset management system. This system will allow the staff to track and record maintenance equipment.

FWS Response

The FWS concurred with the finding and recommendations and has reviewed and accepted the Department’s response. The FWS will work with

Department staff to implement the recommendations, which will be considered in the corrective action plan that will resolve the finding and recommendations.

OIG Comments

Based on the Department's and FWS' responses, we consider these recommendations resolved but not implemented (see Appendix 3).

E. Insufficient Oversight of Subawards

We noted several problems with the Department's management of subawards funded by Program grants. We asked for a list of subawards open during our audit period and we were told there was only one with Michigan State University in SFY 2014 (Grant F13AF01268). After reviewing the support from our sample for in-kind contributions, we did discover there were other subawards during SFY2015.

One subaward included Grant No. F14AF01229 for Michigan's Statewide Wildlife Research, Surveys, and Monitoring Program (W-155-R-4).⁴ This grant had subawards that were issued as contracts. After reviewing the "Benefits" and "Approach" sections of the agreement, we noted high levels of collaboration with universities and research faculties. These grant agreements were used to transfer funds to the university once a cooperative research partnership had been established.

We tested 19 of the 37 research projects within Grant No. F14AF01229 (see Figure 1) and found that:

- Eight of the projects were awarded as fixed price "grants" (highlighted green in the table).
- Four of the projects were awarded as a "contract" but should be some form of financial assistance, such as a cooperative agreement (highlighted blue).
- The Department was required to perform risk assessments on its subrecipients but did not do so.
- The Department was required to report all subawards totaling \$25,000 or more on fsrs.gov but did not do so.
- Federal regulations require subaward agreements to contain specific information related to risk assessment and monitoring, but neither of them contained the necessary elements.

⁴ This grant was modified to add funding on September 1, 2015, requiring the new award terms and conditions apply to the entire Federal award.

Subaward Purpose	Subaward Amount	FY 2015
Role of Predators, Winter Weather, and Habitat on White-Tailed Deer Fawn Survival in Michigan - Phase II	\$365,007	\$252,600
Geographic Analysis of Age-Period-Cohort Dimensions in Michigan Hunter Participation	72,691	44,502
Monitoring Mast Occurrence and Production Using Citizen Scientists to Inform Wildlife Management in Michigan	65,529	42,690
Assessing the Viability of Game Meat Sharing as a Strategy to Increase Support for Hunting and Wildlife Conservation	8,582	5,591
Impacts of Harvest and Habitat Conditions on Breeding Mallard Abundance in the Great Lakes Region	\$81,355	\$53,000
Facilitating Urban-Suburban Deer Management in Michigan: Social, Spatial, and Population	99,736	64,974
Improving Efficacy of Furbearer Management in Michigan (MSU) Through the Nature and Extent of Illegal Fur Harvesting	31,667	20,630
American Woodcock Reproductive Rates in Relation to Forest Structure (MSU)	177,293	115,500
Population Dynamics and Management of Wild Turkeys in Michigan (MSU): Linking Monitoring, Assessment, and Harvest-Policy Evaluation	65,773	42,849
Exploring Causal Factors and Effects of Declining Hunter Participation in MI (MSU)	62,344	40,615
Elk Responses to Recreational Use and Habitat Potential in Michigan (MSU)	35,305	23,000
Research and Biometrics Consultation and Support to Wildlife Division via the Boone and Crocket Quantitative Wildlife Center at MSU	93,115	65,384
Mass Media Coverage of MI Wolf Referenda (MSU)—Improving the Effectiveness of Wolf Management Approaches in Michigan	48,570	31,745
Population Dynamics and Movements of Mute Swans in Michigan (MSU)	178,828	116,500

Subaward Purpose	Subaward Amount	FY 2015
Understanding Habitat, Breeding, Ecology, and Diseases of Feral Swine (MSU) in Michigan to Inform Effective Management	196,357	145,881
Analytical Support Refining Wolf Survival Estimates in the Upper Peninsula and Addressing Action Items in Michigan's Wolf Management Plan	67,636	49,742
Data Collection and Analysis to Generate Localized Deer Abundance Estimates and Recommended Future Protocols.	88,247	57,990
Analytical Support Refining Black Bear Abundance Estimates in the Northern Lower Peninsula and Addressing Action Items in MI's Bear Management Plan – Spatially Explicit Capture-Recapture Estimation of Black Bear Abundance in MI's Northern Lower Peninsula	45,366	33,855
An Evaluation of Moving to a Learning Organization in the Wildlife Division: Measuring Collaboration, Trust, Performance, and Effectiveness of Decisions	85,139	55,465
	\$1,868,540	\$1,262,513

Figure 1. Subaward Agreements in the Audit Sample.

1. Risk Assessments Not Conducted

The Department did not assess the risk of providing Program grant funds to the entities before their subawards expired.⁵

2. Subawards Lacked Required Elements

The subawards under grant F14AF01229 were subject to Federal regulations, which required the agreements to contain specific elements, but neither of them contained the necessary information.⁶ Specifically, the following items were missing:

- Subrecipient's unique entity identifier
- Federal award identification number
- Federal award date
- Amount of Federal funds obligated by the subaward

⁵ This requirement took effect on December 26, 2014.

⁶ This requirement took effect on December 26, 2014.

- Total amount of Federal funds obligated to the subrecipient
- Total amount of the Federal award
- Federal award project description
- Name of Federal awarding agency
- Catalog of Federal Domestic Assistance number and name
- Identification of whether the award was for research and development
- Indirect cost rate for the Federal award
- Subrecipient's approved indirect cost rate

Federal regulation 2 C.F.R. § 200 establishes uniform administrative requirements and cost principles. Regulation 2 C.F.R. § 200.330 requires that pass-through entities determine whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor. Regulation 2 C.F.R. § 200.330 states that: 1) a subaward is for the purpose of carrying out a portion of a Federal award and creates a Federal assistance relationship with the subrecipient, and 2) a contract is for the purpose of obtaining goods and services for the non-Federal entity's own use and creates a procurement relationship with the contractor.⁷

Regulation 2 C.F.R. § 200.331(a) states that every subaward agreement must contain 13 specific items, including the date of the original Federal award, a description of the Federal award project, the subrecipient's approved indirect cost rate, and other information.⁸

Federal regulation 2 C.F.R. § 200.331(b) also requires that the Department, as the pass-through entity, 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." This evaluation may consider factors such as: 1) the subrecipient's prior experience with the same or similar subawards, 2) the results of previous audits of the subrecipient, 3) whether the subrecipient has new personnel or new or substantially changed systems, and 4) the extent and results of the Federal awarding agency's monitoring of the subrecipient.⁹

⁷ This requirement took effect on December 26, 2014.

⁸ This requirement took effect on December 26, 2014.

⁹ This requirement took effect on December 26, 2014.

In addition, regulation 2 C.F.R. § 200.318(c)(1) requires that subrecipients must maintain written standards of conduct covering conflicts of interest and governing the performance of employees engaged in the selection, award, and administration of contracts.¹⁰

The Department risks misunderstandings with its subrecipients and potential noncompliance by not including all federally required elements in each subaward, such as the Federal award project description, name of the Federal awarding agency, and the subrecipient's approved indirect cost rate. Including these elements will make subrecipients aware of the compliance requirements related to Federal funds. Finally, neglecting to conduct risk assessments and failing to appropriately monitor subrecipients puts Federal funds at unnecessary risk.

Recommendations

We recommend that the FWS require the Department to:

12. Train new subaward managers on oversight techniques and applicable Federal requirements
13. 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
14. Ensure that all Federally-required elements are included in the Department's subaward agreements
15. Educate subrecipients on their responsibilities under Federal awards

Department Response

The Department did not concur with the insufficient oversight of the subawards. In the response, the Department stated the relationship with the University is based on a vendor classification rather than a subrecipient classification because the University supplies good and services.

FWS Response

The FWS concurred with the finding and recommendations and has reviewed and accepted 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.

¹⁰ This requirement took effect on December 26, 2014.

OIG Comments

We disagree with the Department's treatment of university research as a contract/vendor classification because the work is, most often, the carrying out of "a public purpose specified in authorizing statute" — considered a subaward under 2 C.F.R. § 200.330(a)(5) — and not the provision of "services that are ancillary" to the Program — which would be deemed a contract under 2 C.F.R § 200.330(b)(4).

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

Appendix I

State of Michigan
Department of Natural Resources
Grants Open During the Audit Period
October 1, 2013, Through September 30, 2015

FBMS Grant Number	Grant Amount	Claimed Costs	Questioned Costs-Ineligible	Questioned Costs-Unsupported
FISH				
FI1AF00200	\$3,300,000	\$2,487,827	\$0	\$0
FI3AF00574	4,000,000	3,956,012	0	2,995,801
FI3AF00729	9,703,824	9,471,682	0	6,049,889
FI3AF00733	1,891,360	780,204	0	723,220
FI3AF00836	508,534	310,397	0	197,928
FI3AF00865	4,158,726	3,269,660	0	2,740,885
FI4AF00809	10,093,928	8,447,227	0	6,146,085
FI4AF00810	197,926	173,336	0	165,900
FI4AF00828	4,308,166	3,282,237	0	2,869,327
FI4AF00909	2,000,000	2,000,000	0	1,231,149
FISH AND WILDLIFE				
FI3AF00861	291,787	187,074	0	126,391
FI4AF00984	143,550	96,073	0	92,919
WILDLIFE				
FI2AF01087	4,165,017	3,853,826	0	2,107,985
FI3AF00877	3,524,109	3,525,637	0	1,911,899
FI3AF01134	6,937,372	5,825,557	0	4,432,397
FI3AF01202	8,194,625	8,004,866	0	7,403,755
FI3AF01255	8,215,675	6,660,721	0	4,622,824

FBMS Grant Number	Grant Amount	Claimed Costs	Questioned Costs- Ineligible	Questioned Costs- Unsupported
FI3AF01268	6,284,849	4,943,178	63,038	2,560,898
FI4AF00989	3,794,546	4,189,414	0	2,186,256
FI4AF01147	1,072,047	74,910	0	0
FI4AF01217	9,378,124	6,451,333	0	3,767,315
FI4AF01221	8,799,715	7,207,113	117	5,076,283
FI4AF01229	6,751,617	5,762,502	-	2,833,787
FI5AF00007	-	-	0	0
FI5AF00279	63,583	63,583	0	0
Totals	\$107,779,080	\$91,024,368	\$63,155	\$60,242,893

Appendix 2

**State of Michigan
Department of Natural Resources
Sites Visited**

Department Headquarters

Lansing

Boat Access Facility

Selfridge

Creek/Stream

Cherry Creek

Customer Service Centers

Bay City

Gaylord

Marquette

Newberry

Roscommon

Field Offices

Crystal Falls

Escanaba

Grayling

Norway

Rose Lake

Sault Ste Marie

Fisheries Research Stations

Alpena

Lake St. Clair

Waterford

Fish Hatcheries

Marquette

Thompson

Shooting Ranges

Bald Mountain

Ortonville

Pontiac Lake

Rose Lake

State Game Area

Backus Creek

Wildland Management Areas

Dollarville Flooding

French Farm Flooding

Harlow Lake

Harsens Island

Munuscong

Paint Pond Road

Portage Marsh

St. John's Marsh

Tobico Marsh

Appendix 3

**State of Michigan
Department of Natural Resources
Status of Audit Recommendations**

Recommendations	Status	Action Required
IA, IB, 2A, 2B, and 4	We consider the recommendations unresolved.	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.
3	We consider the recommendation resolved and implemented.	
5-15	We consider the recommendations resolved but not implemented. U.S. Fish and Wildlife Service (FWS) regional officials concurred with the findings and recommendations and will work with the Michigan Department of Natural Resources (Department) staff to develop and implement a corrective action plan that will resolve all findings and recommendations	

