



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 Minnesota, Department of  
Natural Resources, From July 1, 2016, Through  
June 30, 2018



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

Memorandum

MAR 23 2020

To: Aurelia Skipwith  
Director, U.S. Fish and Wildlife Service

From: Amy R. Billings *Amy R. Billings*  
Regional Manager, Central Region

Subject: Final Audit Report – *U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Minnesota, Department of Natural Resources, From July 1, 2016, Through June 30, 2018*  
Report No. 2019-CR-016

This final report presents the results of our audit of costs claimed by the State of Minnesota, 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 approximately \$153 million on 43 grants that were open during the State fiscal years that ended June 30, 2017, and June 30, 2018 (see Appendix 1). The audit also covered the Department's compliance with applicable laws, regulations, and FWS guidelines, including those related to the collection and use of hunting and fishing license revenues and the reporting of program income.

We found that the Department complied, in general, with applicable grant accounting and regulatory requirements. We did, however, question costs totaling \$56,089 for potential diversion of license revenue related to the disposition of surplus equipment. We found the Department did not identify or report all its earned program income, and we found the Department had not reconciled its real property records with the FWS' real property inventory.

We issued a draft report to the FWS for its response to our recommendations. In its response to our draft report, the FWS concurred with our recommendations and will work with the Department to implement the recommendations (see Appendix 4).

Please provide us with a corrective action plan based on our recommendations by June 22, 2020. 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](mailto:aie_reports@doioig.gov).

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 or you can email [aie\\_reports@doioig.gov](mailto:aie_reports@doioig.gov).

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

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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 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 Minnesota 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 \$153 million on the 43 grants open during the State fiscal years (SFYs) that ended June 30, 2017, and June 30, 2018 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at the Minnesota Department of Natural Resources headquarters located in St. Paul, MN, and visited three regional offices, two field offices, two fish hatcheries, five wildlife management areas, three public access/boat ramps, and one subrecipient (see Appendix 2).

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

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<sup>1</sup> 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 revenues 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 December 19, 2014, we issued *Final Audit Report – U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Minnesota, Department of Natural Resources, From July 1, 2011, Through June 30, 2013* (Report No. R-GR-FWS-0002-2014).

We followed up on all five recommendations in the report and found that the U.S. Department of the Interior, Office of the Assistant Secretary for Policy Management and Budget (PMB) considered four recommendations resolved and implemented and one recommendation resolved but not implemented. As discussed in the “Findings and Recommendations” section of this report, we are repeating the unimplemented recommendation related to real property reconciliation, and we will keep the tracking of the unimplemented recommendation with the prior audit report.

We reviewed single audit reports for SFYs 2017 and 2018. None of these reports contained any findings that would directly affect 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 \$56,089.

- A. Potential Diversion of License Revenue—\$56,089.** We questioned \$56,089 of revenue from the sale of surplus equipment that was originally purchased with license revenue (see Appendix 3). The Department did not deposit the proceeds from the sale of the surplus equipment back into the license revenue account.
- B. Improper Accounting for Program Income.** We found that the Department's Parks and Trails Division did not have policies or procedures in place to adequately identify or report program income in accordance with regulations.
- C. Unreconciled Real Property Records.** We found that the Department has not reconciled its Program-funded real property records with those of the FWS.

## Findings and Recommendations

### A. Potential Diversion of License Revenue—\$56,089

The Department sells hunting and fishing licenses and collects license fees from hunters and anglers throughout the State. Under the Program, the Department must use revenue from these sales only to administer its fish and wildlife programs. During our audit scope, SFYs 2017 and 2018, the Department potentially diverted hunting and fishing license revenue for non-fish and game activities.

The Department sold \$56,089 of surplus equipment that was originally purchased with license revenue (see Figure 1). The Department, however, did not deposit the proceeds back into its Fish and Wildlife Division license revenue account. Rather, the Department used the sales proceeds to minimize the net cost to the Fleet Fuel Program that services the entire Department, which consists of six divisions.

**Figure 1: Sold Surplus Equipment Originally Purchased with License Revenue**

<b>Equipment Description*</b>	<b>Salvage Amounts (\$)†</b>
Carstens Bluebill	248
Bombardier 70 HP	1,449
2001 EZ Loader	171
1999 Shorelander	224
1998 Yacht Club R1715	233
1989 Spartan R1716	270
1998 Arctic Cat JAG 340	450
1988 Shorelandr RD1821	450
1999 Newman Mfg	450
2007 Bear Track BTU5396	492
1989 Spartan R1716	179
2007 Tiger	540
2006 Yacht Club R18G	618
2003 Clark	895
1997 Toro Groundmaster	1,530
2000 Arctic Cat Panther	1,800
Johnson 10 HP	338
2009 Mercury	630
Mercury 50 HP	720
1986 Spartan WRC120	90
1988 Spartan MMMMM	157
1988 Spartan R18	197
2001 Karavan KKB160064HD	313
2002 McClain 1813GD	460
2002 Yacht Club R1818	690
2006 Yacht Club R18G	1,007
2001 Continentl MMMMM	1,170
1999 John Deere 425	3,600
1997 Nissan P50KLPT767	7,229
John Deere 676	675
Carstens Pintail	338
Polar Kraft 16ft Alum Pwr Boat	360
Yamaha 50 HP	1,575
Mercury 50 HP	1,800

<b>Equipment Description*</b>	<b>Salvage Amounts (\$) †</b>
Evinrude 40 HP	162
Evinrude 70 HP	2,070
Lund 16ft Alum Pwr Boat	4,140
Polar Kraft 16ft Alum Pwr Boat	720
Crestliner 16ft Alum Pwr Boat	918
River Pro 18ft Alum Pwr Boat	3,623
Smith Root 4666 98	358
Peterson FiberGlass	23
Mercury 25 HP	225
Suzuki 140 HP	45
Alumacraft 14ft Alum Pwr Boat	322
2011 Mercury 60HP	2,909
Clark 20ft Alum Pwr Boat	2,685
1990 Spartan XLB170	54
1999 H & H US081	135
1987 Spartan WRC21538	143
1993 Built Rite BR490F	200
1988 Spartan	200
2009 Clark CB18RTR	269
2005 Shorelander	360
2006 Yacht Club R18G	540
2004 Shorelander SLB24S	1,208
Polar Kraft 16ft Alum Pwr Boat	520
Mercury 50 HP	157
Go Devil 18ft Alum Pwr Boat	2,760
<b>Total</b>	<b>\$56,089 ‡</b>

\*Items listed as they appeared on the equipment inventory.

†Salvage amounts have been rounded.

‡Total based on original amounts.

Source: Minnesota Department of Natural Resources.

Federal regulations (50 C.F.R. § 80.10(c)(1) and (2)) require that license revenue be controlled only by the State fish and wildlife agency and be used only for the administration of the State fish and wildlife agency. In addition, 50 C.F.R. § 80.20(b) states that license revenue includes personal property acquired with license revenue. By depositing receipts from the sale of fleet

equipment purchased with license revenue into its Fleet account instead of its Fish and Wildlife Division license revenue account, the State did not have controls in place to ensure the funds returned would benefit only fish and wildlife activities, as required by regulation.

Without controls in place to ensure that funds from the sale of equipment originally purchased with license revenue return to benefit only fish and wildlife activities, the Department could potentially divert more funds to other unrelated activities.

### **Recommendations**

We recommend that the FWS work with the Department to:

1. Require the Department to establish policies and procedures to ensure that proceeds from sales of equipment purchased with license revenue are deposited to the license revenue account
2. Resolve the diversion of license revenue totaling \$56,089

### **Department Response**

The Department agreed with the finding and committed to updating its property management policy and procedures to ensure proceeds from the sale of equipment purchased with license revenue are directed back to the original division. In addition, the Department reported transferring \$56,089 of revenue generated from the sales of license revenue-funded assets from the Fleet account to the Fish and Wildlife Division license revenue account. It did not, however, provide supporting documentation confirming the transfer.

### **FWS Response**

The FWS concurred with the recommendations and will work with the Department to develop a corrective action plan.

### **OIG Comment**

Based on the responses from the Department and the FWS, we consider both recommendations resolved but not implemented.

## **B. Improper Accounting for Program Income**

Under the Program, States are encouraged to earn program income to reduce program costs. States must report and use program income in accordance with Federal regulations. The FWS awarded the Department's Parks and Trails Division (Division) two grants for Statewide Boat Access Operations and Maintenance, one in 2014 (Grant No. F14AF00596) and one in 2017 (Grant No. F17AF00056). We found that the Division earned program income during each grant's period of performance, but the Division did not properly identify, track, or report the program income in accordance with regulations.

We found that the Division identified some of the program income earned during the grant period for Grant No. F17AF00056 and deducted it from expenditures prior to drawing down

reimbursement from the FWS. The Division, however, did not report program income on the Federal Financial Report (Standard Form 425), as required. When we brought this issue to the Division's attention, it identified additional program income earned during the period of performance for Grant No. F14AF00596. The Division did not identify nor deduct this program income from the expenditures prior to reimbursement from the FWS. As a result, the Division submitted a revised Standard Form 425 to the FWS reporting the recently identified program income and provided the FWS a reimbursement of \$38,992.

According to regulations, States must identify and deduct program income from expenditures before the State can request reimbursement from the FWS. We found that the Division requested several reimbursements from the FWS before the end of the grant's period of performance without identifying earned program income.

Federal regulation 2 C.F.R. § 200.80 defines program income as gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance. In addition, Federal regulation 50 C.F.R. § 80.123(b)(1) requires an agency to use program income for current costs.

Federal regulation 2 C.F.R. § 200.307(e)(1) states that if the Federal awarding agency does not specify how program income is to be used in its regulations or the terms and conditions of the Federal award, program income must be deducted from total allowable costs to determine the net allowable costs.

Finally, Federal regulation 2 C.F.R. § 200.305(b)(5) requires that grantees disburse program income before requesting additional cash payments, and 2 C.F.R. § 200.327 describes the responsibilities for financial reporting. The Federal awarding agency may solicit only the standard governmentwide data elements approved by the Office of Management and Budget to collect financial information on the Federal Financial Report.

The Division did not have a formal policy or procedure in place to track or account for program income in accordance with regulations. Division staff told us that they did not report program income as required due to a misunderstanding within the Division. Division staff were not aware that they should have identified and reported earned program income throughout the course of the grant or deduct the program income prior to receiving reimbursement.

The Division did not identify or report all the program income earned for Grant Nos. F14AF00596 and F17AF00056 in accordance with regulations. As a result, the Division requested excess reimbursement of funds and had to reimburse the FWS for those funds. Without a formal policy or procedure in place, we have no assurance that the Division identified and accounted for all program income in accordance with regulations.

## Recommendations

We recommend that the FWS work with the Department to:

3. Develop and implement formal policies or procedures to identify, track, and report program income in accordance with grant agreements and regulations
4. Identify and account for program income earned on Federal Financial Reports (Standard Form 425)

### Department Response

The Department agreed with the finding and committed to developing procedures to identify, track, and report program income in accordance with grant agreements and regulations. Further, the Department submitted a revised Federal Financial Report for program income relating to Grant Nos. F14AF00596 and F17AF00056.

### FWS Response

The FWS concurred with the recommendations and will work with the Department to develop a corrective action plan.

### OIG Comment

Based on the responses from the Department and the FWS, we consider Recommendation 3 resolved but not implemented, and Recommendation 4 resolved and implemented.

## C. Unreconciled Real Property Records

We found the Department has not reconciled its Program-funded real property records with those of the FWS since 2009. In our 2009 report (R-GR-FWS-0004-2009), we found that reconciliation had not yet been completed. In our 2014 report (R-GR-FWS-0002-2014), we noted the same finding and again recommended that the FWS ensure that the Department reconciled its real property records with the FWS' records, and in addition, certify that grant-funded real property is being used for its intended purposes.

Federal regulation 50 C.F.R. § 80.90(f) requires that the Department maintain control of all assets acquired under Program grants to ensure that they serve the purpose for which they were acquired throughout their useful life.

Department staff informed us they had made progress on the real property reconciliation, though they still had significant work left. As such, the Department submitted a request to the FWS for an extension of the 2014 audit's corrective action plan for land reconciliation. On January 14, 2019, the FWS approved the extension of the land reconciliation until December 31, 2020.

Without reconciliation, neither the Department nor the FWS can ensure that lands acquired under the Program are used for their intended purposes. We are therefore, repeating the recommendations from our prior audit report. The FWS should submit any documentation to the PMB to track implementation using the previous report number.

**Repeat Recommendations (Tracked Under Report No. R-GR-FWS-0002-2014, Recommendation No. 1)**

We recommend that the FWS:

- Ensure that the Department reconciles its real property records with FWS' records
- Require the Department to certify that grant-funded real property is being used for its intended purposes

**Department Response**

The Department agreed with the finding and has been working on reconciling its real property records with FWS records since we issued our 2014 report. The Department received an extended deadline from the FWS until December 2020. Once the land reconciliation is complete, the Department will certify that grant-funded real property is being used for its intended purpose.

**FWS Response**

The FWS concurred with the recommendations and is working with the Department to implement the actions in the previous corrective action plan.

**OIG Comment**

Based on the responses from the Department and the FWS, we consider the repeat recommendations resolved but not implemented. The repeat recommendations are being tracked under Report No. R-GR-FWS-0002-2014, Recommendation No. 1, and the prior corrective action plan.

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# Appendix 1

**State of Minnesota  
Department of Natural Resources  
Grants Open during the Audit Period  
July 1, 2016, Through June 30, 2018**

<b>FBMS Grant Number</b>	<b>Grant Amount (\$)</b>	<b>Claimed Costs (\$)</b>
F13AF00585	860,000	51,180
F14AF00404	9,416,796	8,019,198
F14AF00596	3,750,000	4,221,429
F14AF01220	354,500	236,731
F15AF00162	16,692,000	20,912,380
F15AF00243	15,210,000	15,349,342
F15AF00251	1,462,159	1,563,645
F15AF00252	1,044,950	596,791
F15AF00287	5,822,000	5,010,507
F15AF00289	23,020,000	23,342,402
F15AF00298	5,324,906	4,131,850
F15AF00912	3,950,000	4,332,284
F16AF00051	1,530,000	1,269,727
F16AF00107	2,070,000	1,448,882
F16AF00141	1,166,702	829,590
F16AF00173	100,000	0
F16AF00175	16,000,000	10,189,361
F16AF00211	1,600,000	0
F16AF00276	5,004,000	4,862,785
F16AF00398	7,661,500	7,565,805
F16AF00442	259,650	178,655
F16AF00692	750,100	0
F16AF00694	347,296	141,991
F17AF00056	4,532,800	2,738,255
F17AF00121	16,000	0
F17AF00161	897,202	562,265
F17AF00190	19,080,000	10,295,147

<b>FBMS Grant Number</b>	<b>Grant Amount (\$)</b>	<b>Claimed Costs (\$)</b>
F17AF00281	5,472,000	2,528,337
F17AF00282	22,020,000	11,995,042
F17AF00294	14,650,000	6,544,662
F17AF00454	815,275	98,034
F17AF00456	2,159,804	691,037
F17AF00457	4,626,974	1,377,602
F17AF00943	4,410,000	1,190,629
F17AF00983	250,000	192,141
F17AF01287	210,000	181,254
F17AF01288	285,000	265,745
F18AF00035	1,197,500	200,000
F18AF00036	2,070,000	182,847
F18AF00039	16,000,000	0
F18AF00046	1,600,000	0
F18AF00144	585,175	0
F18AF00436	19,000	0
<b>Totals</b>	<b>\$224,293,289</b>	<b>\$153,297,533</b>

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# Appendix 2

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

**Headquarters**

St. Paul, MN

**Regional Offices**

Aitkin Area Office/Fisheries

Duluth Fisheries

Mille Lacs Fisheries

**Field Offices**

Brainerd Area Office/Fisheries Wildlife Office

Two Harbors Area Office

**Fish Hatcheries**

Crystal Springs

Lanesboro

**Wildlife Management Areas**

Carlos Avery

Mille Lacs

Swan Lake

Vermillion River

Whitewater

**Public Access/Boat Ramps**

Borden Lake Public Access

McQuade Small Craft Harbor Boat Ramp

Mille Lacs Public Access

**Subrecipient**

Trust for Public Lands

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# Appendix 3

## Potential Diversion of License Revenue

<b>Finding Area</b>	<b>Amount (\$)</b>
Sale of Surplus Equipment Without Returning Income to the Program	56,089
<b>Total</b>	<b>\$56,089</b>

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# Appendix 4

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

<b>Recommendation</b>	<b>Status</b>	<b>Action Required</b>
1 – 3, Repeat Recommendation 1 (Report No. R-GR- FWS-0002-2014)	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 Minnesota Department of Natural Resources to develop and implement a corrective action plan.	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 the actions taken or planned by the State.  We will refer the recommendations not implemented at the end of 90 days (June 22,2020) to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
4	We consider the recommendation resolved and implemented.	No action is required.

