



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, 2011, Through June 30, 2013



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

December 19, 2014

Memorandum

To: Daniel M. Ashe
Director, U.S. Fish and Wildlife Service

From: Charles Haman 
Central Regional Manager for Audits, Inspections, and Evaluations

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, 2011, Through June 30, 2013
Report No. R-GR-FWS-0002-2014

This 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). FWS provided the grants to the State under the Wildlife and Sport Fish Restoration Program. The audit included claims totaling approximately \$88.3 million on 28 grants that were open during the State fiscal years that ended June 30, 2012, and June 30, 2013 (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. The Department, however, had not (1) reconciled its grant-funded real property records with those of FWS, (2) maintained accurate and complete equipment records, (3) maintained control over license revenues related to consolidation of information technology services, and (4) maintained sufficient support for license certifications related to multiyear license holders.

We provided a draft report to FWS for a response. 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 March 19, 2015. 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. If you are unable to submit your response electronically, please address 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 Tim Horsma, Program Audit Coordinator, at 916-978-5668 or me at 303-236-9243.

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 (Acts)¹ established the Wildlife and Sport Fish Restoration Program (Program). Under the Program, the U.S. Fish and Wildlife Service (FWS) provides grants to States to restore, conserve, manage, and enhance their sport fish and wildlife resources. The Acts and Federal regulations contain provisions and principles on eligible costs and allow FWS to reimburse States up to 75 percent of the eligible costs incurred under the grants. The Acts also require that hunting and fishing license revenues be used only for the administration of the States' fish and game agencies. Finally, Federal regulations and FWS guidance require States to account for any income earned using grant funds.

Objectives

We conducted this audit to determine if the State of 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; and
- reported and used program income in accordance with Federal regulations.

Scope

Audit work included claims totaling approximately \$88.3 million on 28 grants open during the State fiscal years (SFYs) that ended June 30, 2012, and June 30, 2013 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at the Department's office in St. Paul, MN, and visited a regional office, six area offices, and two wildlife management areas (see Appendix 2). We performed this audit to supplement—not replace—the audits required by the Single Audit Act Amendments of 1996 and by Office of Management and Budget Circular A-133.

Methodology

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

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

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; and
- determining whether the State passed required legislation assenting to the provisions of the Acts.

We also identified the internal controls over transactions recorded in the labor- and license-fee accounting systems and tested their operation and reliability. Based on the results of initial assessments, we assigned a level of risk to these systems and selected a judgmental sample of transactions 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 September 21, 2009, we issued “Audit on U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Minnesota, Department of Natural Resources, From July 1, 2005, Through June 30, 2007” (Report No. R-GR-FWS-0004-2009). 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 one recommendation resolved but not implemented. As discussed in the “Findings and Recommendations” section of this report, we are repeating the unimplemented recommendation, which deals with the Department's reconciliation of its real property records with FWS' records.

We reviewed single audit reports and comprehensive annual financial reports for SFYs 2011 and 2012. None of these reports contained any findings that would directly affect the Program grants.

Results of Audit

Audit Summary

We found that the Department complied, in general, with applicable grant agreement provisions and requirements of the Acts, related regulations, and FWS guidance. We identified, however, the following conditions that resulted in our findings:

- A. Unreconciled Real Property Records.** The Department had not reconciled its Program-funded real property records with those of FWS.
- B. Inadequate Equipment Management.** The Department had not maintained accurate and complete equipment records.
- C. Lack of Control of License Revenues.** The Department had not maintained control over license revenues related to consolidation of information technology (IT) services.
- D. Unsupported License Certifications.** The Department had not maintained sufficient support for license certifications related to multiyear license holders.

Findings and Recommendations

A. Unreconciled Real Property Records

Based on our review, we found that the Department and FWS had not reconciled their respective Program-funded real property records. To ensure that real property acquired under Program grants continues to serve the purpose for which it was obtained, the Department must ensure that its database of real property is accurate and complete and reconciles with FWS' land records.

Federal regulations (50 C.F.R. § 80.90(f)) require 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.

In addition, the FWS Director reiterated land management requirements to Program participants in a March 29, 2007 letter, requesting that each State maintain a real property management system that includes a comprehensive inventory of lands to ensure that its inventory is accurate and complete.

Although our prior audit report (Report No. R-GR-FWS-0004-2009) identified the issue of inadequate control of real property, FWS and Department officials both agreed that reconciliation had not yet been completed. Department officials stated that they have begun work on the reconciliation and are awaiting guidance from

FWS. FWS officials stated that additional resources are needed to resolve this issue.

Without reconciliation, neither the Department nor FWS can ensure that lands acquired under the Program are used for their intended purposes. Therefore, we repeat the applicable recommendation from our previously issued report (Report No. R-GR-FWS-0004-2009, Recommendation D), and we will track implementation of the repeat recommendation under the resolution process for that report.

Recommendations

Repeat Recommendation:

We recommend that FWS ensure that the Department reconciles its real property records with FWS' records.

New Recommendation:

- I. We recommend that FWS require the Department to certify that grant-funded real property is being used for its intended purposes.

Department Response

Department officials stated that they have provided documentation of Dingell-Johnson (Sport Fish Restoration) funded land acquisition records to FWS and have responded to identified discrepancies between Department records and FWS records. Department officials also stated that they will work with FWS to develop an efficient practice for reconciling and updating the over 5,000 individual database records for Pittman-Robertson (Wildlife Restoration) funded land acquisitions.

FWS Response

FWS regional officials concurred with these recommendations.

OIG Comments

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

B. Inadequate Equipment Management

Federal regulations require that each State follow its own policies and procedures for the use, management, and control of its equipment. To determine whether the Department had maintained adequate control, we requested an inventory of all equipment purchased with Program funds and State license revenues. We found that the Department had not maintained accurate and complete equipment records.

Specifically, the Department was unable to perform the required physical inventory for SFY 2013 due to the transition to a new accounting system and the asset management module not being functional. In addition, the Department was unable to provide an equipment inventory that identified the source of acquisition funding.

Federal regulations (43 C.F.R. § 12.72(b)) require States to manage equipment acquired under a grant in accordance with State laws and procedures. Federal regulations (50 C.F.R. § 80.90(f)) also require a State fish and wildlife agency to be responsible for the control of all assets acquired under the grants to ensure that they serve the purpose for which acquired throughout their useful life.

Further, the State's Property Management Policy (Policy 04:M02) requires that a physical inventory of fixed assets be completed by each discipline annually.

According to Department officials, the SFY 2013 physical equipment inventory was not completed because of problems during the accounting system conversion from the Minnesota Accounting and Procurement System (MAPS) to the Statewide Integrated Financial Tools (SWIFT) system that resulted in a non-functional asset management module. Department officials also stated that the system has the ability to document the funding source, but with the conversion to the new accounting system and the errors that occurred during conversion, the coding is not in the system so the Department cannot provide the funding source through SWIFT.

Without accurate records, the Department cannot ensure accountability and control of equipment purchased with Program funds.

Recommendations

We recommend that FWS require the Department to:

2. Update its official fixed asset records; and
3. Follow the State's Property Management Policy for internal controls over equipment.

Department Response

Department officials stated that the required physical inventory of assets (except computers) was completed in June 2014. Department officials also stated that because of data conversion problems and issues during reconciliation of computer information with the State's IT agency tracking system, the physical inventory of computer assets is planned to be completed by December 31, 2014.

FWS Response

FWS regional officials concurred with these recommendations.

OIG Comments

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

C. Loss of Control Over License Revenues Related to IT Services

Under the Program, States must assent to the provisions of the Federal Aid in Wildlife Restoration Act and the Federal Aid in Sport Fish Restoration Act that require that all revenues from the sale of hunting and fishing licenses must be within the control of and for use by the State fish and wildlife agency.

Although the State of Minnesota has enacted such assent legislation (Minn. Stat. § 97A.057 (2013)), it also enacted subsequent legislation for the statewide consolidation of IT services (Laws of Minnesota 2011, 1st Spec. Sess. Chapter 10, Article 4) and related Information Technology Appropriation for SFY 2014 (Minn. Stat. § 16E.145 (2011)) (IT legislation).

Based on our review, the IT legislation is contrary to the Program's authorizing legislation and violates the State's assent legislation. Specifically, the IT legislation represents a loss of management and fiscal control of license revenue by the State's fish and wildlife agency (the Department).

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. Federal regulations (50 C.F.R. § 80.20(b)) also state that license revenue includes personal property acquired with license revenue. In addition, Federal regulations (50 C.F.R. § 80.11(b)) dictate that a State becomes ineligible to receive Program benefits if it passes legislation contrary to the Acts.

The State enacted legislation contrary to Program legislation and its assent legislation. Specifically, the IT legislation transferred spending authority as well as property acquired with license revenues to the State's IT agency, MN.IT Services.

Recommendation

4. We recommend that FWS work with the Department to resolve the loss of control over license revenues related to the consolidation of IT services.

Department Response

Department officials stated that they believe the current practice conforms with FWS guidelines and results in no loss of control. They added that game and fish fund revenues remain under the control of the Department's Commissioner, and no transfer of equipment has occurred. Department officials also stated that they will work with the State legislature to ensure that the law mirrors current practice, in which the Department participates in IT consolidation only upon agreement between the Commissioner and the State's chief information officer (thus preserving the Commissioner's control over the use of license revenues for IT services and equipment).

FWS Response

FWS regional officials concurred with this recommendation.

OIG Comments

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

D. Unsupported License Certifications Related to Multiyear Licenses

To ensure that the Department receives an equitable apportionment of Program funds, the Department must certify the number of individuals having paid licenses to hunt and fish. FWS uses certification data to apportion Program funds among the States.

Federal regulations (50 C.F.R. § 80.35(b)(1)) require that to be included in annual license certifications, the agency must receive net revenue from a multiyear license that is in close approximation to the net revenue received for a single-year license each year during the license period.

Our review determined that the Department included multiyear license holders in its certifications for SFYs 2012 and 2013 without verifying whether sufficient net revenues had been received to adequately validate the certifications. Specifically, the Department had not analyzed individual multiyear license revenue streams to determine how many years these licenses could be included in the license certifications.

According to a Department official, the Department did not interpret the regulations as requiring that an analysis of individual multiyear license revenue streams be performed to support their inclusion in its license certifications. As a result, the Department may have received excess apportionment of Program funds.

We reported this finding in a Notification of Potential Finding and Recommendation and recommended that FWS and the Department work to resolve the matter. We then discussed our concerns with FWS officials. FWS acknowledged that—

1. States have varying interpretations of multiyear license certification;
2. Federal regulations (50 C.F.R. § 80.35(e)) requiring agencies to obtain FWS approval of their proposed technique to decide how many multiyear license holders remain alive in the certification period have not been implemented; and
3. States need additional Program guidance.

FWS has since issued additional guidance, and solicited input from the States in the Program's most recent call for license counts. The Department has responded to FWS with its methodology of issuing annual vouchers to the holders of multiyear licenses. Further, the State asserts that it receives net revenue in close approximation to the net revenue received from comparable single-year licenses. Funds are released from the Lifetime License Trust Fund to the Department's Game and Fish Fund when license holders annually validate their identity and receive a seasonal hunting or fishing license. Although we have not audited the Trust Fund directly, we believe the approach can satisfy Program requirements. Our draft audit report did not include a formal recommendation for this finding, but we now defer to FWS review and approval of the Department's certification methodology.

Recommendation

5. We recommend that FWS review the Department's methodology for certification of multiyear licenses.

Appendix I

State of Minnesota
Department of Natural Resources
Grants Open During the Audit Period
July 1, 2011, Through June 30, 2013

Grant Number	Grant Amount	Claimed Costs
F06AF00001	\$10,892,324	\$10,600,874
F10AF00051	3,296,000	3,794,859
F10AF00053	1,561,198	1,315,215
F10AF00054	1,254,336	1,593,708
F10AF00064	2,752,000	2,615,363
F10AF00222	1,075,250	1,076,955
F10AF00232	4,000,000	2,274,915
F11AF00032	231,500	225,795
F11AF00036	132,000	45,770
F11AF00171	3,870,000	2,261,582
F11AF00172	1,267,691	1,030,211
F11AF00173	2,699,718	2,377,097
F11AF00174	16,580,200	14,431,560
F11AF00175	19,025,000	12,647,356
F11AF00178	5,103,000	4,010,777
F11AF00202	16,495,000	16,100,637
F11AF00203	1,900,000	1,325,146
F12AF00103	207,000	188,910
F12AF00104	2,060,000	1,053,455
F12AF00116	4,000,000	785,207
F12AF00140	3,325,000	1,511,695
F12AF00258	1,102,303	1,394,267
F12AF00420	4,800,000	1,004,231
F12AF00600	3,510,000	1,165,960
F12AF00698	2,039,553	297,658
F12AF00699	6,761,545	1,918,793
F12AF01100	231,500	69,230
F13AF00322	16,667,000	1,184,082
Total	\$136,839,118	\$88,301,308

Appendix 2

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

Central Office
St. Paul

Regional Office
Northwest

Area Offices
Bemidji
Fergus Falls Fisheries
Glenwood Fisheries
Park Rapids Fisheries
Park Rapids Wildlife
Sauk Rapids

Wildlife Management Areas
Hoglund
Succonix

Appendix 3

State of Minnesota
Department of Natural Resources
Status of Audit Findings and Recommendations

Recommendation	Status	Action Required
<p style="text-align: center;">1, 2, 3, 4</p>	<p style="text-align: center;">We consider the recommendations resolved but not implemented.</p> <p style="text-align: center;">FWS regional officials concurred with the findings and recommendations and will work with the Department on a corrective action plan.</p>	<p style="text-align: center;">Complete a corrective action plan that includes specific action(s) taken or planned to address the recommendations, targeted completion dates, title(s) of the official(s) responsible for implementing the action taken or planned, and verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.</p> <p style="text-align: center;">We will refer any unimplemented recommendations to the Assistant Secretary for Policy, Management and Budget for implementation tracking by March 19, 2015.</p>
<p style="text-align: center;">5</p>	<p style="text-align: center;">We consider the recommendation unresolved and not implemented.</p> <p style="text-align: center;">FWS regional officials did not concur with the finding and recommendation but will work with the Department on a corrective action plan.</p>	<p style="text-align: center;">Complete a corrective action plan that includes specific action(s) taken or planned to address the recommendation, targeted completion dates, title(s) of the official(s) responsible for implementing the action taken or planned, and verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.</p> <p style="text-align: center;">We will refer any unimplemented recommendations to the Assistant Secretary for Policy, Management and Budget for implementation tracking by March 19, 2015.</p>

<p style="text-align: center;">Repeat Recommendation (See Finding A)</p>	<p>We consider this recommendation (Recommendation D from our prior report, No. R-GR- FWS-0004-2009) resolved but not implemented.</p> <p>The Assistant Secretary for Policy, Management and Budget considers this recommendation resolved but not implemented.</p>	<p>Provide documentation to the Assistant Secretary for Policy, Management and Budget regarding the implementation of this recommendation.</p>
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