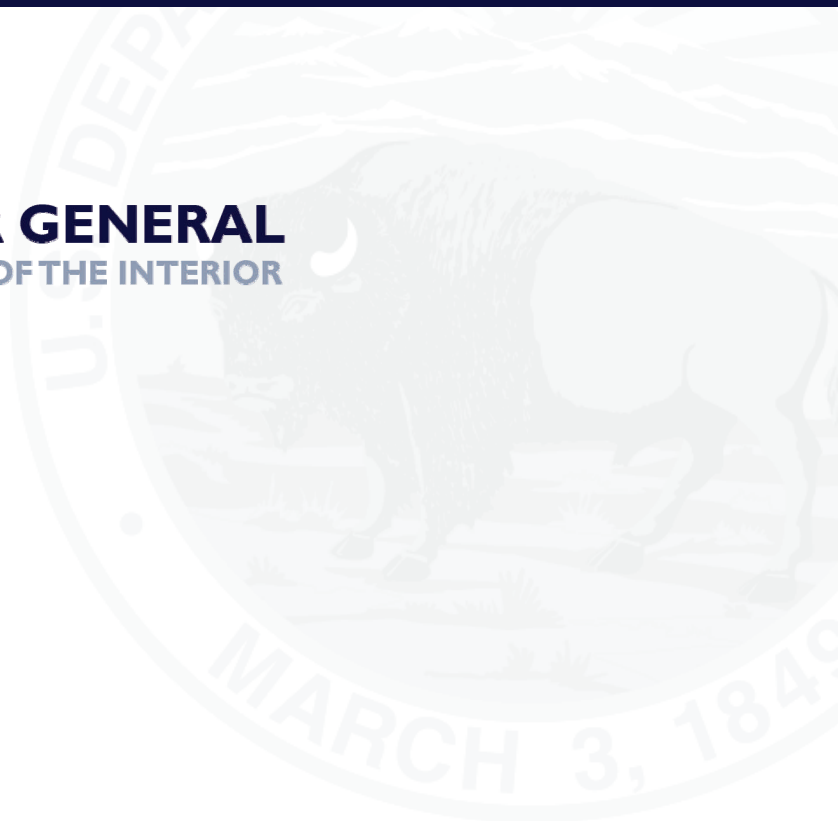




OFFICE OF  
**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR



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

Awarded to the State of Arizona, Department of Game and Fish,  
From July 1, 2008, Through June 30, 2010



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

July 8, 2011

**AUDIT REPORT**

Memorandum

To: Director  
U.S. Fish and Wildlife Service

From: Suzanna I. Park *Suzanna I. Park*  
Director of External Audits

Subject: Audit on U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Arizona, Department of Game and Fish, From July 1, 2008, Through June 30, 2010 (No. R-GR-FWS-0003-2011)

This report presents the results of our audit of costs claimed by the State of Arizona (the State), Department of Game and Fish (the 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 Program). The audit included claims totaling approximately \$45.6 million on seven grants that were open during State fiscal years (SFYs) ended June 30 of 2009 and 2010 (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 questioned costs totaling \$50,917, however, because the Department (1) allocated payroll costs of five personnel using an unsupported and unapproved methodology, (2) charged two Program grants for ineligible printing costs, and (3) claimed an unreasonable number of hours as its in-kind match under the hunter education program. We also found that the Department potentially diverted license revenues for the operations of a State park, did not perform a required environmental compliance checklist, and issued a final performance report that did not fully meet Federal standards.

We provided a draft report to FWS for a response. We summarized the Department and FWS Region 2 responses, as well as our comments on the responses after the recommendations. We list the status of the recommendations in Appendix 3.

Please respond in writing to the findings and recommendations included in this report by October 6, 2011. Your response should include information on actions taken or planned, targeted completion dates, and titles of officials responsible for implementation. Please address your response to:

Director of External Audits  
U.S. Department of the Interior  
Office of Inspector General  
12030 Sunrise Valley Drive, Suite 230  
Reston, VA 20191

If you have any questions regarding this report, please contact the audit team leader, Mr. Chris Krasowski, or me at 703-487-5345.

cc: Regional Director, Region 2, 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 (the Acts)<sup>1</sup> established the Wildlife and Sport Fish Restoration Program. Under the Program, 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 State's fish and game agency. Finally, Federal regulations and FWS guidance require States to account for any income they earn using grant funds.

## Objectives

Our audit objectives were to determine if the Department:

- Claimed the costs incurred under the Program grants in accordance with the Acts and related regulations, FWS guidelines, and the 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 \$45.6 million on the seven grants that were open during SFYs 2009 and 2010 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at Department headquarters in Phoenix, AZ, and visited two regional offices, an aviation unit, a wildlife area, a fish hatchery, a boat access site, a water catchment, a dam, and two wildlife research projects (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 our performance audit in accordance with the "Government Auditing Standards" issued by the Comptroller General of the United States. 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 tested records and conducted

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

auditing procedures as necessary under the circumstances. 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.

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 recorded in these systems 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.

### **Prior Audit Coverage**

On June 5, 2007, we issued "Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Program Grants Awarded to the State of Arizona, Department of Game and Fish, From July 1, 2003 Through June 30, 2005" (No. R-GR-FWS-0026-2005). We followed up on all recommendations in the report and found that the U.S. Department of Interior, Office of the Assistant Secretary for Policy, Management and Budget considered them to be resolved and implemented.

We reviewed Arizona's Comprehensive Annual Financial Report and Single Audit Report for SFY 2009 and determined that the Department's Wildlife and Sport Fish Restoration Programs were not identified as major programs in the Single Audit. Neither 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 several conditions, however, that resulted in the findings listed below, including questioned costs totaling \$50,917. We discuss the findings in more detail in the Findings and Recommendations section.

**Questioned Costs.** We questioned costs totaling \$50,917 because the Department (1) allocated payroll costs of five personnel using an unsupported and unapproved methodology, (2) charged two Program grants for ineligible printing costs, and (3) claimed an unreasonable number of hours as its in-kind match under the hunter education program.

**Potential Diversion of License Revenues.** The Department used \$20,000 in revenues from license fees to pay for general operating expenditures of a State park.

**Environmental Noncompliance.** The Department did not complete a required environmental compliance checklist to ensure that its Program activities did not cause environmental harm.

**Inadequate Performance Reporting.** A Department performance report did not report all activities undertaken with grant funds and included accomplishments not approved in the grant's project statement.

## Findings and Recommendations

### A. Questioned Costs — \$50,917

#### 1. Unsupported Payroll Costs — \$20,700

We found that the payroll costs of five employees charged to Grants FW-100-P-16 and FW-100-P-17 were not based on the actual time employees worked on eligible Program activities. Instead, the Department's accounting office allocated the employees' time among various funding sources, including the Program grants, license revenues, and other funds, using predetermined percentages. We found no documented methodology or evidence of approval from FWS to support these allocations.

The Code of Federal Regulations (CFR) outlines cost principles that States must follow when compensating employees for work performed under Federal awards.

According to 2 CFR § 225, Appendix B, subsection 8.h(4), “Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports.” Furthermore, 2 CFR § 225, Appendix B, subsection 8.h(5)(e), notes that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards.

This issue occurred because the Department did not have policies and procedures in place to ensure that payroll expenses paid by Program grants were based on the actual number of hours employees worked on eligible activities. Therefore, we are questioning \$27,599 (Federal share \$20,700) for FW-100-P-16 (\$10,378) and FW-100-P-17 (\$10,322), for the unsupported payroll costs that were automatically allocated among work codes.

### **Recommendations**

We recommend that FWS:

1. Resolve the unsupported questioned costs totaling \$20,700.
2. Work with the Department to implement policies and procedures to ensure payroll expenses are supported by documentation that reflects the actual activity of each employee.

### **Department Response**

The Department stated that it has changed procedures and instructed employees whose work has multiple beneficiaries to record their time to appropriate eligible codes. The Department documented overmatch to cover the questioned costs and will be revising the Federal Financial Reports.

### **FWS Response**

FWS Regional officials concurred with the finding and the Department’s comments and proposed corrective actions.

### **OIG Comments**

Based on the Department and FWS responses, additional information is needed in the corrective action plan including:

- The specific action(s) taken or planned to address the recommendations.
- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.



## **2. Ineligible Printing Expenses — \$18,190**

The Department publishes and sells a magazine about the State's wildlife, called *Arizona Wildlife Views*. The Department charged Grants FW-100-P-16 and FW-100-P-17 for a portion of the magazine's printing costs, even though this activity was not identified in the grant project statements submitted to FWS for approval.

According to 50 CFR § 80.14(a), States must apply Program funds only to activities or purposes approved by the FWS Regional Director. Furthermore, according to 522 FW 4.5F of the FWS Manual, Comprehensive Management System (CMS) States must submit a grant proposal to the Regional Office that describes the programs the CMS grant will cover.

This issue occurred because a Department employee incorrectly charged the magazine printing costs to the grants. As a result, we are questioning \$15,000 (\$9,600 Federal share) related to Grant FW-100-P-16 and \$12,275 (\$8,590 Federal share) related to Grant FW-100-P-17, for a total of \$27,275 (\$18,190 Federal share).

### **Recommendation**

We recommend that FWS resolve the questioned costs totaling \$18,190.

### **Department Response**

The Department did not agree with the finding as written but reversed the costs associated with this finding in a revised Federal Financial Report.

### **FWS Response**

FWS Regional officials concurred with the audit finding and proposed corrective actions.

### **OIG Comments**

Based on the Department and FWS responses, additional information is needed in the corrective action plan including:

- The specific action(s) taken or planned to address the recommendation.
- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

**3. Ineligible In-Kind Match — \$12,027**

Under the Program, States must use “State matching” (non-Federal) funds to cover at least 25 percent of costs incurred in performing projects under the grants. Noncash (“in-kind”) contributions may be used to meet States’ matching share of costs, and as with costs claimed for reimbursement, States must support the value of these contributions. We reviewed a sample of volunteer labor donated by individuals who taught hunter education courses under Grant FW-100-P-17. The lead instructors for three courses claimed an unreasonable number of hours for travel and preparation. They averaged 261 travel and preparatory hours per class, while the remaining lead instructors in our sample averaged 14.56 travel and preparatory hours per class.

This issue is contrary to 2 CFR § 225, Appendix A, subsection C.2, which states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

The Department had not established policies and procedures to limit the number of hours that volunteers could reasonably claim for travel and class preparation time. We therefore determined that 739 hours valued at \$21.69 per hour were unreasonable, and questioned \$16,036 (\$12,027 Federal share) claimed under Grant FW-100-P-17, as indicated in the table below.

Class Begin Date	Average Prep And Travel Hours	Actual Prep And Travel Hours	Questioned Hours	Hourly Rate	Questioned Costs
9/8/2009	14.56	223	208.44	\$21.69	\$4,521
1/12/2010	14.56	387	372.44	21.69	8,078
9/8/2009	14.56	173	158.44	21.69	3,437
<b>Total</b>		<b>783</b>	<b>739.32</b>		<b>\$16,036</b>

<b>Recommendations</b>
<p>We recommend that FWS:</p> <ol style="list-style-type: none"> <li>1. Resolve the \$12,027 of questioned costs.</li> <li>2. Require the Department to establish policies and procedures limiting volunteer travel and preparation hours used as in-kind match to a reasonable amount.</li> </ol>

### **Department Response**

The Department did not concur with the finding. The Department agrees the questioned hours seem out of line with those of other volunteer instructors, but those volunteer instructors justified the seemingly excessive hours. As the Department does not concur with the finding, it disagrees with the need to resolve the questioned costs.

### **FWS Response**

FWS Regional officials understand and appreciate the efforts the instructors provided to the Program; unfortunately, those services were not documented appropriately and therefore are not allowable costs for this grant.

### **OIG Comments**

Based on the Department and FWS responses, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address the recommendations.
- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

### **B. Potential Diversion of License Revenues**

Under Program regulations found in 50 CFR § 80.4, any revenue collected from the sale of hunting and fishing licenses shall be used only to administer the State's fish and wildlife agency. The FWS Director could declare a diversion of funds if license revenues are used for any other purpose. The Department, however, paid Arizona State Parks \$20,000 from its license revenues to supplement general operating expenditures related to employee salaries, campgrounds, boat ramps, and a fishing dock at Roper Lake State Park.

This payment occurred to keep Roper Lake State Park open to the public during a funding shortfall. As a result, fish and wildlife activities did not benefit from the \$20,000 in license revenues. This potential diversion could furthermore jeopardize the State's eligibility to participate in the Program.

#### **Recommendation**

We recommend that FWS resolve the potential diversion of license revenues totaling \$20,000.

**Department Response**

The Department did not agree with the finding as written. The Department purchased the Roper Lake property and entered into a cooperative agreement with Arizona State Parks to operate the lake and surrounding property as a State park. The Department retains ownership and maintains responsibility for managing the water of the lake itself and wildlife within the Park.

**FWS Response**

FWS Regional officials agreed that the costs incurred are reasonable and necessary to protect Department property and maintain recreational fishing opportunities at Roper Lake.

**OIG Comments**

Based on the Department and FWS responses, we consider the recommendation resolved and implemented.

**C. Environmental Noncompliance**

Federal regulations and FWS guidelines require State agencies to ensure that grant projects comply with Federal environmental legislation, including the National Environmental Policy Act (NEPA), the Endangered Species Act (ESA) and the National Historic Preservation Act (NHPA). The State developed an environmental assessment checklist to serve as its chief control to ensure that it documents compliance with this legislation, and when necessary, forwards information to the FWS Regional office for a determination of compliance. Department officials, however, did not complete the checklist for 50 Program-funded projects between July 1, 2008, and June 30, 2010.

According to 522 FW 4.5C(1), each CMS State must submit sufficient documentation to the FWS Region so that FWS staff can determine compliance with NEPA, ESA, and NHPA. Furthermore, 522 FW 4.5E requires the State's grant proposal to include a description of its CMS compliance process. This State's CMS compliance process description notes that the Department employs a checklist to guide its environmental assessment process. The completed checklist is then to be used by FWS to ensure compliance with Federal environmental regulations.

The Department did not follow its procedures regarding environmental compliance due to personnel turnover and the need for training in this area. As a result, the impact of the Department's Program activities was not evaluated by the FWS Region for environmental compliance.

We noted that the Department has already taken a number of steps to address this issue, including:

- (1) Providing Project Leader training (including a section on ensuring compliance with the intent of NEPA) to project leaders and assistant project leaders by instructors from the National Conservation Training Center at the Department's headquarters in Phoenix, AZ.
- (2) Providing training to all employees through the Department's Project Evaluation and Environmental Compliance Group.
- (3) Developing a database capable of tracking all projects for environmental compliance.
- (4) Proposing enhancements to its policies and procedures in its most recent 5-year plan submitted to FWS.
- (5) Proposing limits to project budgets until the Federal Aid Coordinator ascertains that environmental compliance requirements have been met.

In spite of these efforts, additional steps are required to ensure that the Department's projects comply with Federal regulations, as outlined in the recommendations below.

### **Recommendations**

We recommend that FWS:

1. Work with the Department to develop a database to ensure that all projects have an environmental checklist performed and to provide results to the FWS region.
2. Ensure the Department establishes and implements adequate policies and procedures specific enough for personnel to comply with NEPA, ESA, NHPA, and other environmental guidelines and regulations.
3. Work with the Department to identify, evaluate, and document the impact of the Department's Program activities for the 50 Program-funded projects between July 1, 2008, and June 30, 2010, and take remedial action as appropriate.

### **Department Response**

The Department concurred with the finding and clarified that bullet (1) is not accurate. The Department did not provide training to all employees at the National Conservation Training Center. Proposed changes by the Department should be "(1) Providing Project Leader training (includes a section on ensuring compliance with the intent of NEPA) to Project Leaders and Assistant Project Leaders by National Conservation Training Center instructors at the Department's Headquarters in Phoenix, Arizona." It also suggested another bullet that Endangered Species Act (ESA) training was mandated for all field and some other employees.

The Department acknowledged it has developed a database, provided Environmental Assessment Checklist (EAC) training on environmental compliance, and prepared a spreadsheet with projects listed along with the impacts. The Department has documented overmatch that can be used to cover questioned costs and will revise the Federal Financial Report.

### **FWS Response**

FWS Regional officials concurred with the audit finding and with the Department's comments, requested changes for audit verbiage, and proposed corrective actions. The Service stated that any ineligible costs must be repaid.

### **OIG Comments**

Based on the Department and FWS responses, we revised the wording on bullet (1); however, additional information is needed in the corrective action plan, including:

- The specific action(s) taken or planned to address the recommendations.
- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

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

States must submit project statements to FWS outlining proposed objectives for each project funded by a grant. Upon completion of a grant, they are required to submit a performance report that compares actual accomplishments to the approved objectives. These documents provide key information to help FWS ensure that States have spent funds appropriately and achieved project goals. We noted, however, that the State did not always meet these requirements on Grant FW-100-P-16. Specifically:

- The Department used grant funds to prepare emergency action plans addressing dam failures, but this activity was not mentioned in either the grant's project statement or performance report.
- The Department used approximately \$226,000 in grant funds to maintain dams; while this activity was discussed in the performance report, it was not mentioned in the grant's project statement.
- The Department performed administrative oversight of the National Audubon Society's Important Bird Area Program; while this activity was discussed in the performance report, it was not mentioned in the grant's project statement.

According to 522 FW 1.3, information contained in the grant proposal, including project objectives, is the basis on which the Regional Director determines whether

the proposed work meets eligibility requirements. In addition, 43 CFR § 12.80(b)(2)(i), states that performance reports for each grant should contain a comparison of actual accomplishments to the objectives established for the grant.

This issue occurred because the Department did not have an adequate process in place to ensure that its project statements and performance reports met Federal requirements. FWS may therefore be unable to rely on the reports to determine whether the Department achieved project goals and appropriately spent its Program funds.

### **Recommendations**

We recommend that FWS direct the Department to implement a process to ensure:

1. Project statements' objectives are clear and complete and list all activities specific to the grant, including expense allocation methods for projects with multiple beneficiaries, as required by FW 522 1.3C.
2. Final performance reports meet the requirements of 43 CFR § 12.80(b)(2).

### **Department Response**

The Department concurred with the finding and stated that it has implemented changes to the structure and content of the annual job statements.

### **FWS Response**

FWS Regional officials concurred with the finding and the Department's comments and proposed corrective actions.

### **OIG Comments**

Based on the Department and FWS responses, additional information is needed in the corrective action plan including:

- The specific action(s) taken or planned to address the recommendations.
- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

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# Appendix I

**Arizona Department of Game and Fish  
Financial Summary of Review Coverage  
July 1, 2008, Through June 30, 2010**

Grant Number	Grant Amount	Claimed Costs	Questioned Costs (Federal Share)		
			Ineligible	Unsupported	Total
FW-100-P-16	\$20,667,078	\$19,986,986	\$9,600	\$10,378	\$19,978
FW-100-P-17	24,316,854	22,470,964	20,617	10,322	30,939
F-19-D-21	1,137,306	292,797			
F-19-D-22	1,224,273	514,564			
F-19-D-23	1,645,744	762,923			
F-19-D-24	1,693,475	986,979			
F-19-D-25	1,592,301	598,393			
<b>Totals</b>	<b>\$52,277,031</b>	<b>\$45,613,606</b>	<b>\$30,217</b>	<b>\$20,700</b>	<b>\$50,917</b>



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# Appendix 2

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

**Headquarters**

Phoenix

**Regional Offices**

Kingman

Mesa

**Aviation Unit**

Deer Valley Airport

**Wildlife Area**

Robins Butte

**Fish Hatchery**

Tonto Creek

**Boat Access**

Lake Havasu

**Water Catchment**

Mohave #1 - Lake Havasu

**Dam**

Black Canyon Lake

**Wildlife Research Projects**

Big Horn Sheep Crossing - Highway 93 Project

Deer/Elk Crossing - Highway 260 Project

# Appendix 3

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

Recommendations	Status	Action Required
A.1.1, A.1.2, A.2, A.3.1, A.3.2, C.1, C.2, C.3, D.1, D.2	FWS management concurs with the recommendations, but additional information is needed as outlined in the “Action Required” column.	Based on the FWS response, additional information is needed in the corrective action plan, as listed in the Findings and Recommendations section under OIG Comments. We will refer the recommendations, if not resolved and/or implemented at the end of 90 days (after October 6, 2011), to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.
B	Based on the FWS response, we consider the recommendation resolved and implemented.	No further action is necessary.

