

**AUDIT GUIDE**  
**FOR**  
**SPORT FISH AND WILDLIFE**  
**RESTORATION PROGRAMS**

**U.S. FISH AND WILDLIFE**  
**SERVICE**

**January 31, 2003**



**U.S. FISH AND WILDLIFE SERVICE  
WILDLIFE AND SPORT FISH RESTORATION PROGRAMS**

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### PURPOSE

This audit guide provides information and background on the Federal Aid program administered by the U.S. Fish & Wildlife Service (FWS), U.S. Department of the Interior, and operated by the 50 States, the District of Columbia, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, the Virgin Islands, and the Commonwealth of Puerto Rico (hereinafter referred to as States). It describes the Federal Aid program and the FWS Division of Federal Aid, which is responsible for collecting and disbursing the Federal Aid funds. It also identifies the laws and regulations governing the program and describes the intent of those laws and regulations. In addition, it discusses issues reported in prior audits of Federal Aid grants to States and the criteria controlling those issues.

This guide is the result of a cooperative effort between the States, the FWS, the Office of Inspector General (OIG), and other interested parties. It is a product of an audit task force whose members, representing the States, the OIG, and other interested parties, were appointed by the Director of the FWS. It describes the Federal Aid program at the time it was written. Although members of the task force provided technical assistance to the FWS in its preparation, the audit guide is a product of the FWS. Accordingly, it is anticipated that the FWS will update this guide periodically to reflect changes in the Federal Aid laws and regulations, and the policies and guidance of the FWS.

Although it may be shared with the States, the FWS, and others, the purpose of this audit guide is to provide guidance to auditors conducting audits of the Federal Aid program. Those auditors should ensure that they have the most recent edition of this guide for use in conducting Federal Aid audits.

This guide is an important tool in understanding the Federal Aid program. The information contained herein should assist auditors in making proper decisions regarding the conduct of the audit, however, it does not replace individual auditor judgment. Auditors should use their professional judgment throughout the assignment to write the initial audit program, to complete the fieldwork, prepare Notices of Potential Findings and Recommendations as necessary, and to write the report based on the results of audit work.

### PARTNERSHIP OF THE FWS AND THE STATES

The Federal Aid Program is administered and managed as a partnership between the Federal and State governments. These entities have a fiduciary responsibility to hunters and anglers to spend Federal Aid funds for only the purposes of the Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (the Restoration Acts). An important part of that responsibility is controlling funds in order to provide a complete accounting of Federal Aid reimbursements and license revenue collected, including: identifying the accounts in which the funds were held and how funds were invested, identifying the interest earned on the investments,



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and reporting how those funds and interest were spent. The FWS Division of Federal Aid administers grant programs that provide Federal financial assistance for fish and wildlife restoration through seven regional offices. The names, addresses and contact information for the regional offices can be found in the Federal Aid Toolkit, which auditors can obtain from the FWS. The States operate and manage the projects for which Federal Aid is provided, as well as all of the projects, programs, and activities of the fish and game agencies.

State grantee agencies entrusted with these funds have a responsibility to render a full accounting of the manner in which these funds have been applied. Accountability is discussed in the Code of Federal Regulations (CFRs), Volume 43, Part 12.60. Additionally, States are required to spend revenue from the sale of hunting and fishing licenses and other program revenue only for the administration of the States' fish and game agency. Administration of the State fish and game agency includes only those functions required to manage the fish and wildlife-oriented resources of the State for which the agency has authority under State law (50 CFR 80.4).

### THE FEDERAL AID PROGRAM

The objectives of the Federal Aid program are to provide habitats for and increase the populations of sport fish and wildlife in order to preserve and improve sport fishing and wildlife-dependent recreation for the public. The Pittman-Robertson Wildlife Restoration Act of 1947 and the Dingell-Johnson Sport Fish Restoration Act of 1950 (the Restoration Acts) began the Federal Aid Program. The Wildlife and Sport Fish Restoration Programs Improvement Act of 2000 amended the Restoration Acts.

- The objective of the Pittman-Robertson Wildlife Restoration Act, often referred to as the Pittman-Robertson, or PR Act, is to restore, conserve, and enhance wildlife populations, provide for public use and enjoyment of these resources, and provide training to hunters and archers in skills, knowledge, and attitudes necessary to be responsible hunters or archers (16 USC 777-777i). Specific allowable projects, identified in grant agreements, have as their purpose the restoration, conservation, management, and enhancement of wild birds and wild mammals, and the provision for public use of and benefit from these resources. Projects may also have as their purpose the education of hunters and archers in the skills, knowledge, and attitudes necessary to be a responsible hunter or archer [50 CFR section 80.5(a)].
- The objective of the Dingell-Johnson Sport Fish Restoration Act, often referred to as the Dingell-Johnson, or DJ Act, is to restore, conserve, and enhance sport fish populations and provide for public use and enjoyment of these fishery resources (16 USC 669-669i). Specific allowable projects, identified in grant agreements, have as their purpose the restoration, conservation, management, and enhancement of sport fish, and the provision



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for public use and benefit from these resources [50 CFR section 80.5(b)(1)].

- The Wildlife and Sport Fish Restoration Programs Improvement Act of 2000 amended the two Restoration Acts by providing a funding formula for and a definition of eligible administrative expenses, establishing grant funding for multi-state conservation projects and a requirement to audit the activities of each State fish and game department every five years (P.L. 106-408). Section 10 of the Act enhanced hunter education programs and safety.

The following activities are unallowable under the Restoration Acts:

- Use of grant funds for enforcement of game and fish laws and regulations is prohibited, with the exception of law enforcement activities to accomplish Federal project purposes, as approved by the Regional Director of the U.S. Fish and Wildlife Service or to protect Federal aid assets, [50 CFR section 80.6(a)].
- Public relations activities for the purpose of promoting organizations or agencies, including publication of agency magazines, displays, and exhibits, are ineligible except as they apply to educational or technical guidance activities specifically related to the accomplishment of Federal aid projects [50 CFR section 80.6(b)].
- Activities for the purpose of providing revenues are ineligible. These activities include the process and sale of licenses and permits and the acquisition of real or personal property for the purpose of using that property for rental, leases, sales or other commercial purposes. However, the production of incidental income, which results from otherwise eligible activities, is not prohibited [50 CFR section 80.14(c)].

There are also some requirements that are unique to each act.

The Wildlife Restoration Act does not allow multiyear financing of capital projects. A minimum of \$7.5 million must be used for hunter education in fiscal years 2001 and 2002, and \$8 million thereafter. Restrictions as to what constitutes hunter education have been issued by the FWS in Part 522, Chapter 13, of the Federal Aid Handbook. Those projects can only be for instruction on the use of hunting equipment, facilities to teach hunter education, or the gathering of information for use in developing, implementing, and evaluating hunter education projects (522 FW 13.2.A.).

The Dingell-Johnson Sport Fish Restoration Act requires each coastal State to equitably allocate apportioned funds between marine and freshwater recreational projects, based on the number of resident marine and freshwater anglers. It also requires that at least 15 percent of each annual apportionment be used for recreational boating access facilities. However, not more than 15 percent of each annual apportionment may be used for aquatic education. Funds can also be



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used for multiyear financing of projects for acquiring land, obtaining water rights or building structures and facilities on the lands.

Both Restoration Acts have some common requirements, such as matching, assent legislation, apportionment, and license certifications, which are discussed in detail in the sections that follow.

### **MATCHING REQUIREMENTS**

The Restoration Acts provide funding for matching grants to States. The States must fund at least 25 percent of the total costs of each grant, except for the District of Columbia, Guam, the Commonwealth of the Northern Mariana Islands, American Samoa, the Virgin Islands, and the Commonwealth of Puerto Rico, which are not required to fund more than 25 percent of the total costs of any grant project. It should be noted that the District of Columbia is eligible only for Dingell-Johnson Sport Fish Restoration Act grants.

### **ASSENT LEGISLATION**

Both Restoration Acts require the States to spend the revenues they receive from licensing hunters and anglers only for the “administration of said State fish and game department,” (16 USC 669 and 16 USC 777). To satisfy this requirement, the States must have passed legislation for the conservation of fish and wildlife, including a prohibition against the diversion of license fees for any purpose other than the administration of the State fish and game department. This is referred to as assent legislation. This legislation is also the source of authority for auditors to audit State license fees, which is an unusual responsibility of Federal auditors.

The regulations implementing the Restoration Acts are contained in Volume 50, Part 80 of the CFRs. Included therein is the assent legislation requirement, which specifies that subsequent State legislation must not abridge the assent legislation (50 CFR 80.3). The term license revenue is used to describe the expanded meaning of license fees. For example, in addition to license fees, license revenue also includes revenue from the granting of rights of real or personal property, interest on license fees, and Federal Aid project reimbursements (50 CFR 80.4).

### **APPORTIONMENT**

Federal Aid funds are derived from the Aquatic Resources Trust Fund and the Wildlife Restoration Investment Fund, which receive revenue from excise taxes on the manufacture and sale of sport fish and hunting equipment and from interest earned on the investment of the Funds’ principal. These funds are administered and invested by the FWS and are kept in U.S. Treasury accounts where they earn interest. The Aquatic Resources Trust Fund also receives funds from taxes on motorboat and recreational equipment fuels used for sport fishing and from import duties on boats and fishing tackle.



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The Restoration Acts require the apportionment of these funds to the States, based on the area and population of each State and the number of licenses sold, subject to minimum and maximum limits. A formula, maintained by Federal Aid Information Management System (FAIMS) officials in the FWS Division of Federal Aid (Washington Office), is used to apportion Federal Aid funds each year. The apportionment is discussed in Section 4 of the Acts and 50 CFR 80.10 and does not need to be verified by the auditor.

### LICENSE CERTIFICATION

The process of calculating and reporting the number of licenses sold to the FWS is referred to as the State's license certification. The license certification is based on the unduplicated number of individuals holding hunting and fishing licenses for a particular license year. Only licenses generating net income to the State may be counted in the license certification. License years may be different from the SFYs, the Federal fiscal year, and the calendar year, but must be a 12-month period identified by the State usually preceding the year of apportionment. The number of licenses sold must be audited for all States, even those receiving the minimum apportionment.

The FWS Division of Federal Aid provides forms for certifying the fishing and hunting license counts annually (FWS Form 3-154A and 3-154B). Each year, the Director of the State fish and wildlife agency must certify the accuracy of the number of persons holding paid licenses to hunt and fish for sport or recreation in the preceding license year [50 CFR 80.10 (a)(b)]. Individuals can only be counted once as a hunting license holder even if they hold several permits and licenses. The same applies to fishing license holders [50 CFR 80.10(c)]. States must eliminate duplicate license holders from these certifications each year.

The FWS Federal Aid Handbook [522 FW 2.7(1), Grantee Administration] recommends the States conduct surveys to validate the annual adjustment for duplicate license holders every five years, or whenever there is a change in the license structure. Many States no longer perform the surveys because they have converted to new automated license systems, which include software programs that identify and eliminate duplicate license sales.

The major issues with the license certification are the (1) duplicated count of hunters and anglers, (2) low cost licenses that may not result in net revenue to the State and (3) multiyear licenses that are sold in one year but may be included in the license certification counts for several years. The State's methodology for counting multiyear licenses should provide a reasonable basis for eliminating duplicate licenses.

### AUDIT OBJECTIVES

Generally, the objectives of Federal Aid audits are to determine whether costs incurred under the grants to the State fish and wildlife agencies were incurred in accordance with the Federal Aid



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grant agreements and that State license revenue and program income are accounted for in accordance with Federal regulations.

Specifically, the objective of the audits is to comply with the Wildlife and Sport Fish Restoration Programs Improvement Act of 2000, which requires that recipients of Federal Aid be audited every five years. The audits must be done in accordance with generally accepted government auditing standards (GAGAS) issued by the U.S. General Accounting Office. The FWS ensures audits are conducted every five years; the OIG ensures these audits meet GAGAS.

### AUDIT SCOPE

The Federal Aid audits encompass assent legislation, license certifications, the income and expenses associated with license revenues, Federal Aid grant expenses and any other program income for the most recent two-year period. In addition, the audit should include a review of historical records for the acquisition, condition, use, management, and disposal of real and personal property purchased with either license fees or Federal Aid grant funds.

The audit should provide coverage of the revenue and disbursements associated with Wildlife and Sport Fish grants, license fees, and related program income for the most recent two-year period with complete accounting records. License certifications and assent legislation will also be included for the same two-year period. Staff of the FWS, OIG management, and the auditors should agree on a scope sufficient to meet the objectives of the audit. This audit guide describes what the auditor should include in the audit. It also describes some of the areas that should not be included in the audit. The FWS and the States may suggest areas to expand or limit the audit; however, the OIG maintains the final authority on decisions and changes to the scope of the audit in order to ensure it satisfies GAGAS.

The scope of the audit examination must be of sufficient depth to enable the auditor to report on the allowability, allocability, and reasonableness of costs incurred and claimed. This guide does not limit the number or extent of the audit tests, which the auditors should determine using their professional judgment. Auditors should exercise this judgment in accordance with the applicable GAGAS standards, the condition of the accounting records, and the management controls that are identified, tested, and determined to be working, and other audit parameters. However, the major audit areas addressed in this audit guide may be enhanced as a result of a pre-fieldwork meeting with FWS and State officials.



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### **AUDIT PROGRAM**

The auditors will write a detailed audit program specific to each State. The audit program, although written after due consideration of the contents of this audit guide, is a product of the auditors and is reviewed and approved by OIG management. The audit program will not be shared with the States because GAGAS requires that the auditors conduct certain steps to detect fraud and other illegal acts and use professional care not to interfere with potential future investigations of those illegal acts, if any. Auditor independence in designing and developing the audit program is necessary to ensure that the audits are conducted in accordance with GAGAS.

### **AUDIT STANDARDS**

The Federal Aid program audits are considered financial audits as described in the booklet titled, "Government Auditing Standards," issued by the U.S. General Accounting Office, and frequently referred to as the yellow book. GAGAS for financial audits are contained in the first five chapters of the yellow book and they require, for example, that the auditor have no personal impairments (the independence standard) and that audit reports should be distributed in a timely manner (the report distribution standard). The fieldwork standard for irregularities, illegal acts, and other noncompliance requires that the auditor test compliance with the provisions of the grant agreements. Such testing may require the auditor to assess the compliance with certain programmatic issues. Accordingly, it may be necessary for auditors to become involved with programmatic issues, but they should seek advice from regional FWS staff on any policy issues that may arise.

### **RELATIONSHIP TO THE STATE SINGLE AUDIT**

The grant audits performed in accordance with this guidance should supplement, not supplant, the audits required by the Single Audit Act of 1984, as amended, and the Office of Management and Budget (OMB) Circular A-133. Accordingly, the auditor should inquire about and identify which Single Audits have been done of the Federal Aid program for five years prior to this audit period. The auditor should review those audit reports, identify findings and audit coverage that relate to the Federal Aid program and period the auditor will be auditing, and review that audit work in order to avoid duplication of audit work.

The Federal Aid audit period may correspond to a previously audited Single Audit Act period. If so, Federal Aid auditors should rely on those audits to the extent possible, without duplicating the audit work completed by the Single Audit Act auditors. In some situations, the Single Audit Act audits may not have been completed or the audit reports may not yet have been issued, even though the fieldwork has been completed for the periods of the Federal Aid audits. In those cases, auditors should request access to the Single Audit Act working papers. When the Federal Aid auditor relies upon a prior Single Audit Act work product, they must: contact the Single



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Audit Act auditor, review the Single Audit Act audit working papers, document the scope and depth of the prior Single Audit work, and design an audit program for the Federal Aid grants audit that builds upon, but does not repeat, the audit work contained in the Single Audit.

For Single Audit reports, the audit team should contact the appropriate Federal audit agency to determine if the Single Audits have been reviewed and accepted. For most State agencies, this will be the Department of Health and Human Services. Federal Aid auditors should determine the extent of the Federal audit agency's review. In addition, Federal Aid auditors should discuss with the Single Audit auditor the extent of its review, and review the relevant Single Audit working papers.

OMB Circular A-133 permits recipients of Federal assistance to have a "program-specific audit." Auditors who follow this guide will complete a program-specific audit that meets the criteria of that Circular. In addition, Part 4, Agency Program Requirements, of the Circular provides guidance to Single Audit Act auditors on how to conduct a program-specific audit of the Federal Aid program when it is selected for audit as a part of the Single Audit. This guide is not meant to replace that guidance. Single Audit Act auditors should continue to use the guidance contained in Part 4 of OMB Circular A-133 for conducting audits of the Federal Aid program when it is selected for audit as part of the State's Single Audit.

In accordance with the AICPA Statement on Auditing Standards (SAS) No. 75 (AU 801), the testing and reporting responsibilities for a program-specific audit depend on the requirements of the grantor agency. Accordingly, the auditor must obtain an understanding of the requirements of the Federal Aid program through use of this audit guide, audit requests to the OIG prepared by the FWS, and a discussion of specific concerns with the appropriate FWS Regional Federal Aid Office and State officials.

### OTHER PRIOR AUDITS

State audits or other reviews of the financial statements, management, operations, programs, or activities of the State's fish and wildlife agency may also be useful. This is especially true for the State's prior Federal Aid audit. Federal Aid auditors should request the audit reports from the State, access the working papers from the prior auditors, and follow up on any findings relating to the Federal Aid program or to the accounting, financial management, and other systems upon which the Federal Aid program relies.

Follow up means that the auditor should determine if the reported conditions still exist and if so, the auditor should also report the conditions. If the conditions were reported for the same period covered by the Federal Aid, additional audit work may not be required. However, the other auditor's working papers must be reviewed in order to rely on their work. If prior audit findings exist, the auditor should review the Corrective Action Plan (CAP) or other finding resolution and recommendation implementation documentation to determine if the corrective action plans have



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been implemented and whether they were effective in resolving the findings. If the reported conditions are for a period other than the period of the Federal Aid audit, then the auditor must determine if the conditions also exist for the Federal Aid program audit period.

In order to include previously reported conditions or to omit any audit areas prescribed by this audit guide, in compliance with GAGAS, the Federal Aid auditor must apply the procedures concerning reliance on the work of others, identified in the U.S. General Accounting Office's and the President's Council on Integrity and Efficiency's Financial Audit Manual, Part 650.

### AUDIT PERIOD

The audits are generally expected to cover grant expenditures incurred and claimed during the two most recently completed SFYs. The audit team should confirm the audit period with the appropriate FWS Regional Federal Aid Office and determine the feasibility of auditing the two most recent SFYs with the State. Factors affecting the selection of the two most recently completed SFYs may be: the completion of the Single Audit for the period selected, completion and submission of final Financial Status Reports (SF-269s), closing of the accounts and preparation of financial statements for the period selected, changes to the accounting system, or the introduction and use of new accounting software. However, the FWS Regional Federal Aid Office responsible for the State should approve the period to be audited.

The grants selected for audit should have been open during the two-year period of the audit. An open grant will be one for which the agreement period indicated on the face of the grant agreement, Form 3-1552, includes one or more days of the two-year period of the audit. For example, if the audit period is for SFYs 2000 and 2001, the SFY is from July 1 to June 30, and the grant agreement period is for calendar year 2000, then the grant would be open during 6 months of SFY 2000 and 6 months of SFY 2001. It would be considered open during the audit period and included in the audit. If a grant agreement period were for calendar year 1999, the grant would be considered open for 6 months of SFY 2000. The auditor should include those costs claimed from July 1 through December 31, 1999 in the audit period, but not audit costs and claimed from January 1 through June 30, 1999.

A grant for which the agreement period extends beyond the audit period would be treated in a similar manner. For example, if the audit period were for SFYs 2000 and 2001, the SFY is from July 1 to June 30, and the grant agreement period is for calendar year 2001, then the grant would be open for 6 months of SFY 2001.

States must report final grant financial information on a Financial Status Report, SF-269 or SF-269A, within 90 days after the end of the grant agreement period [43 CFR 12.81(b)(4)]. States may report financial information on a cash or accrual basis [43 CFR 12.81(b)(2)]. However, for the final report, all obligations incurred for the accomplishment of the grant project should be



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paid by the time the final SF-269 is submitted because the FWS reimburses States for costs incurred and claimed.

### HOW TO CONDUCT THE FEDERAL AID PROGRAM AUDITS

The FWS will provide the OIG a list of States to be audited. The OIG will review the audit request, schedule the audits using its own auditors or make arrangements for independent public accountants to complete the audits, and acknowledge the request by phone. During telephone conversations with FWS regional staff and Washington Office staff, the auditor should discuss any special audit needs of particular States.

Notification. Auditors should telephone the State point of contact (usually the State Federal Aid Coordinator) at least 90 days in advance of the desired start of audit fieldwork. They should discuss the SFYs to be audited, make fieldwork arrangements, set an entrance conference date, and specify data to be provided by the State 45 days prior to beginning fieldwork. The contact should be informed that an engagement (announcement) letter will be sent to the head of the agency, with an advance facsimile (Fax) copy to the coordinator.

The auditor should send an announcement letter to the director of the State agency to inform them of the audit. The letter should be dated and received by the director approximately 90 calendar days prior to the entrance conference and start of fieldwork. It should include a list of documents needed by the auditors, specifying that the documents be provided to the auditors as soon as possible but no later than 45 days from the date of the announcement letter. Appendix 4 contains an example of an announcement letter. A copy of the announcement letter should be provided to the following:

- The appropriate FWS Assistant Regional Director for Migratory Birds and State Programs
- The FWS Regional Chief, Division of Federal Aid (via FAX)
- The FWS Chief of the Division of Federal Aid (Washington Office)
- The State point of contact [usually the State Federal Aid Coordinator(s)] (via FAX)
- Other FWS and State officials as deemed necessary.

Meet with FWS Regional Office. At the meeting with FWS Regional Office staff, auditors should discuss the Region's concerns and special needs regarding the State agency to be audited and should request access to the following (if not previously obtained):

- The most recent Federal Aid grant audit report performed by either the Defense Contract Audit Agency, the OIG, or some other audit agency



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- Financial Status Reports (SF-269s) on Federal Aid reimbursements billed by grant agreement for the periods being audited, as well as copies of all signed grant documents including: the Applications for Financial Assistance, grant agreements (Form 3-1552), amendments and modifications, and proposals for all grants that were active/open during the audit period. Some grant proposals may be for projects that have been funded over a long period (10 years or more)
- The last two years of Federal Aid apportionments for Wildlife Restoration and for Sport Fish Restoration
- Contact information for key Regional Office Federal Aid personnel for each program area (i.e., Wildlife, Fisheries, etc.) e-mail addresses, fax and telephone numbers
- The names, office locations, and telephone numbers of key State agency personnel, including the head of the State fish and game agency, the finance officer, the State's Single Auditor, the State's internal auditor, and the Federal Aid coordinator(s)
- Reports and other documentation related to the field site visits conducted by Regional Office staff during the audit period
- Documentation related to the Corrective Action Plan (CAP) prepared in response to the last Federal Aid audit

Entrance conference. Auditors should conduct an entrance conference with the State fish and game agency to discuss the purpose and scope of the audit. At a minimum, the entrance conference should include the auditors, a representative from the FWS Regional Office, the point of contact [State Federal Aid Coordinator(s)], and a representative from upper management of the State fish and game agency. A representative from the State Single Auditor and a representative from the Washington Office of the Division of Federal Aid may also wish to attend. Prior to the meeting, the auditor should provide an agenda to all participants.

Fieldwork. Auditors should plan to maintain a constant presence at the audit site once fieldwork begins. Generally, fieldwork will include documenting how various Federal Aid and license revenue transactions are processed, testing the internal controls over those transactions, and auditing a sample of transactions of each type. The hierarchy of laws and rules to apply to the audit of transactions is as follows:

- The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act
- The Grant Agreement (Form-3-1552)
- 50 CFR 80 (Administrative Requirements for the Restoration Acts)



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- 43 CFR 12 (The Common Rule)
- OMB Circulars A-87, A-102, A- 21 (for educational institution sub-grantees) and A-133
- The Federal Aid Handbook (Part of the FWS Manual)
- Director's Policies and Guidance
- Generally Accepted Accounting Principles and the Statements of Financial Accounting Standards.

Reporting. The audit report will be addressed to the Director of FWS, with a copy to the Regional Director. Following the format prescribed by the OIG, the report should contain all material questioned costs and findings of noncompliance with the laws, regulations, rules, and guidance identified above. A section on management issues, nonmaterial issues for which management of the State's Federal Aid and license revenue programs should be made aware, may be also included in the report or in a separate document. Recommendations will be made for the material questioned costs and findings, but not for management issues.

## ACCOUNTING SYSTEM

States must expend and account for grant funds in accordance with State laws and procedures for their own funds [43 CFR 12.60(a)]. In addition, States must have budget controls that require them to compare actual expenditures with budgeted amounts for each grant [43 CFR 12.60(b)(4)].

State accounting is usually on a modified cash basis. This is a generally accepted basis of accounting for States as prescribed by the Governmental Accounting Standards Board, the policy-making entity that issues requirements for state and local government accounting. The State may indicate the basis of accounting used for reporting on the Financial Status Reports (SF-269s), accrual or cash, and apply the rules for that basis of accounting.

Adequate and reliable accounting records and reports, produced in a system of internal controls, are critical to the adequacy of the accounting system. The State must establish and follow adequate laws and procedures for financial management to avoid non-compliance with requirements for financial management and reporting systems (43 CFR 12.60 and 522 FW 1.9).

Various types of accounting systems may exist for processing Federal Aid transactions. Sometimes, the official State accounting system is used as the source of grant costs, and costs claimed can be traced directly to accounts contained in the State accounting system. Other times the State fish and wildlife agency has a subsidiary accounting system that is linked electronically



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or manually to the official State accounting system. More commonly, there is a hybrid system that allocates a portion of a State accounting system transaction to a grant or project within the grant. Examples would be a labor cost allocated using the ratio of time recorded on a timesheet, or equipment charges allocated by time used on different activities. Sometimes individual costs recorded in the subsidiary State fish and wildlife accounting system cannot be traced directly to the official State accounting system. When that happens, the State should perform periodic reconciliations of aggregate transactions to assure that the allocations are proper.

Auditors should discuss accounting and operating issues cited in prior audit reports with State officials and employees, and become familiar with the facilities, records, forms, and equipment used in the accounting process. State finance officials should explain the Federal Aid and the license fee accounting processes and walk the auditors through the different kinds of transactions prior to auditing the supporting documentation.

The State's accounting manual may supply the types and relationships of the various income, receipt, expense, disbursement, budget, and transfer transactions; the records, and forms in use; the responsibilities for records maintenance; and the location of records. In some cases, a separate manual may exist for Federal Aid accounting.

Auditors should identify and document material weaknesses in the working papers, and develop any additional audit procedures to be performed. They should also note areas of strength and eliminate procedures considered unnecessary due to the accounting system's internal controls.

**Project Level vs. Grant Level Accounting.** The State should have account titles matching the budget items contained in Federal Aid grants, proposals, and projects. If, for example, the budget provides for wages, fringe benefits, equipment, and supplies, then the State should have separate accounts respectively. If a grant is comprised of several projects, and each project has a separate budget, then the State must have a separate account, sub-account, or another method to link expenditures to a project budget item, and to account for costs at the project budget level. If, for example, project A within grant X has a budget for wages, fringe benefits, equipment, and supplies, then the State should have project A sub-accounts for each of those accounts or another unique account coding to identify the specific project A costs.

If a grant is made up of several projects but the grant has only one budget amount for each project, then the State need only account for costs at the project level. For example, if grant X has a budget for projects A, B, and C but not for wages, fringe benefits, equipment, and supplies within each project, then the State need only have sub-accounts or some other unique account coding for projects A, B, and C. If a grant is made up of several projects and the grant has only one budget amount for the grant, then the State need only account for total grant costs. This is called grant level accounting. The required amount of account detail is identified in the grant budget, unless the grant provisions state otherwise.



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These are accounting requirements and should not be confused with reporting requirements of the Financial Status Reports (SF-269s). The State is required to report only the total outlays (costs) by grant and the Federal and State shares of the total costs. This may differ from the State's accounting requirements.

**The 10 Percent Rule.** States receiving Federal Aid grants are permitted to re-budget within the approved overall grant budget to meet unanticipated requirements. However, certain types of post-award changes in budgets require prior written approval of the FWS. One such change pertains to non-construction awards. It is referred to as the 10 percent rule, because it specifies that, unless waived, States shall obtain prior approval of the awarding agency, for cumulative transfers among direct cost categories or, if applicable, among separately budgeted programs, projects, functions or activities that exceed or are expected to exceed 10 percent of the current total approved budget [43 CFR 12.70(c)(ii)]. In other words, States must receive written approval from FWS prior to making cumulative budget transfers greater than 10 percent of the approved budget.

This regulation applies if the Federal share of the grant exceeds \$100,000 and FWS has not issued a waiver of this requirement. When project level accounting is required, the 10 percent rule applies to the total cost of the grant, not to the total project costs. This requirement only applies to grant budgets that exceed \$100,000, not projects that exceed \$100,000. However, if any budget change would result in an increase to the total costs of the approved grant budget, then the prior approval of the FWS and an amendment to the grant is required [43 CFR 12.70(c)(i)] in order for the State to obtain Federal cost-matching participation in the additional costs.

The application of this rule can be illustrated by the following examples:

- Grant X consists of the following direct cost categories, associated budget and actual costs:

<u>Cost Category</u>	<u>Budget</u>	<u>Actual</u>	<u>Overrun</u>
Wages	\$1,500	\$2,000	\$500
Fringe Benefits	500	700	200
Equipment	2,000	1,500	0
Supplies	<u>1,000</u>	<u>700</u>	<u>0</u>
Totals	<u>\$5,000</u>	<u>\$4,900</u>	<u>\$700</u>

To fund the \$700 overrun for wages and fringe benefits, the State would have to make cumulative transfers totaling \$700 from amounts budgeted for equipment and supplies. Since the cumulative transfers exceed 10 percent of the total approved budget ( $10\% \times \$5,000 = \$500$ ), prior approval from FWS would be required. If the State did not obtain prior FWS approval, and FWS did not issue a waiver of the requirement, then the auditor should question the \$700



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cumulative transfers.

2. Grant Y consists of the following projects, associated budget and actual costs:

<u>Project</u>	<u>Budget</u>	<u>Actual</u>	<u>Overrun</u>
A	\$2,000	\$2,600	\$600
B	2,000	1,800	0
C	<u>1,000</u>	<u>800</u>	<u>0</u>
Totals	<u>\$5,000</u>	<u>\$5,200</u>	<u>\$600</u>

Only \$400 from projects B and C was available to transfer to project A to fund a portion of the \$600 overrun. Since the cumulative transfers (\$400) did not exceed 10 percent of the total budget (10% x \$5,000 = \$500), FWS prior approval would not be required. However, the State would have been required to obtain prior approval for the reimbursement of the \$200 that exceeded the total costs of the approved budget.

3. Grant Z consists of the following projects, associated budget and actual costs:

<u>Project</u>	<u>Budget</u>	<u>Actual</u>	<u>Overrun</u>
A	\$1,000	\$1,300	\$300
B	1,000	1,200	200
C	<u>1,000</u>	<u>1,000</u>	<u>0</u>
Totals	<u>\$3,000</u>	<u>\$3,500</u>	<u>\$500</u>

Since the actual costs equaled the budget for project C, there were no funds available for transfer to projects A and B to cover the overruns. Therefore, no prior approval would be required. However, the State would have been required to obtain prior approval for the reimbursement of the \$500 that exceeded the total costs of the approved budget.

**Claimed vs. Incurred Costs.** Although the final Financial Status Report, SF-269, should identify total outlays, States may have reported only costs (outlays) sufficient to “earn” the Federal matching funds. The State should have accounts to accumulate grant costs. Costs recorded in the grant accounts in excess of costs reported on the SF-269 should not be audited. It is the position of the FWS that only costs claimed on line 10 of the SF-269 are eligible for reimbursement. It may be necessary to ask State officials to identify which individual costs have been claimed.

**Control Process.** The State should have a financial management system in place to report to management, frequently, the status of revenues, expenditures, obligations, and receivables with regard to both Federal Aid funds as well as license fee funds.

Auditors, using their understanding of the State's accounting system, should be able to identify



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the significant classes of transactions and how they are initiated, processed, controlled, and reported. This understanding should include relevant aspects of the State's electronic (automated) data processing system and how it processes transactions.

Costs Outside the Project Period Are Unallowable. Costs incurred before the effective date are generally unallowable unless specifically provided for in the grant agreement. Pre-agreement (pre-award) costs are discussed in 522 FW 1.11B(2) and OMB A-87 Attachment B.32. Costs incurred after the grant's period of performance are considered unallowable because the grant may be charged only for obligations incurred during the grant period (43 CFR12.63).

### **DRAWDOWNS (BILLING SYSTEM)**

Funds are requested and drawn down via the U.S. Department of Health and Human Services electronic funds transfer process called SMARTLINK. This system transfers funds from the U.S. Treasury to the State's account. The Federal Aid Information Management System (FAIMS) "authorizes" the drawdown. States are required to report periodically on the status of their program and Federal Aid transactions (522 FW 1.22 and 1.23). The timing of requests for funds and disbursement of funds should be as close as possible to the State's needs in accordance with the Cash Management Improvement Act (See CMIA90). Generally, FWS does not allow States to request funds in advance, only as reimbursement of incurred expenses. Should funds in excess of immediate needs be drawn down, the State will be required to pay interest to the Treasury on those funds.

Drawdown Observation. Auditors should observe the State making an actual drawdown of Federal Aid funds and will need to know how the drawdown relates to the expenditures incurred and recorded in the accounting records, and how the supporting documents are properly prepared and authorized. Not only should the State have incurred the costs for funds drawn, but it should have also incurred costs for its matching share of total costs before the drawdown occurs. Auditors should document the procedures, identify the segregation of duties involved in the process, and compare how the drawdown procedures relate to drawdowns that were made during the audit period.

### **INDIRECT COSTS**

Negotiated Indirect Cost Rate Agreement. Auditors should determine whether the State agency has Federal government-approved indirect cost rates for the entire audit period. Generally, indirect cost rates, under OMB Circular A-87, will be approved for each SFY. If a grant's period of performance overlaps two or more SFYs, more than one rate may be applicable to the grant period. If the State agency does not have approved rates for the period during which costs were incurred, indirect costs cannot be charged using an indirect rate. However, indirect-type costs may be allowed and claimed under a grant for administrative costs or coordination costs, where such costs may be claimed as direct costs.



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Central Services Limitation. The amount of central services costs allocated to Restoration Act grants cannot exceed three percent of the annual apportionment [50 CFR 80.15(d)]. This requirement means that “allocated” central services, the amount assigned to the State fish and wildlife agency under the State Wide Cost Allocation Plan (SWCAP) and included in the State’s indirect cost rate, may not exceed three percent of the annual apportionment. Indirect cost rates are often fixed before the period to which they apply, therefore, a provision to adjust future rates based on actual costs of the current period is a part of the agreement. Auditors should ensure that the SWCAP and the apportionments are for the same periods. SWCAPs apply to SFYs and apportionments apply to Federal fiscal years.

### GRANT COMPLIANCE

Grant compliance occurs when the State acts in accordance with the two Restoration Acts and their implementing rules, regulations, policies, guidance, and the purpose of the grant. The grant agreement, including those documents incorporated by reference, provides a description of the work to be performed. Specific requirements for grant proposals and grant agreements are in 522 FW 1.3, 1.4, 1.6, and 1.7. General requirements for proposals are in 50 CFR 80.11. The State should execute a list of assurances annually. The list of assurances, with which the State must comply in order to receive Federal funds, can be found in the Federal Aid Handbook (522 FW 1.3B) and are incorporated into each grant by reference. The State may either complete a single Assurances form annually, or it may complete one for each grant agreement.

### TESTS OF TRANSACTIONS

There are wide variations in accounting systems and systems of internal control. Accordingly, the auditor must exercise professional judgment as to the nature and extent of tests of transactions. Factors useful in selecting grant agreements and types of costs for analysis include materiality and audit leads provided by review of prior audit reports, by FWS Regional Federal Aid personnel, and by State Federal Aid officials.

### LABOR SYSTEM

Based on a review of prior and other audits (the State Single Audits and the annual state financial statement audits, among others), the auditors will determine whether to rely on work performed during the other audits and, as a result, limit the scope or eliminate the review of labor cost accounting. They should develop a sufficient understanding of the labor accounting system to identify the significant classes of transactions and how those transactions are initiated, processed, controlled and reported. If the review is to be limited, they should nevertheless selectively trace a few labor transactions through the labor accounting system to validate their understanding of the system and rely on the work of others in accordance with 650 FAM.



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Assessment of Control Risk. When the preliminary analyses of relevant information from Single and State Audits, prior OIG/FWS reviews, internal and external reviews, and knowledge of the Federal Aid accounting and labor system is completed, auditors should assess control risk for labor accounting. The level of risk should dictate the nature, timing, and extent of additional audit effort (i.e., employee interviews, labor distribution reviews) necessary to protect FWS' interests.

Federal Aid Labor Charges. States often maintain a separate payroll system to account for Federal Aid charges. Auditors should determine whether (1) the Single Audit/annual financial statement auditor reviewed the Federal Aid payroll system, and (2) the State has policies and procedures in place to assure that hours recorded in the timekeeping system are reconciled, either manually or automatically as part of normal EDP operations, with attendance records and labor distribution summaries.

Since most Federal Aid grant funds are used for salaries and related expenses, the review of grant charges will include a review of salary expenses, time and attendance (payroll) systems, and related charges for employee benefits. Employee interviews may be useful for reviewing labor charges, and may generate audit leads for other areas.

### LAND ACQUISITION AND DISPOSAL

States may acquire land by purchase, exchange, donation, or transfer. Title acquired may be in fee simple (all rights to land), for the surface only, or for one or more of the many other rights in land (such as easements or life estates). States may dispose of land (one or more land rights) by sale, exchange, or transfer. Disposals involving land acquired with Federal Aid funds require that the State give prior notice to the FWS and obtain its direction regarding the disposal. Since the State has also participated in the acquisition cost of Federal Aid land, State and Federal laws and regulations will apply.

Federal Aid land acquisition and disposal activities are subject to 522 FW 6 of the Federal Aid Manual, 50 CFR 80.14 and 80.20, 43 CFR 12.71, 49 CFR 24 (implementing the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970), specific terms of grant agreements, and the State's laws and regulations. Land acquired with license revenues and its subsequent disposal is subject only to State laws, regulations, and policies; however, those activities must solely benefit the State's fish and game program (50 CFR 80.4).



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There are several issues unique to the acquisition and disposal of Federal Aid land:

- **Valuation.** The value of land at the time of acquisition or disposal should be based on a current (less than six months old) independent appraisal. The appraisal value is the maximum amount eligible for Federal Aid reimbursement. If the State pays an amount higher than appraised value, the excess must be justified and approved by the FWS Regional office for Federal Aid participation. In contrast, the cost savings resulting from a purchase price less than appraised value may be used as part of the State's matching funds, subject to requirements of 43 CFR 12.64. (In cases where land was acquired at less than the appraised value, there must be documentation that the landowner agreed to the reduced price.)
- **Title.** The title should be compatible with future use of the property. Title should include water and mineral rights if future extraction will impact Federal Aid use. Generally, there should be no deed restrictions; i.e., timber removal restrictions or provisions for special use affecting future use of the property.
- **Inventory.** States are required to maintain an inventory of land acquired with Federal Aid funds. The inventory database should include sufficient information to identify Federal Aid and non-Federal Aid lands, Federal percentage of the acquisition costs, legal descriptions, acreage, property rights, location, value, and the purpose for which the land was acquired. States should conduct periodic physical inventories and reconcile results with the database.
- **Disposal.** States must obtain the approval of the appropriate Regional Office of the FWS and follow the FWS procedures prior to disposing of land.
- **Replacement.** The regulations specify that the current market value of the land be returned to the Federal Aid program [50 CFR 80.4(d)(2)], when States lose control of Federal Aid or license fee land. In some cases, States have replaced land with land of equal value in terms of the fish and wildlife that were affected by the loss of controls. This is inappropriate, as land is unique, and as a result, there are no provisions for replacing lost land with land of equal value.
- **Land banking.** A State is allowed to use the value of land acquired with its own funds (i.e., license revenue or other non-Federal Aid funds) as matching costs for Federal Aid land acquisition when the acquired land is contiguous to land owned by the State. Oftentimes, the excess value of the match cannot be used during the period of the project agreement, and some States have banked the unused value to be used in future SFYs for land acquisitions. Other States have used the excess land value to acquire additional land geographically distant from the land used for the State's matching costs. Both practices,



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known as “land banking,” are prohibited by 43 CFR 12.64 and were affirmed in a Department of Interior memo dated September 15, 2000.

### EQUIPMENT, SUPPLIES, AND OTHER DIRECT COSTS

Advance Approval of Equipment Purchases. Advance approval for equipment purchases is not required, according to the FWS Federal Aid Manual [522 FW 1.11B(1)(a)], when the equipment will be needed for Federal Aid program purposes throughout its useful life. If this is not the case, then OMB Circular A-87, Attachment B, Item 19.c and the grant agreement may require prior approval of the equipment acquisition.

Testing should include checking direct grant charges for equipment, supplies, and other direct costs. Auditors should review transactions for proper and consistent charging practices across organizations and departments. Costs benefiting more than one grant or other cost objectives that were charged to a Federal Aid grant should be questioned, since they were not distributed equitably to the benefiting cost objectives (OMB Circular A-87, Subparts D through F).

### ASSET MANAGEMENT SYSTEM

Auditors should become familiar with the facilities and the records, forms, and equipment used in the asset management system. The working papers should describe the following: the various inventory and transfer transactions, records and forms in use, responsibilities for records maintenance, and the responsibilities for custody of assets.

Inventory reviews of Federal Aid assets (following the State guidelines) should be taken and reconciled to the accounting records. The sale or disposal of equipment must be reported as program income.

Auditors should be aware that real and personal property acquired with license revenue must remain in the control of the fish and wildlife agency in order for the State to participate in the Federal Aid program [50 CFR 80.4(d)(2)]. Revenues from license fees paid by hunters and fishermen shall not be diverted to purposes other than the administration of the State fish and wildlife agency. If license revenue was used to acquire an asset, then the asset represents license revenue from a prior period. If an asset is used by another State agency, then the fish and wildlife agency may no longer control the asset. If so, a diversion of the asset has taken place [50 CFR 80.4(d)].

### IN-KIND CONTRIBUTIONS

In-kind contributions are non-cash contributions made by parties other than the States. In-kind contributions may be included as part of the State’s matching share of total costs, but they should not be included as any part of the Federal share of the total costs (522 FW 1.13). Guidance in



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valuing volunteer labor, donated goods, land, and other services, as well as in-kind record keeping requirements can be found in 43 CFR Part 12.64.

Auditors should review the in-kind contributions and supporting documentation to learn how they are claimed and valued. The auditors will need to determine the types of in-kind contributions used by the State, the program areas and specific grant agreements where they are used, the State's procedures for proper and consistent treatment of in-kind contributions, and the parties responsible for accounting and reporting in-kind contributions. The procedures should address documentation, valuation, availability, validity, and assurance that each in-kind contribution is used only once as match for a Federal grant.

When in-kind contributions exceed the amount required for the State's matching costs of the grant, the audit review may be limited to an amount identified by the State that is necessary to satisfy the State matching requirement. However, auditors should be aware that excess in-kind contributions might be claimed later. If so, the excess in-kind contributions may be used to the extent necessary within the same SFY.

In-kind contributions should be shown separately on the Financial Status Reports (SF-269s). Anticipated in-kind contributions should be identified in the grant proposal and grant agreement.

### **BASE LEVEL FUNDING**

In 1984, when the Wallop-Breaux Amendment to the Dingell-Johnson Sport Fish Restoration Act was passed, the FWS established a base level amount of annual spending that States had to maintain in order to remain eligible to participate in the Federal Aid program (to receive Sport Fish apportionments). The FWS maintains files identifying these amounts. Auditors should include audit steps to ensure that those base level funding requirements have been met for the SFYs audited.

### **FRESH WATER THRESHOLD**

Coastal States having both fresh water and marine sport fish programs are required to determine the proportionality of fresh water to marine anglers, and allocate funds to the two programs in proportion to the number of each kind of angler. This is known as the fresh water threshold. Auditors should obtain the fresh water threshold from the appropriate FWS Regional Office when auditing a coastal State and determine its accuracy.

### **LICENSE REVENUE**

The State may not use revenue from the sale of hunting and fishing licenses for purposes other than the administration of the State's fish and game agency (50 CFR 80.4). Administration



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includes only those functions required to manage the fish and wildlife-oriented resources of the State for which the agency has authority under State law.

The State should have an accounting system that separately accounts for the receipt and disbursement of license revenues. Auditors must perform sufficient tests of the controls over license revenues to determine whether those controls are adequate to prevent the use of license revenues for activities not related to the administration of the State fish and game agency. A diversion of license fees occurs whenever a State loses control of any portion of its hunting or fishing license revenues (such as program income being deposited in the State's general fund) or spends such revenues for purposes other than the administration of the fish and game department (such as providing janitorial services for the offices of the State's Division of Parks).

### PROGRAM INCOME

Federal Aid funds are not to be used for the sole purpose of producing income. However, to the extent that grantor-assisted projects produce income during the grant period, such income must be (1) deducted from the total project cost for the purpose of determining the net costs, on which the grantor's share will be based, or (2) added to the funds committed to the project to further eligible program objectives (43 CFR 12.65). These two methods are referred to as the deductive and additive methods of handling program income.

The grant agreement should identify the estimated amounts, sources, and method of accounting (the additive or deductive method) for the program income. Some examples of program income are: special use fees to hunt on lands maintained with Federal Aid funds, proceeds from the sale or disposal of personal property (for example, crops), rental of land and equipment, and royalties received on mineral rights, copyrights, and patents. Interest on grant funds, rebates, credits, refunds, and discounts are not considered program income unless otherwise provided for in the grant agreement (43 CFR 12.65). Also exempt are governmental revenues such as taxes, special assessments, levies and fines unless specified by the grant agreement.

Program income must be reported and used to offset program costs or to enhance the project under which the State is receiving the Federal Aid assistance if: (1) the land is administered by the State fish and game agency concurrently receives Federal Aid assistance for either acquisition or maintenance, directly or indirectly, or (2) the grant used to acquire the property specifies so. In the case of a closed grant, the State and the FWS must agree on the use and disposition of program income. If the program income is generated from land that was acquired through a closed grant and there is no grant for the maintenance of the land, the program income does not have to be reported and used to offset grant costs or enhance the project scope under the previously closed grant; however, the program income must be retained and used in the State's fish and game program.



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**Program Income vs. Real Property.** In a memo dated June 6, 2002, the Director of FWS clarified that sales of timber are program income and not the sale of real property. Therefore, all proceeds from the sale of timber removed from land acquired with Federal Aid funds are program income, not the sale of real property. Similarly, any income from the production of oil and gas or other minerals, rentals, leases, crop sharing, grazing, or other use of the lands (such as for the placement of communication towers) is considered program income, not the sale of real property.

However, income from the sale or granting of an easement or other right in the land, such as an easement for a power line or an oil or gas pipeline, is considered income from the sale of real property and the regulations governing the sale of real property apply (43 CFR 12.71). For land acquired with Federal Aid funds, the State must obtain disposition instructions from the FWS prior to selling the rights in the land [43 CFR 12.71(c)]. For land acquired with license revenue, the State must use the net proceeds from the sale for the administration of the State's fish and game agency.

### SITE VISITS

Some project agreements include objectives that are physical, unique to the particular agreement, and susceptible to an auditor's observation and evaluation. Certain aspects of research or survey projects may also be susceptible to audit examination. For example, project objectives should be programmed and followed in a reasonable sequence to a scheduled end. Auditors should be able to discern through observation whether these intermediate milestones are being met.

**Project Site Visits.** Auditors need to ensure that areas selected for review will provide appropriate audit coverage. Some activities can only be verified through site visits. For example, verifying that Federal Aid signs are posted; verifying the existence, use, condition, and location of land, buildings, and equipment; interviewing employees; and documenting evidence of expenditures are best accomplished through auditor site visits.

**Posting of Federal Aid Signs.** It is FWS policy that the Federal Aid symbols prescribed in 50 CFR 80.26 be posted at Federal Aid sites. During their visits, auditors should determine whether those symbols (logos) are posted at Federal Aid sites.

### NOTICE OF POTENTIAL FINDING AND RECOMMENDATION (NPFR)

All findings (questioned costs, noncompliance issues, internal control weaknesses, and other management issues) should be recorded on an NPFR form (see Appendix 5). The completed form should be provided simultaneously to the FWS Regional and Washington Offices, Division of Federal Aid and to the State, as soon as possible after the finding has been documented. The Washington Office, Division of Federal Aid will review the NPFR for consistency of treatment of the findings among the States. The NPFR should be issued to the State and the FWS Regional



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Office with a request for a concurrence or non-concurrence response within seven days. Findings can be resolved and recommendations can be implemented by the State at this stage of the audit. If the auditors can confirm the resolution of the finding and the implementation of the recommendation, then no further action will be required of either the FWS or the State. Nevertheless, the finding must be included in the audit report. The NPFRs will be discussed at the exit conference, and no preliminary draft report will be issued.

### EXIT CONFERENCE

An exit conference should be conducted as soon as possible after the completion of the fieldwork, but not before all NPFRs have been issued and the State has had an opportunity to respond to them (seven days after the last NPFR has been issued). The audit team is responsible for the exit conference and should be able to provide copies of the working papers to support all NPFRs. Any modifications to the NPFR or the States response should be documented in the working papers as the revised NPFR and corresponding response from the State will be used as the basis for the draft audit report. The OIG will notify the State of any subsequent changes made to findings as a result of processing the NPFRs into the draft report.

### AUDIT REPORTS

Auditors will prepare a draft report for each audit. The draft audit report will be issued to the Director of the FWS with a copy to the appropriate FWS Regional Director for delivery to the audited State. FWS's response to the draft report is due within 30 days of issuance.

A final report of the results of audit is required for every Federal Aid grant audit. Auditors will issue the final audit report to the Director of the FWS, with a copy to the appropriate FWS Regional Director. FWS's response to the findings and recommendations contained in the final report, if any, should be requested from the Director of the FWS within 90 days of issuance. Appendix 6 provides an outline of the standard sections of a report, including the financial summary of audit coverage (Appendix 1).



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**GLOSSARY**

Allocable	<p>A cost is allocable to an award if it is treated consistently with other costs and meets one of the following criteria:</p> <ul style="list-style-type: none"><li>• It is incurred specifically for the award</li><li>• It benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or</li><li>• It is necessary to the overall operation of the organization, although a direct relationship to a particular cost objective cannot be shown.</li></ul>
Allowability	<p>An allowable cost meets the criteria for authorized expenditures specified in the cost principles contained in OMB Circular A-87 or is specified in the grant agreement. In order to meet federal government standards for allowability, a cost charged to an award must be:</p> <ul style="list-style-type: none"><li>• Allocable to the award under the provisions of the applicable cost principles</li><li>• Necessary and reasonable for proper and efficient performance and administration of the grant agreement</li><li>• Treated consistently as a direct or indirect cost</li><li>• Treated in accordance with generally accepted accounting principles except as otherwise stipulated in the applicable cost principles</li><li>• Net of all applicable credits</li><li>• Not included as cost or used to meet the cost-sharing or matching requirements of another federal award, unless specifically permitted by federal law or regulation</li><li>• Adequately documented</li><li>• Authorized or not prohibited under state or local laws and regulations</li><li>• In conformance with limits or exclusions on types or amounts of costs, as set forth in the applicable cost principles, federal laws, award terms and conditions, or other governing regulations</li><li>• Consistent with the recipient's policies, regulations, and procedures that apply to both federal awards and other activities of the recipient.</li></ul>
Apportionment	<p>Federal budget process that distributes the Wildlife and Sport Fish Restoration funds collected by the U.S. Treasury to the states. The apportionment is available to the state for obligation for two years.</p>
Audit Finding	<p>A deficiency that the auditor is required to report in the schedule of findings and questioned costs.</p>



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**GLOSSARY**

Central Services	Services, such as motor pools and accounting, provided to operating agencies on a centralized basis.
Corrective Action	Action taken by the auditee that: <ul style="list-style-type: none"><li>• Corrects identified deficiencies;</li><li>• Produces recommended improvements; or</li><li>• Demonstrates that audit findings are either invalid or do not warrant auditee action.</li></ul>
Cost	An amount determined on a cash, accrual, or modified cash basis that the State incurred for obtaining goods or services. The auditor will determine if the cost is reasonable, allocable, and allowable under the terms of the laws, regulations, policies, guidance, and grant terms to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund.
Direct Cost	Generally, a cost that can be identified specifically with a particular cost objective, such as a grant agreement, project, service, or other activity of an organization.
Diversion	A diversion occurs when any portion of license revenues is used for any purpose other than the administration of the State fish and wildlife agency (50 CFR 80.4).
Equipment	Tangible, nonexpendable personal property having a useful life of more than one year. A State may use its own definition of equipment in lieu of this definition.
Expenditure	Costs incurred by the state in carrying out work through a project agreement.
Financial Related Audit	Financial related audits determine whether: <ul style="list-style-type: none"><li>• Financial information is presented in accordance with established or stated criteria</li><li>• The entity has adhered to specific financial compliance requirements</li><li>• The internal controls over financial reporting and/or safeguarding assets are adequately designed and implemented to achieve control objectives.</li></ul> <p>They do not determine if the financial statements of the audited entity fairly present the organization's financial position, results of operations, and cash flows in accordance with generally accepted accounting principles, which is a financial statement audit.</p>



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GAAP	Generally Accepted Accounting Principles issued by the American Institute of Certified Public Accountants
GAGAS	Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, of which the first five chapters are applicable to financial audits.
Indirect Cost Rate	The rate used for computing the reimbursement of indirect costs under federal awards. The organization's indirect cost rate is negotiated with the cognizant Federal agency. The rate is a ratio or percentage of an organization's total indirect costs to its direct cost base.
Indirect Costs	A cost that has been incurred for common or joint objectives of an organization and cannot be readily identified with a particular cost objective.
In-Kind	A non-cash contribution made by parties other than the State which is used as the state match, reducing or eliminating the State's cash outlay.
Internal Control	A process or procedure, used by management and other personnel, designed to provide reasonable assurance regarding the achievement of following objectives : <ul style="list-style-type: none"><li>• Effectiveness and efficiency of operations;</li><li>• Reliability of financial reporting; and</li><li>• Compliance with applicable laws and regulations.</li></ul>
System of Internal Controls	The plan of the organization, including methods and procedures, adopted by management to ensure that resources are safeguarded, their use is consistent with applicable laws and regulations, management is kept concurrently informed of operations, and all financial matters.
Program Income	Gross income received by a State generated directly by a grant-supported activity, or earned only because of the grant agreement during the grant period.



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Questioned Cost	<p>A cost that is questioned by the auditor because of an audit finding:</p> <ul style="list-style-type: none"><li>• Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;</li><li>• Where the costs, at the time of the audit, are not supported by adequate documentation; or</li><li>• Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.</li></ul>
Real Property	<p>Land, including improvements and structures on the land, and the rights to the exclusive use and enjoyment thereof.</p>
Reasonable	<p>A cost is considered 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.</p>



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**UNALLOWABLE COSTS**

Examples of ineligible activities and unallowable costs are given below:

- Expenses for activities where the primary purpose is to produce revenue (50 CFR 80.14(c), 521 FW 1.7B, 521 FW 2.7B). However, license revenue can be used to pay for the costs associated with selling hunting and fishing licenses.
- Public relations (does not include education or technical guidance specifically related to program objectives) (521 FW 1.7.A, 521 FW 2.7.A).
- Expenses for animal damage control.
- Law enforcement (521 FW 1.7.D, 521 FW 2.7.D), including preparation and dissemination of regulations (521 FW 1.7.E, 521 FW 2.7E). However, law enforcement of State fish and game regulations funded by the State's license revenue is allowable.
- Stocking wildlife, unless the objective is to restore or establish self-sustaining populations (521 FW 1.7.F). The stocking of fish on public lands is allowable.

The following specific activities are ineligible under Coastal Wetlands provisions (521 FW 3.6):

- Providing for navigation, irrigation, flood control, or agriculture.
- Acquiring or managing lands to replace habitat losses resulting from actions of other agencies.
- Creating artificial wetlands.
- Enforcement of fish and wildlife regulations.



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**REFERENCES**

1. Office of Inspector General “Federal Aid Grant Audit Program” October 2002
2. US Fish and Wildlife Service “Review-Audit Program for State Hunting and Fishing License Certification Programs” dated February 1996
3. US Fish and Wildlife Service “Federal Aid Handbook” - including:
  - A. Fish and Wildlife Service Manual (FW)
    1. Part 521 Program Eligibility
    2. Part 522 Program Guidance
    3. Part 523 Compliance Requirements
  - B. Federal Aid Program enabling Acts
    1. Public Law 102-587, Title VII - Partnerships for Wildlife
    2. 16 U.S.C. 777-777k - Federal Aid in Sport Fish Restoration (Dingell-Johnson) Act
    3. 16 U.S.C. 669-669l - Federal Aid in Wildlife Restoration (Pittman-Robertson) Act
    4. Public Law 102-587, Subtitle F -- Clean Vessel Act
    5. 16 U.S.C. 3954, Title III - Coastal Wetlands Planning, Protection, and Restoration Act
    6. 16 U.S.C. 1531-1543 - Endangered Species Act
    7. Public Law 96-366 - Fish and Wildlife Conservation Act



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**REFERENCES**

- C. Code of Federal Regulations (CFR):
1. 50 CFR 80 - Administrative Requirements, Federal Aid in Fish and Federal Aid in Wildlife Restoration Acts
  2. 50 CFR 81 - Conservation of Endangered and Threatened Species of Fish, Wildlife, and Plants - Cooperation with the States
  3. 50 CFR 401 - Anadromous Fisheries Conservation, Development and Enhancement
  4. 43 CFR 12 - Administrative and Audit Requirements and Cost Principles for Assistance Programs
- 4 OMB Circular A-87 -- Cost Principles for State, Local and Indian Tribal Governments and Compliance Supplements (1995 Version for SFY 1997 forward)
  - 5 OMB Circular A-133 -- Single Audit Act and Compliance Supplements
  - 6 ASMB C-10 Guide for the "Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government"
  - 7 Public Law 101-453, Cash Management Improvement Act of 1990
  - 8 AICPA Statements on Auditing Standards (SAS) No. 74 and 75 (AU 801), "Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance," and "Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement."
  - 9 "Government Auditing Standards" 1994 Revision, by the Comptroller General of the United States ("Yellow Book")
  - 10 General Accounting Office and the President's Council on Integrity and Efficiency' Financial Audit Manual, Section 650, Using the Work of Other Auditors.



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**REFERENCES**

- 11 U.S. Fish and Wildlife Service “License Certification Study” dated March 1994
  
- 12 Additional guidance provided by the U.S. Fish & Wildlife Service:
  - A. FWS “Federal Aid Grant Audits - Additional Information for Auditors”  
dated February 10, 1996
  - B. FWS “Federal Aid Audits - Clarification Memorandums to DCAA”  
dated January 23, 1997
  
- 13 Office of Inspector General’s audit reports on Federal Aid grants to the States and Territories.



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**ANNOUNCEMENT LETTER**

USE APPROPRIATE LETTERHEAD

Month xx, 200X

Mr./Ms. \_\_\_\_\_  
State Department of Wildlife and Fisheries \_\_\_\_\_  
Street Address \_\_\_\_\_  
City, State Zip Code \_\_\_\_\_

Mr./Ms. \_\_\_\_\_ :

The U.S. Fish and Wildlife Service (FWS) has requested that we audit the FWS grants to the State [Department of Wildlife and Fisheries](#), for the States fiscal years 200X and 200X+1. The objectives of the audit are to determine whether costs incurred and claimed were reasonable, allocable, and allowable under the laws, regulations, policies, guidelines, and grant provisions of the Federal Aid program. In that regard, the audit will include steps to evaluate:

- The adequacy of the Department's financial management system and related internal controls
- The accuracy and eligibility of the direct and indirect costs incurred and claimed by the Department under the Federal Aid grant agreements with FWS
- The adequacy and reliability of the Department's hunting and fishing license certification
- The accuracy of license fee collections, other program income, and the eligibility of disbursements of license revenues
- Compliance with the Dingell-Johnson Sport Fish Restoration Act, the Pittman-Robertson Wildlife Restoration Act, and the Wildlife and Sport Fish Restoration Program Improvement Act

We will use the Code of Federal Regulations, Federal Aid Handbook, and applicable regulatory guidance to evaluate the State's compliance with established Federal regulatory provisions for the Federal Aid Program.



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In our telephone conversation with [\(Name\)](#), we scheduled an entrance conference for [Date and Time](#). Ms. [Y Auditor](#) is the audit Team Leader and will be assisted by two auditors and an EDP auditor. In order to expedite our review and facilitate future discussions, we request the following information be made available to our auditors as soon as possible and at least 45 days prior to the entrance conference:

1. All audit reports and other State reviews related to the Department's financial management systems and the State's Federal Aid programs for the State's last five fiscal years, excluding Single Audits and the prior Federal Aid audit
2. Written policies and procedures for the State's management and accounting systems as they relate to the Department
3. State laws for assent legislation and any new legislation related to fish and wildlife or the State's fish and wildlife Department enacted during the last five years
4. State regulations and Department policy and procedures for FWS programs
5. An organizational chart and list of all full and part-time employees of the Department, indicating those employees charging time to Federal Aid grants
6. Department's Financial Chart of Accounts
7. List of all grants open for any time during the period under review, cost budget, and total expenditures (State and Federal) by fiscal year for each grant by cost element (Labor, Materials, Equipment, Other Direct and Indirect Costs)
8. Description of the State's methods of accounting for the following types of income:
  - a. License Revenue (Fishing and Hunting)
  - b. Program Income (for example, timber sales or grazing fees)
  - c. Interest Income from trust funds and license revenue funds
  - d. Sale of Assets acquired with license revenue and Federal Aid funds
  - e. Publications
  - f. Any other Income
9. The State's license certifications to the FWS for the most recent two fiscal years



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10. Description of supporting documentation for the State's method of accounting for the source of funds for the Department
11. Inventory list of all lands purchased with Federal Aid funds and license revenues, no matter when acquired, identified by year and fund source.
12. List of all Federal Aid and license revenue land exchanged, transferred or sold during the last five years
13. Inventory list of all equipment, no matter when acquired, purchased with Federal Aid funds and license revenues, identified by year and fund source
14. Information regarding what source/supporting documents are maintained in the accounting system for grant expenditures, including Matching and In-Kind contributions
15. Total Federal Aid reimbursements by grant, total license revenue collected, and the associated accounts and copies of License Certification forms 3-154a and 3-154b
16. Written policies and procedures for the security of the Department's Information Technology systems
17. All Information Technology related audit reports pertaining to the Department's financial management systems and general support systems
18. Information Technology point of contact

Where appropriate and possible, data should be in electronic format (Word, Excel, Access, or ASCII delimited or flat files). For data files, we will also need a description of the file record layout for accounting records, the description of code fields and contents, size of records and record definitions.

Please send the data and documents requested to:

Ms. [Y Auditor](#)  
U.S. Department of the Interior  
Office of Inspector General  
Street Suite 123  
City, State Zip  
Fax No. xxx-xxx-xxxx  
Email at: [FirstName\\_LastName@oig.doi.gov](mailto:FirstName_LastName@oig.doi.gov)



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To perform the audit, we will need: (1) facilities to accommodate four auditors, (2) access to telephone, copier, printer, and fax machines, and (3) a data line for our computers.

We understand that (Name) will be the liaison between our auditors and your Department. If you have any questions regarding this letter, please contact me at (303) xxx-xxxx or Ms. Auditor at (703) xxx-xxxx.

If you have any questions regarding this letter, please contact me at (703) xxx-xxxx.

Sincerely,

Director of External Audits



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**NOTICE OF POTENTIAL FINDING AND RECOMMENDATION  
STATE OF \_\_\_\_\_**

NPR No. \_\_\_\_\_  
DATE \_\_\_\_\_

FINDING AREA:

CONDITION:

CRITERIA:

CAUSE:

EFFECT:

RECOMMENDATION:

AUDITEE RESPONSE:

\_\_\_\_ Management concurs with the Notification of Finding and Recommendation.

\_\_\_\_ Management does not concur with the Notification of Finding and Recommendation.

Please indicate your response in the space provided above or as an attachment within one week from the date of this notification. Your written response will be considered when preparing the audit report that will be sent to the U.S. Fish and Wildlife Service.

\_\_\_\_\_  
OIG Representative

\_\_\_\_\_  
Division of Wildlife Approving Official

\_\_\_\_\_  
Date Provided to Division

\_\_\_\_\_  
Title of Approving Official



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Month xx, 200x

**[DRAFT AUDIT REPORT]**

Memorandum

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

From: \_\_\_\_\_  
Assistant Inspector General for Audits

Subject: Draft Audit Report on Costs Claimed by the State of [State Name], [State Fish and Game Agency Name], under Federal Aid Grants from the U.S. Fish and Wildlife Service from [Month xx, 200x to Month xx, 200x]

**Introduction**

This section of the report explains what was audited and the audit period.

**Background and Scope**

This section of the report describes some of the principal reasons and/or criteria for performing the audit and a statement that the audit was performed in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. In addition, we identify the name(s) of the organization audited and the location(s) where the audit was performed (If the locations were extensive, then the audit sites should be listed in Appendix 2).

**Prior Audit Coverage**

In this section, we discuss relevant prior audit coverage that was performed by our Office and other audit agencies.



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**APPENDIX 6**

**Results of Audit**

A brief description of the audit finding(s) appears here.

**A. Questioned Costs**

Identification of any amounts questioned [\$xx million] of the amount claimed [\$xx million] by the State. Discussion of the Condition, Criteria, Cause, and Effect.

**Recommendation**

A recommendation to remedy the cause of the finding. Usually these can include recommendations to “Resolve, Ensure, Require, or Consult.”

**B. Additional Finding(s)**

A discussion of issues such as compliance or diversion of income. Include the Condition, Criteria, Cause, and Effect.

**Recommendation**

A recommendation to remedy the cause of the finding. Usually these can include recommendations to “Resolve, Ensure, Require, or Consult.”

A statement requesting a response to the report in accordance with the Departmental Manual (360 DM 5.3) and a due date for the response should be included after the last recommendation.

cc: Regional Director, [Region X]  
U.S. Fish and Wildlife Service



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**[Report] APPENDIX 1**

**STATE OF**

**FINANCIAL SUMMARY OF REVIEW COVERAGE**

Provide a schedule of the grants reviewed and generally include the grant number, grant amount, costs claimed, questioned costs, and Federal share of questioned costs.

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**[Report] APPENDIX 2**

**SITES VISITED**

List the name and location of all sites visited or contacted.

