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We have completed an audit of the Department of Wildlife. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Department's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Department of Wildlife for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

November 29, 2006
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF WILDLIFE

AUDIT REPORT

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EXECUTIVE SUMMARY

DEPARTMENT OF WILDLIFE

Background

The Nevada Department of Wildlife (NDOW) is responsible for preserving, protecting, managing, enhancing, and restoring wildlife and its habitat within the state. NDOW provides Nevada's citizens aesthetic, scientific, educational, recreational, and economic benefits of wildlife. The Board of Wildlife Commissioners is appointed by the Governor and consists of nine members. The Board is responsible for establishing policy, setting annual and permanent regulations, reviewing budgets, and receiving input from the 17 county advisory boards.

The Department consists of seven bureaus: Administrative Services, Conservation Education, Fisheries, Game, Habitat, Law Enforcement, and Wildlife Diversity. As of June 30, 2005, NDOW had 236 authorized positions and offices located in Reno, Las Vegas, Fallon, Henderson, Winnemucca, and Elko. The Department is funded primarily through fees and federal grants. In the 2003 Legislative Session, NDOW was authorized fee increases for certain licenses and tags. However, the impact of the fee increases was not fully realized until fiscal year 2005. As a result, NDOW went from operating deficits in fiscal years 2002 through 2004 to approximately a \$2.1 million operating surplus in fiscal year 2005. Although revenues have increased, license unit sales have been decreasing. In addition to declining license sales, Department records indicate more hunters are competing for fewer game tags.

NDOW receives most of its federal funding from three grants issued by the United States Fish and Wildlife Service (USFWS). Two of these, the Pittman-Robertson and Dingell-Johnson/Wallop-Breaux Amendment grants, are funded from excise taxes on hunting and fishing equipment while the State Wildlife Grant program is funded from federal appropriations. Grant funds are allocated to the states based on formulas that include such state specific information as land and water area, number of licenses issued, and population. The usual state match requirement

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is 25%; that is, the USFWS reimburses NDOW up to 75% of all allowable project costs.

Purpose

This audit focused on revenues and expenditures for fiscal year 2000 through fiscal year 2005, with detailed testing of certain fiscal year 2004 and 2005 revenues and expenditures, and as of June 30, 2006, for grant monitoring issues. The objective of our audit was to evaluate NDOW's financial administrative practices including the correlation of revenues and program expenditures; and the adequacy of controls over restricted revenues and certain expenditures.

Results in Brief

Additional procedures are needed to ensure federal funds are maximized and grant expenditures are properly controlled. We estimate NDOW could have collected approximately \$1.6 million in additional federal receipts during fiscal years 2004 and 2005. This loss of revenue can be attributed to an inefficient and incomplete grant monitoring system. Without accurate and timely information, program managers cannot ensure grant expenditures are within the approved budget or all applicable expenditures are reimbursed.

Procedures are also needed to ensure restricted funds are properly controlled. First, controls did not ensure expenditures funded with restricted revenue were in accordance with state law. Since fiscal year 2000, expenditures totaling approximately \$800,000 have been inappropriately funded with restricted revenues. Second, the Department has not implemented sufficient procedures to ensure disbursements from the game draw account are appropriate. The game draw account is used to reimburse

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unsuccessful tag applicants and is administered by the game draw contractor.

Principal Findings

- Although it has been the Department's policy to include indirect costs in expenditures charged to federal grants, these costs were not charged in fiscal year 2004. Consequently, indirect costs were not included in fiscal year 2004 grant budgets and costs totaling more than \$1.2 million were not reimbursed. Indirect costs are central administration expenses that have not been claimed as direct program expenses. Reimbursements for these costs will not reduce direct program expenditures whenever USFWS grants have sufficient unspent or unobligated funding authority. (page 17)
- The Department reinstated its policy of charging indirect costs in October 2004. As a result, indirect cost reimbursements totaled approximately \$1.3 million in fiscal year 2005. However, not all USFWS grants were amended to include indirect costs. Therefore, indirect costs totaling more than \$210,000 were not reimbursed. (page 17)
- The Department's system to monitor grant expenditures is cumbersome and lacks key information. NDOW has three main sources that provide fundamental grant management information: the Delegation of Expenditure Authority (DEA), the Cost Accounting System (CAS), and the Grant Status Report (GSR). However, we noted weaknesses impacting the timeliness, completeness, and accuracy of grant information in each. NDOW has recognized the need for a new system since one of the objectives in its strategic plan is to implement a new grant management and reporting system by 2006. Although some steps have been taken, the

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Department has yet to achieve this objective. (page 18)

- The DEA is an in-house budget document which provides detailed program budget information for each bureau and is intended to be used by program managers to track budget to actual costs. However, the DEA is not useful as a budget monitoring tool because it is not complete, accurate, or timely. For instance, it did not include budgeted revenues or payroll, and the fiscal year 2006 report was not distributed to program managers until February 2006, 8 months after the year began. As a result, program managers expressed frustrations with the late distribution and have developed their own tracking systems. (page 18)
- The CAS, an antiquated system developed more than 20 years ago to meet federal reporting requirements, is cumbersome and inefficient. Employees must complete two time sheets, one for the state payroll system and one for CAS. In addition, fiscal staff must input expenditure transactions twice, once in the state's accounting system and then in CAS. Finally, extensive supporting schedules must be prepared in order to reconcile CAS transactions to the state's accounting system. Because of these time-consuming procedures the reports are usually 2 months old when issued to program managers. (page 19)
- Agency officials identified the GSR as a primary tool for grant monitoring. The GSR is an accounting report that tracks grant draws and award balances. However, the GSR is not timely since it is dependent on information recorded in CAS. Further, it does not contain pertinent grant information needed for effective grant administration such as the total amounts obligated and the unobligated balances of the grant funding sources, the actual in-kind costs charged to a grant, and accurate grant award

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balances. This information is needed if it becomes necessary to amend a grant award. (page 20)

- In addition to not recovering indirect costs, NDOW's inadequate grant monitoring system has resulted in grant costs exceeding budgets; allowable costs that were not submitted for reimbursement; and untimely monitoring. As a result, grant expenditures totaling more than \$441,000 were not reimbursed during fiscal years 2004 and 2005. Approximately \$152,000 of these expenditures could have been reimbursed with better oversight. The remaining expenditures could not be reimbursed since the grants were capped and the budgets exceeded. For instance, in fiscal year 2005, the Hunter Education program exceeded the total budget by more than \$209,000. Direct labor costs were nearly \$265,000, but were not budgeted in the DEA and CAS. Because this grant was capped and exceeded the budget, NDOW was not able to recover nearly \$77,000 of direct costs and \$80,000 of indirect costs. (page 21)
- The Department does not have a comprehensive process to track federal apportionment balances necessary to ensure federal funds are maximized. Apportionments are NDOW's annual allocation of grant funds by the USFWS. We found the amount of USFWS grant apportionments that are not obligated is increasing. NDOW's total unobligated apportionment balance grew from about \$2.6 million at the end of federal fiscal year 2001 to more than \$10.6 million at June 30, 2006. Because most of the USFWS annual apportionments must be obligated within 2 years, NDOW risks losing some of its available apportionments as the unobligated balances increase. (page 21)
- NDOW maintains separate accounting records for various revenues that must be recorded in the Wildlife Obligated Reserve Account. Although the use of these funds is restricted for specific projects, they have been inappropriately used to fund more than

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\$536,000 of Water Development program expenditures since fiscal year 2000. The Water Development program is responsible for the construction, maintenance, and repair of watering devices known as guzzlers. According to Department officials, donations and federal grants are the funding sources for the Water Development program. However, the Department's records indicate the only funding source has been federal grants. Consequently, funds from other restricted programs have been used to cover the deficit. (page 24)

- Certain direct expenses, such as payroll and vehicle expenses, and indirect grant program expenses for projects recorded in the Wildlife Obligated Reserve Account are charged to the Wildlife Account. Therefore, funds are transferred from the Obligated Reserve Account to reimburse the Wildlife Account. However, these transfers have not agreed with the actual expenditures recorded in the Wildlife Account since fiscal year 2000. As of June 30, 2005, transfers exceeded expenditures by about \$280,000. Since funds deposited in the Wildlife Obligated Reserve Account are restricted to certain projects, transfers should not exceed actual expenditures. (page 26)
- In our prior audit, we noted the game draw bank account was not properly controlled. The game draw account is used to reimburse unsuccessful tag applicants and is administered by the game draw contractor. Although the Department has improved its oversight of the game draw account, it has not ensured the account is properly reconciled on a monthly basis. As a result, there is an increased risk the funds deposited in the account are not adequately safeguarded. (page 27)

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Recommendations

This audit contains nine recommendations to improve the Department's grant monitoring process and controls over restricted funds. Specifically, the Department needs to develop and implement a comprehensive system for grant administration that helps ensure all allowable costs are reimbursed and expenditures are within approved budgets. Additional procedures are also needed to ensure expenditures from restricted revenues are in compliance with state law and the game draw bank account is properly reconciled. (page 49)

Agency Response

The Department, in response to our audit report, accepted the nine recommendations. (page 43)

Introduction

Background

The Nevada Department of Wildlife (NDOW) is responsible for preserving, protecting, managing, enhancing, and restoring wildlife and its habitat within the State. NDOW provides Nevada's citizens aesthetic, scientific, educational, recreational, and economic benefits of wildlife. The Board of Wildlife Commissioners is appointed by the Governor and consists of nine members. The Board is responsible for establishing policy, setting annual and permanent regulations, reviewing budgets, and receiving input from the 17 county advisory boards. Also, the Board is responsible for submitting to the Governor at least three names for consideration when the director's position is vacant. The Governor is the appointing authority for the director of NDOW.

The Department consists of seven bureaus:

- **Administrative Services Bureau:** is responsible for the business affairs of the Department; management of the customer service programs that include licensing, boat titling and registration, application hunts, special licenses and permits; fiscal, accounting, grants management, and human resources functions; engineering services; computer and networking services; and statewide building maintenance.
- **Conservation Education Bureau:** works to promote NDOW programs and initiatives and educate the public about state wildlife and boating rules and regulations, as well as other wildlife, habitat, and fishing issues. The Bureau also strives to involve students, teachers, and the public through hunter, angler, and wildlife education programs. Additionally, the Bureau has developed a volunteer program to provide the public a hands-on way to get involved in projects like seed gathering or fish stocking.
- **Fisheries Bureau:** works to ensure the health and vitality of Nevada's fish in its network of streams, rivers, lakes, and reservoirs. Hatcheries produce and stock fish, and biologists manage fish and amphibian populations, water quality, and aquatic habitat.
- **Game Bureau:** is responsible for management, protection, research and monitoring of wildlife classified as game mammals, upland and migratory game birds, and furbearing mammals. The Bureau has four program areas: avian and terrestrial game species management, game wildlife/depredation control and compensation, predator management, and wildlife health and disease monitoring. The Bureau is also responsible for oversight of the agency's Air Operations Program.

- **Habitat Bureau:** its main objective is to ensure that Nevada wildlife habitats are productive and in good ecological condition. The Bureau is responsible for reviewing, assessing, and providing comments on all proposed land and water uses; and providing fish and wildlife data to all entities for planning and decision-making purposes. The Habitat Bureau is also responsible for planning, operating, and maintaining approximately 120,000 acres of state-owned lands administered as Wildlife Management Areas, and administering the water development, rangeland, and wildfire rehabilitation efforts. Additionally, the Bureau has regulatory responsibility for Industrial Artificial Pond permitting.
- **Law Enforcement Bureau:** is responsible for protecting Nevada's wildlife resources and ensuring the safety of the boating public, which includes enforcing the provisions of Nevada Revised Statutes and all other regulations that affect wildlife issues. Support activities of this Bureau include implementing Operation Game Thief, and providing warden training, public assistance, and radio communications. The Law Enforcement Bureau is committed to maximizing voluntary compliance by providing information at boat shows, county fairs, hunter education indoctrinations, boat ramp inspections, and by assisting in the production of clear and understandable regulation brochures.
- **Wildlife Diversity Bureau:** focuses on the non-game resources of the State. It has been the responsibility of the Bureau to compile data on the abundance and distribution of many of the less well-known wildlife species of Nevada. In addition, the Biodiversity Section houses the Department's Geographic Information System (GIS). GIS is a new and rapidly emerging technology that provides the Department with an extremely powerful tool with which to analyze wildlife and their habitat.

Staffing and Budget

As of June 30, 2005, NDOW had 236 authorized positions with offices located in Reno, Las Vegas, Fallon, Henderson, Winnemucca, and Elko. The Department is funded primarily through fees and federal grants. In addition, NDOW receives a General Fund appropriation. In fiscal year 2005, the appropriation was approximately \$693,000. However, it was increased to almost \$1.3 million and \$1.2 million for fiscal years 2006 and 2007, respectively. Exhibit 1 shows the Department's fiscal year 2005 revenue by source.¹

¹ See Appendix C for revenue by source for fiscal years 2000 through 2005.

**Revenue by Source
Fiscal Year 2005**

Revenue	FY 05
Appropriations	\$ 692,730
Fees	12,613,076
Federal Grants	10,649,054
Fuel Tax	1,512,592
Transfers	4,025,069
Miscellaneous ⁽¹⁾	1,711,221
Bonds	14,243,244
Total	\$45,446,986
Less Intra-department Transfers	(3,588,183)
Net Revenue	\$41,858,803
Less Bonds and Capital Acquisition Funds	(15,223,278)
Net Operating Revenue	\$26,635,525

Source: State accounting system.

⁽¹⁾ Includes assessments, gifts and donations, interest, and other miscellaneous income.

The Department has seven budget accounts, six for program operations, and one for capital improvements. However, these budget accounts are not structured by bureau. NRS requires nearly all NDOW receipts be deposited in the Wildlife Account. As such, all payroll and most operating costs for each bureau are recorded in this account. Exhibit 2 shows the total expenditures by budget account for fiscal year 2005 and Appendix D shows the same for fiscal years 2000 through 2005.

Exhibit 2**Expenditures by Budget Account
Fiscal Year 2005**

Budget Account	FY 05
Wildlife Account	\$21,193,413
Trout Management	7,925,686
Boating	4,651,987
Obligated Reserve	1,899,584
CIP Wildlife Department	999,190
Wildlife Heritage	48,439
Habitat Mitigation	44,953
Total	\$36,763,252
Less Intra-department Transfers	(3,588,183)
Net Expenditures	\$33,175,069
Less Capital Acquisitions	
CIP Wildlife Department	(999,190)
Trout Management	(7,641,557)
Net Operating Expenditures	\$24,534,322

Source: State accounting system.

Because the Department's budget accounts do not provide sufficient detail to identify expenditures by program, these expenditures are recorded in an internal accounting system. Exhibit 3 shows the total expenditures by program for fiscal years 2003 through 2005.

Exhibit 3**Program Expenditures
Fiscal Years 2003 Through 2005**

Program	FY 03	FY 04	FY 05
Fisheries	\$ 4,401,988	\$ 4,310,897	\$11,259,098 ⁽¹⁾
Habitat	3,128,584	4,234,236	4,148,375
Boating	4,981,399	4,134,021	3,927,342
Game	2,994,252	3,224,077	3,112,576
Administration	3,236,673	3,667,323	3,047,430
Law Enforcement	2,352,539	2,168,030	2,490,595
Conservation Education	1,400,963	1,610,650	1,787,989
Wildlife Diversity	801,965	984,541	1,683,875
Application Hunt	749,715	806,952	975,463
Licensing	1,103,320	838,779	742,326
Total	\$25,151,398	\$25,979,506	\$33,175,069⁽¹⁾

Source: NDOW accounting records.

⁽¹⁾ The increase in fiscal year 2005 is due to major construction projects for fisheries.

In 2003 the Legislature authorized fee increases for certain licenses and tags. The impact of the fee increases was fully realized in fiscal year 2005. As seen in

Exhibit 4, NDOW had operating deficits from fiscal years 2002 through 2004. But, in 2005 the Agency had operating income of \$2.1 million.

Exhibit 4

**Operating Revenue and Expenditures
Fiscal Years 2000 Through 2005**

	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Net Operating Revenue	\$21,392,302	\$23,652,559	\$22,116,768	\$23,169,058	\$23,779,613	\$26,635,525
Net Operating Expenditures	(19,559,970)	(22,346,082)	(22,840,882)	(23,926,825)	(24,452,966)	(24,534,322)
Net Operating Income/(Deficit)	\$ 1,832,332	\$ 1,306,477	\$ (724,114)	\$ (757,767)	\$ (673,353)	\$ 2,101,203

Source: State accounting system.

License and Tag Sales

Although revenues increased in fiscal year 2005, total license unit sales have been decreasing. This decrease is the result of diminishing fishing license sales. According to Department officials, several years of drought have impacted these sales. Exhibit 5 shows the number of hunting and fishing licenses sold during license years 2000 through 2005.²

Exhibit 5

**Number of Hunting and Fishing Licenses Sold
License Years 2000 Through 2005**

Description	2000	2001	2002	2003	2004	2005	2000–2005 % Change
Hunting	27,686	27,366	27,994	29,663	30,845	31,346	13.2%
Fishing	129,743	123,206	114,073	102,503	95,324	89,831	-30.8%
Combination	32,375	33,347	33,523	33,267	31,214	27,768	-14.2%
Total Licenses	189,804	183,919	175,590	165,433	157,383	148,945	-21.5%

Source: NDOW accounting records.

Note: License year is March 1 through the last day of February. Totals do not include licenses issued at no charge.

In addition to declining license sales, Department records indicate more hunters are competing for fewer game tags. Exhibit 6 shows the number of tag applications and tags issued from hunt years 1999 through 2004, and Appendix F shows the same data by type of tag.

² Appendix E shows detailed information on the types of hunting and fishing licenses and stamps issued during the same period.

Exhibit 6

Hunting Applications and Tags Issued Hunt Years 1999 Through 2004

Description	1999	2000	2001	2002	2003	2004	1999–2004 % Change
Resident Tag Applications	75,474	76,438	76,904	82,341	84,064	93,096	23.3%
Nonresident Tag Applications	18,981	20,123	19,247	25,678	28,541	31,811	67.6%
Total Tag Applications	94,455	96,561	96,151	108,019	112,605	124,907	32.2%
Resident Tags	25,622	28,297	24,830	20,075	18,226	18,975	-25.9%
Nonresident Tags	2,245	2,416	2,036	1,720	1,515	1,642	-26.9%
Total Tags Issued	27,867	30,713	26,866	21,795	19,741	20,617	-26.0%

Source: NDOW accounting records.

Note: Hunt year is based on the calendar year. Amounts shown do not include Partnership in Wildlife applications and tags, or mountain lion tags.

USFWS Grants

NDOW receives most of its federal funding from three grants issued by the United States Fish and Wildlife Service (USFWS). Two of these, Pittman-Robertson and Dingell-Johnson/Wallop-Breaux Amendment, are funded from excise taxes on hunting and fishing equipment. The third, the State Wildlife Grant, is funded from federal appropriations. Grant funds are allocated to the states based on formulas that include such state specific information as land and water area, number of licenses issued, and population. The usual state match requirement is 25%; that is, the USFWS reimburses NDOW up to 75% of all allowable project costs.

Grant Process

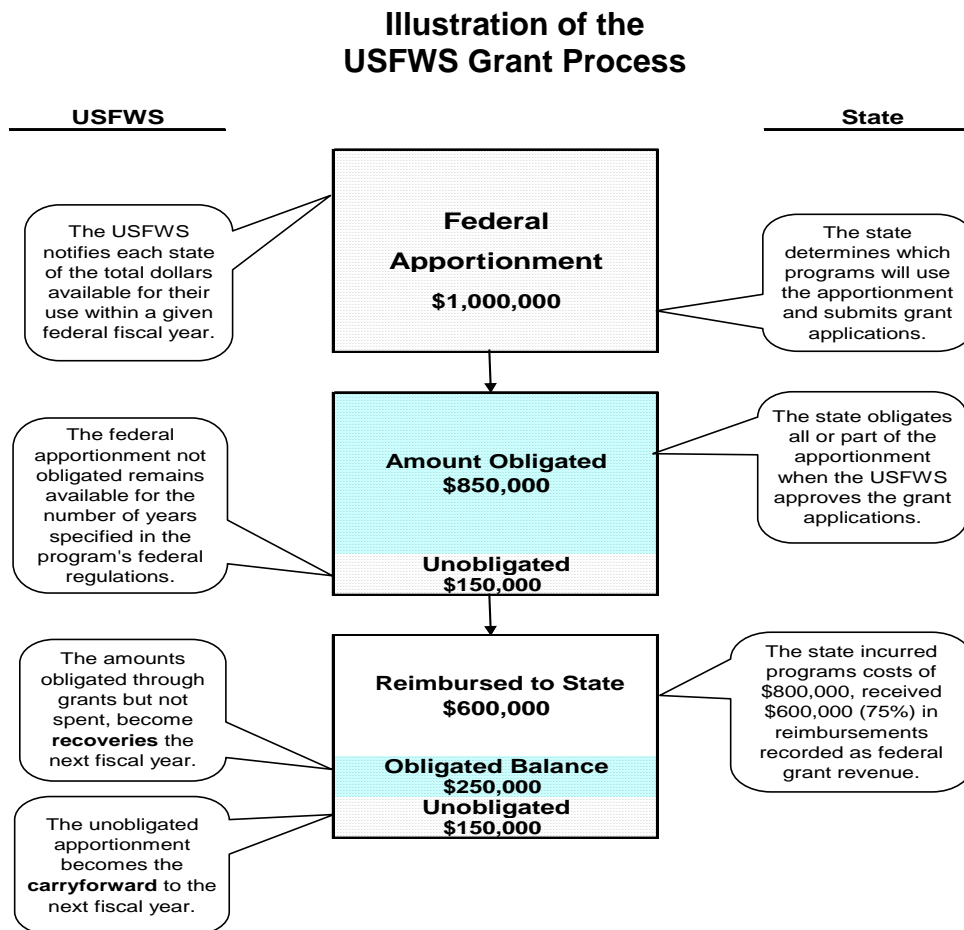
The process to identify and track the USFWS grant dollars is complex. Key procedures involve identifying total funds available, submitting grant project proposals, processing reimbursements for program costs, and tracking remaining funds. To begin the process, the USFWS allocates funds to the states on an annual basis. This allocation is called an apportionment.³ The USFWS notifies the Department of its preliminary apportionment around October and the final apportionment is usually issued by March. After receiving notification of the preliminary apportionment which is approximately 60% of the total, the Department submits grant applications to the USFWS. When an application is accepted the award amount is charged against the

³ See Appendix G for a glossary of federal aid terms.

apportionment and identified as obligated funds. Since most USFWS programs allow states 2 years to obligate their apportionment, any unobligated amount is carried forward to the next year. However, at the end of the allowable obligation period, any remaining or unobligated allocation reverts to the USFWS.

For illustration purposes, Exhibit 7 shows how funds pass through the grant process if a state received a \$1 million apportionment, of which \$850,000 was obligated through grant awards, and \$600,000 was reimbursed for programs expenditures.

Exhibit 7



In the above example, the \$150,000 unobligated balance will be carried forward to the next year. Furthermore, the \$250,000 obligated balance can be used the following year as a recovery. Exhibit 8 illustrates the grant process when these funds are carried forward to the next year and the state received another \$1 million apportionment and obligated \$950,000.

**Illustration of the
Federal Funds Balance Forward Process**

	Year 1	Year 2
Carry Forward From Prior Year	\$ 0	\$ 150,000
Apportionment and Recoveries	1,000,000	1,250,000*
Total Funding Available	1,000,000	1,400,000
Less Amount Obligated	850,000	950,000
Unobligated Apportionment	\$ 150,000	\$ 450,000

*Note: The Obligated Balance of \$250,000 in Exhibit 7 is added to the \$1 million Apportionment in Year 2 for a total of \$1,250,000.

Although Exhibit 8 shows the state obligated \$100,000 more in year 2, the unobligated apportionment increased to \$450,000 (300%) because of the carry forward and recoveries. Therefore, it is essential for states to closely monitor their apportionment and obligated funds to reduce the risk of reverting federal allocations.

Scope and Objective

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature’s oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit focused on license and fee revenues and expenditures for fiscal years 2000 through 2005, with detailed testing of certain fiscal year 2004 and 2005 revenues and expenditures, and as of June 30, 2006, for grant monitoring issues. The objective of our audit was to evaluate NDOW’s financial administrative practices including the correlation of revenues and program expenditures; and the adequacy of controls over restricted revenues and certain expenditures.

Findings and Recommendations

Additional Monitoring Procedures Will Help Maximize Federal Funds and Control Costs

Additional procedures are needed to ensure federal funds are maximized and grant expenditures are properly controlled. We estimate NDOW could have collected approximately \$1.6 million in additional federal receipts during fiscal years 2004 and 2005. This loss of revenue can be attributed to an inefficient and incomplete grant monitoring system. Without accurate and timely information, program managers cannot ensure grant expenditures are within the approved budget or all applicable expenditures are reimbursed.

Indirect Costs Were Not Always Reimbursed

Although it has been the Department's policy to include indirect costs in expenditures charged to federal grants, these costs were not charged in fiscal year 2004. Furthermore, grant monitoring procedures did not ensure all fiscal year 2005 grants were charged indirect costs. As a result, the Department lost more than \$1.4 million in federal reimbursements from July 1, 2003, through June 30, 2005.

Indirect costs that can be charged to a federal grant include central administration expenses that have not been claimed as direct program expenses. For fiscal years 2004 and 2005, NDOW's approved indirect cost rates were 19.69% and 23.48%, respectively. The indirect cost rate can be applied to most direct expenses charged to a grant. For example, if a fiscal year 2005 grant had \$1.2 million of allowable direct expenditures, NDOW would be reimbursed \$211,320 if the grant had a 75% federal share as shown in the following illustration:

Allowable Expenditures	X	Indirect Cost Rate	=	Total Indirect Costs	X	Federal Share	=	Total Reimbursement
\$1,200,000		23.48%		\$281,760		75%		\$211,320

Therefore, the Department can maximize its federal reimbursements by ensuring indirect costs are charged whenever possible. Furthermore, indirect cost

reimbursement will not reduce direct program expenditures whenever USFWS grants have sufficient unspent or unobligated funding authority.

Indirect Cost Assessments Discontinued in Fiscal Year 2004

According to Department personnel, federal grants have been charged indirect costs since the mid 1990's. However management discontinued the practice in July 2003. Consequently, indirect costs were not included in fiscal year 2004 grant budgets and costs totaling more than \$1.2 million were not reimbursed. Our analysis of these indirect costs indicated the following:

- Several grants had sufficient funding available to collect nearly \$750,000.
- NDOW could have collected about \$486,000 by amending grants that had unobligated funds.

Exhibit 9 shows the Department would have had net operating income instead of a loss in fiscal year 2004 if expenditures remained the same and these indirect costs were reimbursed.

Exhibit 9

**Net Operating Income
Adjusted For Indirect Costs Not Collected
Fiscal Year 2004**

Operating Revenue	\$23,800,000
Operating Expenditures	(24,500,000)
Net Income/(Loss)	(700,000)
Indirect Cost Adjustment	1,200,000
Adjusted Income	\$ 500,000

Source: State accounting records and auditor's analysis.

Discussions with USFWS officials confirmed these indirect costs could have been reimbursed if NDOW would have taken corrective action prior to closing the grants. Since these grants were closed prior to our discussions, the indirect costs can not be recovered.

Indirect Cost Policy Partially Reinstated in Fiscal Year 2005

The Department reinstated its policy of charging indirect costs in October 2004 when 10 grants were amended to include these costs. As a result, indirect cost reimbursements totaled approximately \$1.3 million in fiscal year 2005. However, not all USFWS grants were amended to include indirect costs. Our analysis of the grants that

were not charged indirect costs indicated more than \$210,000 could have been collected by either amending the grant or utilizing unspent grant funds.

A sound grant monitoring process includes procedures that ensure federal revenues are maximized when funds have not been spent or obligated. Because the USFWS reimburses NDOW up to 75% for costs incurred, it is essential indirect costs are charged since these costs are incurred during the year. Maximizing federal reimbursements can also have a positive effect on the subsequent year's program expenditures. For every \$100,000 of additional funds carried forward, the federal portion of grant expenditures can be increased by as much as \$300,000.

Grant Monitoring System Is Cumbersome and Lacks Key Information

The Department's system to monitor grant expenditures is cumbersome and lacks key information. NDOW has three main sources that provide fundamental grant management information: the Delegation of Expenditure Authority (DEA), the Cost Accounting System (CAS), and the Grant Status Report (GSR). However, we noted weaknesses impacting the timeliness, completeness, and accuracy of grant information in each. Consequently, some grants exceeded their approved budgets while others did not recapture all applicable costs. Furthermore, the risk of losing federal grant allocations increases with the lack of comprehensive information.

Federal regulations require accurate, current, and complete disclosure of grant program financial results and overall grant balances. Furthermore, NDOW has recognized the need for a new comprehensive grant management and reporting system. In March 2004, the Department issued its strategic plan that included an objective to implement a grant management and reporting system by 2006. Although some steps have been taken, the Department has yet to achieve this objective.

Delegation of Expenditure Authority

The DEA is an in-house budget document, based on the Legislatively Approved Budget. The DEA provides detailed program budget information for each bureau; is broken down to project components by location; and is intended to be used by program managers to track budget to actual costs. However, the DEA is not useful as a budget monitoring tool because it is not complete, accurate, or timely. We found the DEA:

- did not include budgeted revenues or budgeted payroll;

- was not always revised for changes of grant revenues;
- did not agree to grant awards; and
- was not distributed timely. For instance, the fiscal year 2006 report was not distributed to program managers until February 2006, 8 months after the year began.

Because of these shortcomings, managers cannot use this document to perform grant monitoring tasks. For example, payroll costs cannot be compared to the budget and because budgeted expenditures are not always revised for changes to projected revenues, managers do not have sufficient information to cut or increase spending. Further, bureau chiefs and program managers we interviewed expressed frustrations with the late distribution of the DEA and developed their own tracking systems.

Cost Accounting System

NDOW's cost accounting system, designed to meet federal reporting requirements, is cumbersome and inefficient. The CAS is an antiquated stand-alone system developed more than 20 years ago. For example:

- staff must input expenditure transactions twice, once in the state's accounting system and then in CAS;
- employees must complete two time sheets, one for the state payroll and one for CAS that is input at an off-site location;
- extensive supporting schedules must be prepared in order to reconcile to the states accounting system; and
- detailed analysis of the system's data is conducted before requesting a printed report from the Department of Information Technology.

Because of these time-consuming procedures the reports are usually 2 months old when issued to program managers. We asked five program managers about the usefulness of CAS. Four stated they use it for estimates and reasonableness of recorded costs and one said it was not used. Consequently, program managers have had to develop their own unique cost monitoring systems.

In 2005, NDOW took steps to convert the CAS to the state's accounting system but was unable to complete the project. Although the Department expects to complete this conversion in fiscal year 2007, the agency must use CAS until that time.

Grant Status Report

Agency officials identified the GSR as a primary tool for grant monitoring. However, the GSR, an accounting report of grant draws and award balances, has shortcomings when used as a tool for grant program administration. We interviewed nine program managers about the usefulness of the GSR as a grant monitoring tool. Only one manager used it as a guideline, the others did not find it useful.

The GSR is used by fiscal staff to prepare the federal financial status reports. It itemizes grant reimbursements and lists summary totals of grant expenditures contained in CAS, program income, in-kind volunteer costs, and expenses in excess of the federal award. Using CAS, fiscal staff update the GSR expenditures and fund balances for federal reimbursements and distribute the report to bureau chiefs monthly. However, the GSR does not contain pertinent grant information needed for effective grant administration such as:

- Timely cost information. Because the GSR is dependent on the CAS, the information is usually 2 months late.
- The total amounts obligated and the unobligated balance of the USFWS funding sources. This information is needed if it becomes necessary to amend a grant award.
- The actual in-kind costs charged to a grant. In-kind costs include volunteer hours, that for certain federal programs, are allowable as the state expenditure match. However, the amounts reported did not always reflect the total in-kind costs. Full disclosure of these costs will help with management decisions and reallocation of state funds.
- Accurate grant award balance. For instance, the final fiscal year 2005 report incorrectly showed that nearly \$510,000 of federal funds for five grants was available at year end. However, we found that these grants were closed on January 11, 2005, thus the remaining funds were no longer available.

Because of these problems, agency officials and program managers made key financial decisions based on inadequate information.

Payroll Costs Not Budgeted

In fiscal year 2005, payroll was 61% of operating costs, but was not budgeted in the DEA, CAS, or distinguished on the GSR. All the Department's payroll costs are recorded in one budget account and it is not distributed by bureau. Further, although the CAS has the capability of comparing budget to actual costs for the grant programs, payroll budget information is not recorded in this system. As a result, budget control for

payroll costs is not available. Program managers expressed the need to have payroll costs budgeted in order to better administer the programs.

Inadequate System Has Resulted in Excessive and Unclaimed Costs

NDOW's inadequate grant monitoring system has resulted in grant costs exceeding budgets, allowable costs that were not submitted for reimbursement, and untimely monitoring. As a result, grant expenditures totaling more than \$441,000 were not reimbursed during fiscal years 2004 and 2005. Approximately \$152,000 of these expenditures could have been reimbursed with better oversight. The remaining expenditures could not be reimbursed since the grants were capped and the budgets were exceeded. We examined six grant files and found:

- In fiscal year 2004 the Game Management grant expenditures exceeded the total state and federal budget by over \$258,000, or 18%, because they did not budget indirect costs. Furthermore, NDOW did not seek reimbursement of more than \$105,000 of allowable costs.
- The Statewide Technical Guidance for Wildlife Restoration, a 2-year grant that ended on June 30, 2005, exceeded the total budget by more than \$158,000, or 16%. The program manager reported meetings were held with accounting staff near the end of the grant period to project total costs. Based on information available at the time, staff decided to reduce the grant award. However, because the information was not current, expenditures were greater than expected and NDOW lost nearly \$46,000 of federal reimbursement.
- In fiscal year 2005 the Hunter Education program exceeded the total budget by more than \$209,000, or 52%. Direct labor costs were nearly \$265,000, but were not budgeted in the DEA and CAS. Because this grant was capped and exceeded the budget, NDOW was not able to recover nearly \$77,000 of direct costs and \$80,000 of indirect costs.
- In fiscal year 2005 the Aquatic Education program exceeded the total budget by nearly \$178,000, or 53%. Because the grant was capped and exceeded the budget, NDOW was not able to apply almost \$62,000 in-kind contributions as the state match or recover more than \$71,000 in indirect costs.

Although cost overruns may be necessary in certain instances, a comprehensive grant monitoring system will help ensure program expenditures are within budget and grants are amended to recover unexpected costs.

Federal Apportionment Not Monitored

The Department does not have a comprehensive process to track federal apportionment balances necessary to ensure federal funds are maximized. Apportionments are NDOW's annual allocation of grant funds by the USFWS. We

found the amount of USFWS grant apportionments that are not obligated is increasing. Exhibit 10 shows NDOW's unobligated apportionment balance grew from about \$2.6 million at the end of federal fiscal year 2001 to over \$10.6 million at June 30, 2006. If this trend continues the Department is at risk of losing a portion of available federal allocations.⁴

Exhibit 10

**Federal Apportionment
Balance of Unobligated Funds
Federal Fiscal Years 2001 Through 2006**

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 ⁽¹⁾
Carry Forward From Prior Year	\$ 1,678,925	\$ 2,580,019	\$ 2,386,638	\$ 2,610,921	\$ 3,732,627	\$ 4,424,604
Plus Apportionment and Recoveries	9,403,913	9,776,263	9,645,606	9,206,099	10,019,638	9,996,456
Total Funds Available	\$11,082,838	\$12,356,282	\$12,032,244	\$11,817,020	\$13,752,265	\$14,421,060
Less Amount Obligated	(8,502,819)	(9,969,644)	(9,421,323)	(8,084,393)	(9,327,661)	(3,814,839)
Remaining Unobligated Funds	\$ 2,580,019	\$ 2,386,638	\$ 2,610,921	\$ 3,732,627	\$ 4,424,604	\$10,606,221
Unobligated Funds as a Percent of Total Funds Available	23%	19%	22%	32%	32%	74%

Source: Auditor compiled from federal reports.

Note: Federal fiscal year is October 1 to September 30.

⁽¹⁾ As of June 30, 2006.

In federal fiscal years 2004 and 2005, the unobligated balance was 32% of total funding available. To retain that rate, the Department would need to submit almost \$6 million of grant applications from July 1, 2006, through September 30, 2006. Because most of the USFWS annual apportionments are available for 2 years, NDOW risks losing some of its available apportionments as the unobligated balances increase. Therefore, a comprehensive report of federal apportionment balances is needed for better grants administration. Such information is necessary for planning projects, identifying available grant dollars, and for preparing grants amendments.

⁴ See Appendix H for a detailed analysis of the Federal Fiscal Year 2006 unobligated balances for the three USFWS grant programs.

Absences, Procedures, and Communication Also Impact Grant Monitoring

The effectiveness of NDOW's grant monitoring system was also impacted by the absence of the chief fiscal officer, lack of procedures, and insufficient communication between program and fiscal staff. Prior to fiscal year 2006, the Department had three key financial positions. However, from January 1, 2002, through September 1, 2005, the chief financial officer was on leave over 60% of the time, which was mostly military leave. Consequently, oversight tasks were not always performed and his duties were assigned to other fiscal positions. For example, internal reports monitoring the unobligated apportionment balance were prepared for fiscal years 2002 through 2003, and partially for 2004. However, no subsequent reports were available. To complicate the issue, the chief financial officer retired shortly after fiscal year 2005 and the position was reclassified to a non-financial position.

NDOW also lacks adequate policies and procedures for monitoring grants. While procedures exist for grant proposals and completion of the grant agreement, none were available for monitoring. Although an objective in the Department's strategic plan is to update policies and procedures by 2009, grant monitoring procedures should be a priority. Finally, all of the five program managers interviewed indicated communication with fiscal staff regarding the funding status of grants could be improved. Routine communication between program managers and fiscal managers will enhance grant budget monitoring and federal revenues.

Recommendations

1. Develop procedures to ensure all grants with sufficient funding authority are assessed indirect costs.
2. Develop and implement a comprehensive system for monitoring federal grants that includes budgeted revenues and payroll costs, and the status of the Department's unobligated federal grant apportionments.
3. Continue the cost accounting system conversion process and ensure all reports are produced timely and contain sufficient information for effective grant monitoring.

4. Evaluate fiscal staffing levels to ensure adequate financial expertise exists to complete the Department's strategic plan objective regarding the development and implementation of a comprehensive grant administration system.

Procedures Did Not Ensure Restricted Funds Were Properly Controlled

Additional procedures are needed to ensure restricted funds are properly controlled. First, controls did not ensure expenditures funded with restricted revenue were in accordance with state law. Since fiscal year 2000, expenditures totaling approximately \$800,000 have been inappropriately funded with restricted revenues. Second, the Department has not implemented sufficient procedures to ensure disbursements from the game draw account are appropriate. The game draw account is used to reimburse unsuccessful tag applicants and is administered by the game draw contractor.

Expenditure of Restricted Revenues Did Not Always Comply With NRS

The Wildlife Obligated Reserve Account was established to record the receipt of various funding sources that can only be used for specific projects. Consequently, the Department has developed detailed accounting records to track the receipt and disbursement of these funds. Despite NDOW's efforts to monitor these funds, certain expenditures have not been in accordance with statutory requirements. As a result, these revenues have inappropriately funded the Water Development program and the Wildlife Account.

Restricted Revenues Used to Fund Water Development Program

The Department maintains separate accounting records for various restricted revenues that must be recorded in the Wildlife Obligated Reserve Account. Although the use of these funds is restricted, they have been inappropriately used to fund more than \$536,000 of Water Development program expenditures. The Water Development program is responsible for the construction, maintenance, and repair of watering devices known as guzzlers. According to Department officials, donations and federal grants are the funding sources for the Water Development program. However, the Department's records indicate the only funding source since fiscal year 2000 has been

federal grants. Consequently, funds from other restricted programs have been used to cover the deficit.

The Wildlife Obligated Reserve Account was established to separately account for restricted revenue sources and expenditures. The revenue sources include duck stamp, elk damage compensation, upland game bird stamp, habitat conservation fee, Operation Game Thief, mining assessments, and gifts and donations. Per NRS, the use of most of these funds is very restrictive. For example:

NRS 502.242 (2) states: . . . Revenue from the habitat conservation fee must be accounted for separately, deposited with the State Treasurer for credit to the Wildlife Obligated Reserve Account and, except as otherwise provided in NRS 502.294 and 502.310, used by the Department for the purposes of wildlife habitat rehabilitation and restoration. . . .

NRS 502.250 (4) states: . . . A fee of not less than \$5 but not more than \$15 must be charged for processing an application for an elk, \$5 of which must be deposited with the State Treasurer for credit to the Wildlife Obligated Reserve Account in the State General Fund and used for the prevention and mitigation of damage caused by elk or game mammals not native to this State.

NRS 502.296 (2) states: Money received pursuant to NRS 502.292 (upland game bird stamp) must be used for projects approved by the Commission for the protection and propagation of upland game birds and for the acquisition, development and preservation of the habitats of upland game birds in this State.

NRS 502.322 (2) states: Money received pursuant to NRS 502.300 (duck stamp) must be used for projects approved by the Commission for the protection and propagation of migratory game birds, and for the acquisition, development and preservation of wetlands in Nevada.

In addition to the above requirements for the upland game bird and duck stamps, NRS 502.294 and 502.310 require the Department to maintain separate accounting records for the receipt and expenditure of that money.

In accordance with NRS, the Department has created internal accounting records to track the income and expenditures of each restricted revenue source recorded in the Wildlife Obligated Reserve Account. For example, Exhibit 11 shows the fiscal year 2005 activity recorded for duck stamps, elk damage compensation fee, upland game bird stamps, and the habitat conservation fee.

**Wildlife Obligated Reserve Account
Restricted Revenue Program Activity
Fiscal Year 2005**

	Duck Stamp	Elk Damage	Upland Game Bird	Habitat Conservation
Beginning Balance	\$568,673	\$784,927	\$ 71,664	\$146,401
Revenue	99,524	123,131	251,755	326,507
Expenditures	(59,269)	(421,991)	(84,262)	(89,574)
Ending Balance	\$608,928	\$486,067	\$239,157	\$383,334

Source: NDOW accounting records.

Although the Department's records indicate these four programs had sufficient funds to cover expenditures, this was not the case for all programs. Since fiscal year 2000, Water Development program expenditures have exceeded revenues by over \$536,000. Consequently, the Water Development program has been supported by funds from restricted programs. According to management, the Department could have used habitat conservation fees, upland game bird stamp receipts, mining assessments, or license fees to fund the Water Development program expenditures. However, before upland game stamp funds may be used, they must be approved by the Wildlife Commission.

Wildlife Account Reimbursements Did Not Reflect Actual Costs

Certain direct expenses, such as payroll and vehicle expenses, and indirect grant program expenses for projects recorded in the Wildlife Obligated Reserve Account are charged to the Wildlife Account. Therefore, funds are transferred from the Obligated Reserve Account to reimburse the Wildlife Account. However, these transfers have not agreed with the actual expenditures recorded in the Wildlife Account since FY 2000. As of June 30, 2005, transfers exceeded expenditures by about \$280,000. Since funds deposited in the Wildlife Obligated Reserve Account are restricted to certain projects, transfers should not exceed actual expenditures.

The Wildlife Account reimbursements have not reflected actual expenditures because the Department usually transferred the amount budgeted. Exhibit 12 shows the budgeted transfers in the Obligated Reserve Account, the amount transferred, the

actual expenditures recorded in the Wildlife Account, and the amount due to or from the Wildlife Account from fiscal year 2000 through 2005.

Exhibit 12

**Wildlife Account Transfers
Fiscal Years 2000 Through 2005**

FY	Budgeted Transfer	Transfer	Less Actual Expenditures	Amount Due (to)/from Wildlife Account	Accumulated Due (to)/from Wildlife Account
2000	\$ 598,590	\$ 598,240	\$ (623,305)	\$ (25,065)	\$ (25,065)
2001	\$ 603,985	\$ 603,985	\$ (776,673)	\$ (172,688)	\$ (197,753)
2002	\$ 605,313	\$ 605,313	\$ (529,275)	\$ 76,038	\$ (121,715)
2003	\$ 573,015	\$ 411,326	\$ (490,376)	\$ (79,050)	\$ (200,765)
2004	\$ 622,595	\$ 619,084	\$ (350,144)	\$ 268,940	\$ 68,175
2005	\$ 773,694	\$ 773,694	\$ (563,518)	\$ 210,176	\$ 278,351

Source: NDOW accounting records.

When the transfers were less than actual expenditures (fiscal years 2000, 2001, and 2003), wildlife funds or Wildlife Account reserves inappropriately funded projects that had revenues specifically earmarked for the projects. Conversely, when transfers exceeded the actual expenditures (fiscal years 2002, 2004, and 2005), revenues restricted for specific projects were inappropriately used to support activity recorded in the Wildlife Account.

Game Draw Bank Account Reconciliations Not Reviewed

In our prior audit, we noted the game draw bank account was not properly controlled. The game draw account is used to reimburse unsuccessful tag applicants and is administered by the game draw contractor. Although the Department has improved its oversight of the game draw account, it has not ensured the account is properly reconciled on a monthly basis. As a result, there is an increased risk the funds deposited in the account are not adequately safeguarded.

Since the Department is required to contract with a private entity to administer the game draw process, application and tag fees are remitted to the contractor. Applicants have the option of paying their fees with a check or credit card. If applicants choose to pay with a check, they must include the application and tag fees with their remittance. Upon receipt of applications, the contractor deposits the checks in the state's main bank account or charges an applicant's credit card for the application fee.

Once the draw is completed, the contractor will charge the successful applicants' credit cards the tag fee. However, if an unsuccessful applicant paid by check, a refund for the tag fee is issued from the contractor's game draw checking account. Since these tag fees were previously deposited in the state's main bank account, NDOW must notify the State Treasurer's Office to transfer sufficient funds to the contractor's checking account. Department accounting records indicate the contractor issued more than \$2 million in refunds during fiscal year 2005.

Prior Recommendation Has Not Been Fully Implemented

We made five recommendations to improve the Department's oversight of the game draw bank account in our prior audit. While four of the recommendations have been fully implemented, one is partially implemented. This recommendation was to:

Establish controls over the game draw bank account to ensure the account is reconciled on a monthly basis and monthly status reports are received and reviewed.

The Department has developed written procedures regarding the monthly review of the reconciliation, and reviews the status reports. Furthermore, the contractor prepares daily reconciliations of the account. However, the Department did not have evidence the reconciliations were reviewed or compared to the state's accounting records.

Because the Department did not have evidence the reconciliations were reviewed, we examined the propriety of one of the contractor's daily reconciliation reports. Our review of the report indicated each amount was in agreement with the applicable supporting documentation. However, the Department could not provide a complete explanation regarding a significant adjustment to the bank balance. Exhibit 13 shows the reconciliation for February 3, 2006, and the bank balance adjustment.

Exhibit 13

**Game Draw Bank Account Reconciliation
February 3, 2006**

Bank Balance	\$ 4,964
Less Outstanding Checks	(358,227)
Plus Balance Adjustment	620,344
Adjusted Bank Balance	267,081
Contractor's Book Balance	\$267,081

Source: NDOW accounting records.

Through discussions with the contractor, we determined the balance adjustment was necessary to reflect stale-dated checks that had not been cancelled and removed from the outstanding check list. NDOW's procedures require outstanding checks to be stale-dated when they are 180 days old. We also determined the adjustment was overstated by \$267,660 since not all stale-dated check activity was included in the balance. As a result, the reconciled balances should have been \$(579) instead of \$267,081. With adequate oversight and review of the reconciliations, the Department could have detected the errors. Furthermore, improved review procedures would allow NDOW to reconcile disbursements from the account to the state's accounting records.

Stale-dated Checks Have Not Been Cancelled

In addition to the timely detection of errors, proper oversight would have significantly reduced the amount of outstanding checks. Of the \$358,227 reported as outstanding on February 3, 2006, we determined that checks totaling \$5,386 were less than 180 days old. The remainder was from checks dating back to 1993. Exhibit 14 shows the number and amount of outstanding checks by calendar year from 1993 through 2005, as of February 3, 2006.

Exhibit 14

**Game Draw Bank Account
Outstanding Checks
Calendar Years 1993 Through 2005
As of February 3, 2006**

Calendar Year	Number of Checks	Amount Of Checks
1993	263	\$ 12,376
1994	331	17,491
1995	338	16,187
1996	301	15,643
1997	392	18,372
1998	528	45,128
1999	570	37,807
2000	555	51,233
2001	643	45,417
2002	411	26,653
2003	322	19,578
2004	247	26,783
2005	238	24,382
Total	5,139	\$357,050

Source: NDOW accounting records.

Because the outstanding checks were issued from the contractor's private account, they have not been cancelled. If the refund checks were issued from the State Treasury, they would become stale-dated after 180 days and cancelled. These cancelled checks would then be recorded in the Account for Lost and Stale Warrants. Payees of cancelled checks recorded in this account have up to 6 years from the original issue date to request a new check. After 6 years, the amount of the check is deposited in the General Fund.

After discussing the above problems with NDOW and the contractor, we contacted the State Treasurer's Office to determine if it would be cost effective to close the contractor's account and issue the refunds from the State Treasury. The State Treasurer's Office agreed to work with both entities and determine the feasibility of issuing the checks from an account within the States Treasury. As a result, NDOW and the Treasurer's Office have established a committee to implement a conversion project.

Recommendations

5. Determine which revenues will be used to support the Water Development program and allocate them accordingly.
6. Develop additional procedures to ensure expenditures from restricted revenues are in accordance with NRS.
7. Reimburse the Obligated Reserve Account for transfers exceeding actual expenditures.
8. Review reconciliations of the game draw bank account and reconcile disbursement activity to the state's accounting records.
9. Continue working with the State Treasurer's Office to determine the feasibility of bringing the game draw account into the State Treasury.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Nevada Department of Wildlife (NDOW), we interviewed agency staff and reviewed statutes, regulations, and policies and procedures significant to the Department's financial and administrative practices. In addition, we reviewed the Department's financial information, audit reports, budgets, minutes of legislative committees, and other information describing the activities of the Department. To document the number of licenses, tags, and stamps issued for fiscal years 2000 through 2005, we obtained Department inventory and statistical records. To identify the expenditures attributable to each bureau and primary program, we reviewed the Department's methodology and supporting documentation used to report this information for fiscal year 2003. After determining the Department's methodology was reasonable, we used the same approach to obtain the fiscal years 2004 and 2005 expenditures.

We also documented and assessed the Department's process for obtaining and monitoring U.S. Fish and Wildlife Service (USFWS) grants. This included reviewing guidance contained in the USFWS Service Manual and evaluating the Department's key documents used in the process—the Delegation of Expenditure Authority (DEA) report, Cost Accounting System (CAS) reports, and the Grant Status Report (GSR). We reconciled the fiscal year 2005 CAS reports and GSR to federal grant reports and the state's accounting system to assess the reliability of the CAS and GSR. Finally, we interviewed the Department's Bureau Chiefs and program staff to obtain their assessments of the process.

To determine if the Department maximizes federal grant revenues, we analyzed trends in the Department's use of federal grant apportionments for the Pittman-Robertson, State Wildlife Grants, and Dingell-Johnson programs for the period of October 1, 2000, through June 30, 2006. In addition, we judgmentally selected six federal grants for examination. For indirect costs, we reviewed the Department's cost

allocation methodology for pooled costs and obtained the Department's negotiated indirect cost agreements for fiscal years 2004 and 2005. Then, we examined the Department's indirect cost calculations for federal grants in fiscal years 2004 and 2005. Our calculations of the federal share of indirect costs that could have been recovered considered whether there were sufficient federal funds available, and if not, whether the grant could have been amended upward in order to recover these costs. Finally, we obtained confirmation from a USFWS official that the Department could have requested amendments to their federal grants to recoup indirect costs, provided the requests were made before the grant-end dates.

To determine that restricted revenues are spent in accordance with applicable laws, we identified the restricted revenue sources and confirmed the list and required uses with agency personnel. Then we selected six restricted revenue sources for testing: the elk damage fee, habitat conservation fee, duck stamp, upland game bird stamp, predator management fee, and game tag application fee. From these sources we judgmentally selected a total of 50 fiscal year 2005 expenditure transactions for testing. Additionally, we reviewed the accounting activity in the Obligated Reserve Account and analyzed the effect of applying indirect costs to programs recorded in that account.

To determine the adequacy of controls over certain expenditures, we obtained all financial transactions initiated by the Department during fiscal years 2000 through 2005 from the state's accounting system. Using this data, we did an analysis to identify any expenditure trends that warranted further work to determine if the changes were reasonable.

Our work was conducted from August 2005 to July 2006 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of the preliminary report to the Acting Director of the Department of Wildlife. On November 7, 2006, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. The response is contained in Appendix I, which begins on page 43.

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Appendix B
Prior Audit Recommendations

Our prior audit of the Department of Wildlife (which was the Division of Wildlife at the time) contained 12 recommendations to improve controls over wildlife revenues and compliance with laws, regulations, policies, procedures, and contract requirements. As part of our audit, we assessed the implementation of the 12 recommendations and found 11 were fully implemented and one was partially implemented. The partially implemented recommendation related to controls over the game draw bank account. We have modified and repeated this recommendation in our audit.

Appendix C
Revenue by Source
Fiscal Years 2000 Through 2005

Revenue	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Appropriations	\$ 698,946	\$ 698,946	\$ 697,396	\$ 731,362	\$ 676,421	\$ 692,730
Fees	8,504,769	8,800,292	9,519,864	8,962,560	11,194,163	12,613,076
Federal Grants	9,028,373	10,140,370	8,318,555	10,269,420	8,645,311	10,649,054
Fuel Tax	1,529,312	1,560,585	1,587,803	1,573,745	1,551,405	1,512,592
Transfers	3,552,267	3,151,407	3,747,931	3,737,963	3,661,831	4,025,069
Miscellaneous ⁽¹⁾	1,950,902	2,246,665	1,745,353	1,403,213	1,696,673	1,711,221
Bonds	1,533,078	--	995,980	--	2,489,526	14,243,244
Total	\$26,797,647	\$26,598,265	\$26,612,882	\$26,678,263	\$29,915,330	\$45,446,986
Less intra-department transfers	(3,352,267)	(2,945,706)	(3,500,134)	(3,509,205)	(3,057,201)	(3,588,183)
Net Revenue	\$23,445,380	\$23,652,559	\$23,112,748	\$23,169,058	\$26,858,129	\$41,858,803
Less Bonds and Capital Acquisition Funds	(2,053,078)	--	(995,980)	--	(3,078,516)	(15,223,278)
Net Operating Revenue	\$21,392,302	\$23,652,559	\$22,116,768	\$23,169,058	\$23,779,613	\$26,635,525

Source: State accounting system.

⁽¹⁾ Includes assessments, gifts and donations, interest, and other miscellaneous income.

Appendix D
Expenditures by Budget Account
Fiscal Years 2000 Through 2005

Budget Account	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Wildlife Account	\$16,166,837	\$18,173,807	\$20,260,925	\$20,507,189	\$21,448,413	\$21,193,413
Trout Management	469,665	463,563	229,745	1,093,704	764,840	7,925,686
Boating	4,825,192	5,086,671	4,693,510	5,720,854	4,329,920	4,651,987
Obligated Reserve	1,531,427	1,809,067	1,196,046	880,032	1,347,511	1,899,584
CIP Wildlife Department	4,379,055	112,961	359,182	281,419	1,011,954	999,190
Wildlife Heritage	176,800	85,077	73,855	123,771	81,137	48,439
Habitat Mitigation	111,981	37,166	16,680	53,634	52,932	44,953
Total	\$27,660,957	\$25,768,312	\$26,829,943	\$28,660,603	\$29,036,707	\$36,763,252
Less Intra-department Transfers	(3,352,267)	(2,945,706)	(3,500,134)	(3,509,205)	(3,057,201)	(3,588,183)
Net Expenditures	\$24,308,690	\$22,822,606	\$23,329,809	\$25,151,398	\$25,979,506	\$33,175,069
Less Capital Acquisitions						
CIP Wildlife Department	(4,379,055)	(112,961)	(359,182)	(281,419)	(1,011,954)	(999,190)
Trout Management	(369,665)	(363,563)	(129,745)	(943,154)	(514,586)	(7,641,557)
Net Operating Expenditures	\$19,559,970	\$22,346,082	\$22,840,882	\$23,926,825	\$24,452,966	\$24,534,322

Source: State accounting system.

Appendix E
Number of Licenses and Stamps Issued
License Years 2000 Through 2005

Description	2000	2001	2002	2003	2004	2005	2000-2005 % Change
Resident Hunting Licenses							
Regular	15,270	14,292	14,542	14,533	14,988	14,903	-2.4%
Junior	1,272	1,126	1,118	1,272	1,326	1,526	20.0%
Senior	595	590	589	623	671	829	39.3%
Pre-Adult	553	522	504	561	652	650	17.5%
Serviceman	151	176	185	197	190	199	31.8%
Disabled	17	23	13	22	17	27	58.8%
Total Resident	17,858	16,729	16,951	17,208	17,844	18,134	1.5%
Nonresident Hunting Licenses							
Regular	7,571	8,278	8,705	9,970	10,266	10,753	42.0%
Pre-Adult	12	12	19	13	19	16	33.3%
Daily	2,245	2,347	2,319	2,472	2,716	2,443	8.8%
Total Nonresident	9,828	10,637	11,043	12,455	13,001	13,212	34.4%
Total Hunting Licenses	27,686	27,366	27,994	29,663	30,845	31,346	13.2%
Resident Fishing Licenses							
Regular	61,613	58,298	53,532	46,312	41,820	39,795	-35.4%
Junior	6,387	5,900	5,340	4,598	4,168	3,549	-44.4%
Senior	6,273	5,997	5,767	5,398	5,003	4,901	-21.9%
Serviceman	402	426	492	414	427	378	-6.0%
Native American ⁽¹⁾	303	313	280	276	256	248	-18.2%
Disabled	445	412	456	461	450	456	2.5%
Disabled Vet ⁽¹⁾	103	139	153	155	165	216	109.7%
Daily	22,396	21,472	20,808	19,961	19,895	21,999	-1.8%
Total Resident	97,922	92,957	86,828	77,575	72,184	71,542	-26.9%
Nonresident Fishing Licenses							
Regular	1,766	1,896	1,781	1,395	1,284	2,389	35.3%
Junior	675	664	586	606	472	331	-51.0%
Colorado River	9,443	8,408	7,717	7,241	6,303	N/A	N/A
Daily	20,343	19,733	17,594	16,117	15,502	16,033	-21.2%
Total Nonresident	32,227	30,701	27,678	25,359	23,561	18,753	-41.8%
Total Fishing Licenses	130,149	123,658	114,506	102,934	95,745	90,295	-30.6%

Appendix E
Number of Licenses and Stamps Issued
License Years 2000 Through 2005
(continued)

Description	2000	2001	2002	2003	2004	2005	2000-2005 % Change
Resident Combination Licenses							
Regular	24,482	25,345	25,302	25,051	23,290	20,742	-15.3%
Junior	3,109	3,150	3,109	3,092	3,023	2,571	-17.3%
Senior	3,629	3,741	3,851	3,843	3,739	3,257	-10.3%
Pre-Adult	765	731	843	871	764	641	-16.2%
Native American ⁽¹⁾	1,345	1,260	1,252	1,208	1,141	1,086	-19.3%
Disabled Vet ⁽¹⁾	476	479	498	488	519	563	18.3%
Disabled	390	380	418	410	398	327	-16.2%
Total Resident	34,196	35,086	35,273	34,963	32,874	29,187	-14.6%
Nonresident Combination Licenses⁽³⁾							
Regular	N/A	N/A	N/A	N/A	N/A	227	N/A
Pre-Adult	N/A	N/A	N/A	N/A	N/A	3	N/A
Total Nonresident	-	-	-	-	-	230	N/A
Total Combination Licenses	34,196	35,086	35,273	34,963	32,874	29,417	-14.0%
Trapping Licenses							
Resident	377	394	407	550	705	642	70.3%
Resident Jr	34	20	17	27	35	41	20.6%
Nonresident	22	44	38	22	91	15	-31.8%
Total Trapping	433	458	462	599	831	698	61.2%
Total Resident Licenses	150,387	145,186	139,476	130,323	123,642	119,546	-20.5%
Total Nonresident Licenses	42,077	41,382	38,759	37,836	36,653	32,210	-23.5%
Total Hunt/Fish/Trap Licenses	192,464	186,568	178,235	168,159	160,295	151,756	-21.2%
Stamps							
Duck	13,358	13,450	11,984	10,855	10,195	9,725	-27.2%
Trout	90,735	91,600	84,833	76,230	68,111	63,377	-30.2%
Colorado River ⁽²⁾	16,340	14,122	13,234	11,407	-	28,209	72.6%
Second Rod	12,912	13,307	13,605	12,337	11,691	11,593	-10.2%
Upland Game Bird ⁽³⁾	N/A	N/A	N/A	N/A	N/A	24,319	N/A
Total Stamps	133,345	132,479	123,656	110,829	89,997	137,223	2.9%

Source: NDOW accounting records.

Note: License year is March 1 through the last day of February.

⁽¹⁾ Native Americans and disabled veterans are not charged for these licenses.

⁽²⁾ Colorado River stamps were sold by Arizona until December 31, 2003, and were reported on the calendar year. Beginning March 1, 2004, they were sold by Nevada and reported on the license year.

⁽³⁾ Nonresident combination licenses and the Upland Game Bird Stamp became effective in license year 2005.

Appendix F
Hunting Tag Applications and Tags Issued
Hunt Years 1999 Through 2004

Description	1999		2000		2001		2002		2003		2004	
	Apps	Tags	Apps	Tags	Apps	Tags	Apps	Tags	Apps	Tags	Apps	Tags
Resident												
Turkey	1,279	376	1,491	357	1,145	272	1,583	341	1,595	383	1,625	422
Sage Grouse	-	-	-	-	-	-	-	-	-	-	397	225
Deer	41,075	21,838	40,627	24,098	41,104	21,624	39,126	15,861	37,463	13,535	43,963	14,009
Deer-Land Damage	36	35	25	25	-	-	39	39	30	30	42	41
Antelope	9,005	1,431	9,070	1,534	9,347	1,427	10,464	1,586	10,936	1,750	10,926	1,799
Antelope-Land Damage	4	4	3	3	-	-	8	8	4	4	7	7
Elk	13,955	1,257	14,229	1,600	14,575	1,324	16,784	1,783	17,518	2,048	18,053	1,962
Tundra Swan	518	515	524	508	-	-	276	274	300	298	339	330
Mountain Goat	1,582	10	1,771	17	1,812	22	2,590	22	3,098	21	3,496	23
Desert Bighorn Sheep	3,747	109	3,966	114	3,973	125	5,060	123	5,583	118	5,985	122
California Bighorn Sheep	2,599	42	2,762	37	2,972	33	3,733	35	4,209	33	4,568	29
Rocky Mountain Bighorn Sheep	1,674	5	1,970	4	1,976	3	2,678	3	3,328	6	3,695	6
Total Resident	75,474	25,622	76,438	28,297	76,904	24,830	82,341	20,075	84,064	18,226	93,096	18,975
Nonresident												
Turkey	7	7	3	3	4	4	4	4	8	8	16	13
Deer	11,288	1,581	11,257	1,734	10,622	1,528	12,142	1,039	11,239	854	11,511	1,004
Deer-Land Damage	146	146	156	156	-	-	131	131	99	99	128	128
Deer-Guided	1,570	398	1,654	401	1,684	400	1,575	401	1,574	388	1,629	303
Antelope	985	71	1,150	67	1,262	64	2,176	74	2,601	80	3,069	87
Antelope-Land Damage	10	10	12	12	-	-	14	14	15	15	28	28
Elk	1,938	14	2,450	23	2,215	22	3,639	38	4,435	51	5,238	59
Mountain Goat	-	-	-	-	-	-	-	-	1,542	1	1,824	1
Desert Bighorn Sheep	2,177	14	2,370	15	2,345	15	3,686	14	4,190	14	4,878	14
California Bighorn Sheep	860	4	1,071	5	1,115	3	2,311	5	2,838	5	3,490	5
Total Nonresident	18,981	2,245	20,123	2,416	19,247	2,036	25,678	1,720	28,541	1,515	31,811	1,642
Total Resident & Nonresident	94,455	27,867	96,561	30,713	96,151	26,866	108,019	21,795	112,605	19,741	124,907	20,617
Partnership In Wildlife Drawing												
Resident Deer	1,403	22	1,227	22	2,117	22	1,984	22	3,919	22	4,076	23
Nonresident Deer	162	3	126	3	825	3	1,100	3	1,590	3	1,902	3
Resident Antelope	228	5	224	5	805	5	639	5	1,076	5	1,255	5
Resident Elk	404	3	434	3	1,516	3	1,226	3	1,833	3	1,998	3
Resident Mountain Goat	77	1	107	1	440	1	411	1	677	1	832	1
Resident Desert Bighorn Sheep	198	3	235	3	809	3	729	3	1,070	3	1,336	3
Resident California Bighorn Sheep	156	1	178	1	677	1	661	1	-	-	1,181	1
Total Partnership in Wildlife	2,628	38	2,531	38	7,189	38	6,750	38	10,165	37	12,580	39
Mountain Lion Tags												
Resident	N/A	1,005	N/A	1,028	N/A	1,153	N/A	N/A ⁽¹⁾	N/A	1,157	N/A	1,199
Nonresident	N/A	209	N/A	201	N/A	182	N/A	N/A ⁽¹⁾	N/A	224	N/A	209
Total Mountain Lion	N/A	1,214	N/A	1,229	N/A	1,335	N/A	N/A⁽¹⁾	N/A	1,381	N/A	1,408

Source: NDOW accounting records.

Note: Hunt year is the calendar year.

⁽¹⁾ Tag season was changed from hunt year to license year. As a result, tags sold from March to December 2002 are reported in the 2003 license year.

Appendix G

Glossary of Federal Aid Terms

Application for Federal Assistance	The form used to transmit a grant proposal to carry out one or more projects.
Apportionment	Federal budget process which distributes the Wildlife and Sport Fish Restoration funds collected by U.S. Treasury to the states. The apportionment is available to the state for obligation for 2 years except for freshwater boating access where the apportionment is available for 5 years.
Carryover Funds	Apportioned funds not obligated during the first year of availability and carried over into the next year for obligation by the state. Obligation of these funds do not count toward establishing a safety margin at year-end.
Deobligation	Reducing the amount of funds obligated to a grant agreement. Deobligations involve either an amendment decrease to an active project agreement or closure of a grant agreement with unused funds remaining from the obligated amount.
D-J	Dingell-Johnson Federal Aid in Sport Fish Restoration program.
Expenditure	Costs incurred by the state in carrying out work through a project agreement.
FAIMS	Federal Aid Information and Management System.
Grant	An award of financial assistance by the Federal Government to an eligible grantee to carry out one or more approved projects.
Grant Agreement	The documents used to make an award of financial assistance. The documents include the Grant Agreement form, the approved project statement(s), and the supporting documentation.
Grantee	The state agency or other organization to which a grant is awarded and which is accountable for the use of funds provided.
Grant Proposal	The documents submitted to the Regional Director requesting approval of one or more projects.
Indirect Costs	Mechanism in which states can recoup costs for items such as space, salary costs for contracting or personnel staff, copiers, etc.
In-kind	A non-cash contribution made by parties other than the grantee which makes up part or all of the state match which reduces or eliminates the grantee's cash outlay.
Match	State's share of total project expenditures.
Obligation	Setting aside funds from the apportionment toward anticipated costs to be incurred through an approved grant agreement. Obligations during a given year are limited to the amount of apportioned funds available.

Appendix G

Glossary of Federal Aid Terms (continued)

Overrun	Actual costs which exceed the approved grant agreement total cost but were necessary to complete all approved and listed activities.
P-R	Pittman-Robertson Federal Aid in Wildlife Restoration.
Prior Year Recovery	Deobligated funds which have passed through the safety margin(s) and have been returned to the state's apportionment ledger.
Program	A Federal grant program such as Wildlife Restoration and Sport Fish Restoration.
Program Income	Gross income received by a grantee which is generated directly by a grant supported activity, or earned only as a result of the grant agreement during the grant period.
Project	One or more related undertakings necessary to fulfill a need(s), as defined by the state, and consistent with the purposes of the appropriate Act. A project is the work to be done to accomplish a quantifiable or verifiable objective, as described in a single Project Statement.
Recovery	That part of an unused balance which is available to a state for obligation on other grant improvements. Any difference between an unused balance and a recovery would represent a reversion.
Reversion	Grant funds are turned over to the U.S. Fish and Wildlife Service for use on approved work. Reversions occur because either the apportionment was not fully obligated within 2 years (5 years on freshwater boating access) or because an established safety margin was inadequate to cover the amount of funds deobligated.
Safety Margin	A technique developed to test or "age" funds unused on closed out grants. The purpose is to determine if funds are within their original period of availability without actually having to identify the year they were apportioned.
Short-Term Credit	Funds which have been obligated to and deobligated from a project agreement within the same fiscal year. These funds are returned to the state's apportionment ledger without passing through safety margins.
Subprogram	A function of a Federal grant program. For example, aquatic education and boating access are subprograms of the Sport Fish Restoration program.
Unused Balance	Any portion of funds remaining after the final reimbursement is made on a grant and the grant is closed.

Appendix H
Unobligated Funds by Grant Program
As of June 30, 2006

	Prior Year Carry Forward	Apportionment and Recoveries	Total Funds Available	Less Obligations	Unobligated Funds
Pittman-Robertson					
Hunter Education	\$ --	\$ 338,121	\$ 338,121	\$ (10)	\$ 338,111
Wildlife Restoration	955,987	3,760,624	4,716,611	(1,762,534)	2,954,077
Education Grants	--	80,000	80,000	(80,000)	--
Total	\$ 955,987	\$4,178,745	\$ 5,134,732	\$(1,842,544)	\$ 3,292,188
Dignell-Johnson					
Aquatic Education	--	641,409	641,409	--	641,409
Sport Fish Restoration	680,047	3,517,996	4,198,043	(1,972,295)	2,225,748
Boating Access	1,780,562	678,762	2,459,324	--	2,459,324
Total	\$2,460,609	\$4,838,167	\$ 7,298,776	\$(1,972,295)	\$ 5,326,481
State Wildlife Grants					
Implementation Grants	894,174	489,772	1,383,946	--	1,383,946
Planning Grants	113,834	489,772	603,606	--	603,606
Total	\$1,008,008	\$ 979,544	\$ 1,987,552	--	\$ 1,987,552
Total All Grants	\$4,424,604	\$9,996,456	\$14,421,060	\$(3,814,839)	\$10,606,221

Source: USFWS records.

Note: Apportioned funds are available for obligation for a period of 2 years, with the exception of Hunter Education which is limited to 1 year and Boating Access which is 5 years.

Appendix I
Response From the Department of Wildlife



KENNY C. GUINN
Governor

STATE OF NEVADA
DEPARTMENT OF WILDLIFE
1100 Valley Road
Reno, Nevada 89512
(775) 688-1500 • Fax (775) 688-1595

TERRY R. CRAWFORTH
Director

DOUG HUNT
Deputy Director

November 20, 2006

Mr. Paul V. Townsend, CPA
Legislative Counsel Bureau
401 S. Carson Street
Carson City, Nevada 89701-4747

Dear Mr. Townsend,

Attached is Nevada Department of Wildlife's response to the audit report pertaining to the Department.

I appreciate the time and effort you and your staff invested in conducting the audit and developing the associated report. This report will definitely assist us as we continue to transition our budget process into an accurate and responsive system used to manage and control the financial aspects of the Nevada Department of Wildlife.

Thank you for the opportunity to respond to the audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Buonamici".

Robert W. Buonamici
Acting Director

RWB/jt

Attach.

Department of Wildlife Response to Audit Recommendations

Response to Recommendations

Recommendation #1 Develop procedures to ensure all grants with sufficient funding authority are assessed indirect costs.

Response: The Department agrees with the recommendation and has been working on a draft of the In-direct cost Policy and Procedure (See Attached). The current draft is nearing completion and will define which costs are applicable to be charged to in-direct costs, determine the rate calculation, the allocation of indirect costs and describe how grants will be evaluated as to availability of sufficient funding authority.

The Department agrees with the analysis of the cost accounting system (CAS) and has migrated to the State's Integrated Financial System (IFS). Because of the elaborate coding system which had been required in the past for Federal Aid documentation, this has proven to be a challenge with extensive IFS and Department modifications. The implementation of the payroll system was completed effective July 1, 2006. The reports available through NEATS will provide timely payroll information currently not available in CAS.

While the Department agrees with the recommendation and has already taken steps to implement it, a review of the history causes us to disagree with the presentation of some of the findings; specifically regarding the discontinuation of indirect costs in fiscal year 2004 and that indirect cost were not recovered on the Hunter Education and Aquatic Education grants. The practice of charging indirect costs was temporarily suspended in 2004 in response to a declining balance in Pittman-Robertson grant funds available (see Exhibit 2). Following dramatic program cuts in FY 03 and 04 and the increased health of the apportionment, indirect cost recoveries were reinstated in FY 05. The Aquatic Ed and Hunter Ed grants are very small capped grants and as such are not subject to federal indirect cost recoveries (Management Decision), rather the indirect costs associated with these grants are paid solely from license dollars and not included in the grant process (See attached Grant Agreements indicating no indirect cost would be

charged on these two grants under “other grant provisions” compared to several other grants which show a % for indirect cost included in the grant).

It should also be noted that Exhibit 10 of the Audit Report may mislead the reader into concerns over the “...risk of losing available federal allocations.” The normal cycle of obligating federal funds by the agency often times will split state fiscal years. In this case, of the \$10,371,971 unobligated at the end of state FY 06 \$6,322,882 was obligated prior to the end of the federal fiscal year bringing the unobligated balance to \$4,049,089 (See exhibits 2-7).

Recommendation #2 Develop and implement a comprehensive system for monitoring federal grants that includes budgeted revenues and payroll costs, and the status of the Department’s unobligated federal grant funds.

Response: While a system had been instituted to monitor federal grants, staffing levels following the tragedy of 9/11 were gravely impacted. As identified in the Audit Report, NDOW’s Chief Financial Officer was called up to active duty with the Nevada Air National Guard in early 2002. For the next three years this key fiscal position could neither be filled nor did the agency have his services full time with as little as 20% availability in 2003. Our ASO 2/Federal Aid Coordinator attempted to fill in but as noted in the Audit Report key internal monitoring reports were left incomplete following 2004. Subsequent to the CFO’s return from active duty, he retired. Shortly after the CFO’s retirement the ASO2/Federal Aid Coordinator also retired. This “Perfect Storm” type chain of events has caused great hardship on the agency’s Business Management Section (BMS) and impacted some Federal Aid monitoring procedures. While the Department agrees with the recommendations it is important to note that there have been no reversions of federal aid in the five years reviewed.

As a result of these personnel issues NDOW management decided to restructure the CFO position in 2005 to relieve some of the other operational burden on that position and a new ASO2/Federal Aid Coordinator was hired in April of 2006. While this seemed to alleviate some of the burden we found that the newly restructure CFO position was not able to keep up with the additional responsibilities of the position and effectively oversee the Business Management Office (BMO). After discussions with the Auditors as well as the Budget Analyst IV in the State Budgeting Office it was decided that an ASO III was need to oversee the fiscal office. As a result, an

NPD-19 was implemented to restructure another position to an ASO3/CFO position with responsibilities over our BMO section only. Management is confident that the filling and restructuring of these positions will insure better fiscal and operational management.

With the migration to IFS and the more wide-spread implementation of IFAIMS, federal aid program managers will have greater accessibility to the information that is needed to monitor the grants. The ASO2/Federal Aid Coordinator has attended extensive training over the past six months and has scheduled federal aid training for the program managers on site in March 2007 to help enhance the use of the monitoring systems available to them. The Federal Aid Coordinator is also working with the BM office and the federal aid program managers to develop reports downloaded from the IFS system which will be more timely and functional for all involved.

Recommendation #3 Continue the cost accounting system conversion process and ensure all reports are produced timely and contain sufficient information for effective grant monitoring.

Response: The Department agrees with the recommendation (also see response #2 above for further implementation).

Recommendation #4 Evaluate fiscal staffing levels to ensure adequate financial expertise exists to complete the Department's strategic plan objective regarding and implementation of a comprehensive grant administration system.

Response: NDOW management decided to restructure the CFO position in 2005 to relieve some of the additional operational burden on that position. A new ASO2/federal aid coordinator was hired in April of 2006 and we have implemented an NPD-19 to restructure another position to an ASO3/CFO position with responsibilities over our BMS section only. Management is confident that the filling and restructuring of these positions will insure better fiscal and operational management.

With the migration to IFS and the more wide spread implementation of IFAIMS, federal aid program managers will have greater accessibility to the information that is needed to monitor the grants. The ASO2/federal aid coordinator has attended extensive training over the past six months and has scheduled a federal aid training class for the program managers on site in

March 2007 to help enhance the use the monitoring systems available to them. Following this training a comprehensive grant administration procedure will be developed and implemented.

Recommendation #5 Determine which revenues will be used to support the Water Development program and allocate them accordingly.

Response: As can be seen from the attached grant #W-58-D supporting the water development program, a combination of state license dollars and in-kind match should have been used to cover the matching funds required for the federal grant. However, it should be noted that no projects were impacted associated with restricted revenues as the result of this oversight. These license dollars should have been work programmed from budget account 4452 Category 86 (Reserve) to cover the needed match each year. Instead however; fiscal staff used reserve dollars in budget account 4458 to cover any deficit in the required match. This was inappropriate and will be covered by a work program to move funds and authority from budget account 4452 reserve to budget account 4458 reserve thus replenishing the restricted revenues in that account. In order to accomplish this, work program #'s C 32025 and C32026 have been submitted to the Budget Office. The oversight of a CFO and implementation of written procedures will preclude such activity in the future.

Recommendation #6 Develop additional procedures to ensure expenditures from restricted revenues are in accordance with NRS.

Response: A specific procedure will be developed and implemented to insure that any expenditure of restricted revenues is in accordance with NRS.

Recommendation #7 Reimburse the Obligated Reserve Account for transfers exceeding actual expenditures.

Response: The transferred dollars from budget account 4458 in excess of actual expenses were maintained in the reserve account in budget account 4452 and not used to inappropriately fund projects. NDOW will develop a specific procedure to insure that only actual expenditures will be transferred from budget account 4458 as appropriate.

Recommendation #8 Review reconciliations of the game draw bank account and reconcile disbursement activity to the state's accounting records.

Response: The Department agrees with this finding and is currently reviewing several options with the Controller's Office, the Treasurer's Office, and the Contractor to better monitor this account. So far it appears that establishing a "true" zero balance account mirrored after the Victims of Crime and the Governor's Rebate Accounts may be the best choice. A ZBA account will allow for funds to remain in the State coffers and only be transferred into the bank account when the checks are cashed. Once a final decision has been made the Department will establish policies and procedures within the BMO office for the State checks and monthly reconciliation of the bank account to the Budget's Trial Balance.

Recommendation #9 Continue working with the State Treasurer's Office to determine the feasibility of bringing the game draw account into the State Treasury.

Response: See Response #8

**Department of Wildlife
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Develop procedures to ensure all grants with sufficient funding authority are assessed indirect costs	<u> X </u>	<u> </u>
2	Develop and implement a comprehensive system for monitoring federal grants that includes budgeted revenues and payroll costs, and the status of the Department's unobligated federal grant apportionments.....	<u> X </u>	<u> </u>
3	Continue the cost accounting system conversion process and ensure all reports are produced timely and contain sufficient information for effective grant monitoring.....	<u> X </u>	<u> </u>
4	Evaluate fiscal staffing levels to ensure adequate financial expertise exists to complete the Department's strategic plan objective regarding the development and implementation of a comprehensive grant system.....	<u> X </u>	<u> </u>
5	Determine which revenues will be used to support the Water Development program and allocate them accordingly	<u> X </u>	<u> </u>
6	Develop additional procedures to ensure expenditures from restricted revenues are in accordance with NRS.....	<u> X </u>	<u> </u>
7	Reimburse the Obligated Reserve Account for transfers exceeding actual expenditures.....	<u> X </u>	<u> </u>
8	Review reconciliations of the game draw bank account and reconcile disbursement activity to the state's accounting records.....	<u> X </u>	<u> </u>
9	Continue working with the State Treasurer's Office to determine the feasibility of bringing the game draw account into the State Treasury	<u> X </u>	<u> </u>
	TOTALS	<u> 9 </u>	<u> 0 </u>

Appendix J

Auditor's Comments on Agency Response

The Department of Wildlife (NDOW), in its response, does not agree with certain findings regarding the recovery of indirect costs. The following identifies those sections of the report where the Department has taken exception to our position. We have provided our comments on the issues raised in its response to assure the reader that we believe our findings and conclusions as stated in the report are appropriate.

1. While the Department agrees with our recommendation to develop procedures to ensure all grants with sufficient funding authority are assessed indirect costs, it disagrees with our conclusion that it failed to assess and collect \$1.2 million of these costs in fiscal year 2004. In its response, the Department indicates the practice of charging indirect costs was temporarily suspended in 2004 in response to a declining balance in available Pittman-Robertson grant funds. (See page 44.)

Legislative Auditor's Comments

Although there was a slight decline in the Pittman-Robertson (P-R) funds from federal fiscal years 2001 through 2004, our analysis indicated the Department had sufficient P-R funds remaining at the end of fiscal year 2004 to assess indirect costs to certain grants. Furthermore, the Department's response does not indicate why State Wildlife Grants (SWG) and Dingell-Johnson (D-J) grants were not charged indirect costs. As stated on page 17, our analysis of the Department's fiscal year 2004 grants indicated several grants had sufficient obligated funds to collect indirect costs totaling nearly \$750,000. In addition, \$486,000 could have been collected by amending grants that had unobligated funds. Specifically, we identified 24 grants including 7 D-J, 9 P-R, 5 SWG, and 3 competitive grants that could have been charged indirect costs. Furthermore, charging indirect costs to these grants would not have reduced the funds obligated in fiscal year 2005. As shown in Exhibit 10 on page 22, the Department obligated \$9,327,661 in fiscal year 2005. The total funds available in fiscal year 2005 would have been reduced by charging indirect costs in fiscal year 2004. However, there would have been sufficient funds to cover the Department's fiscal year 2005 obligations as shown in the following:

	TOTAL AVAILABLE FUNDS FY 05	LESS FY 04 INDIRECT COSTS ADJUSTMENTS⁽¹⁾	ADJUSTED FUNDS AVAILABLE	FUNDS OBLIGATED	UNOBLIGATED BALANCE
P-R	\$ 4,786,311	(\$412,696)	\$ 4,373,615	\$3,830,324	\$ 543,291
D-J	6,964,334	(472,141)	6,492,193	4,503,725	1,988,468
SWG	2,001,620	0	2,001,620	993,612	1,008,008
Total	\$13,752,265	(\$884,837)	\$12,867,428	\$9,327,661	\$3,539,767

⁽¹⁾ Charging indirect costs in fiscal year 2004 would have reduced the carry forward and recovery amounts in fiscal year 2005.

2. In its response, the Department indicates the Aquatic Education and Hunter Education grants are very small capped grants and as such are not subject to federal indirect cost recoveries (Management Decision). (See page 44.)

Legislative Auditor's Comments

On page 21, we do state the Hunter Education and Aquatic Education grants are capped. However, we also state that NDOW's inadequate grant monitoring system has resulted in grants exceeding budgets, allowable costs were not submitted for reimbursement, and untimely monitoring. As a result, the Hunter Education grant exceeded its total budget by \$209,000 and the Aquatic Education grant exceeded its budget by nearly \$178,000. Although the Department's accounting records indicated indirect costs totaling \$80,000 for the Hunter Education and \$71,000 for the Aquatic Education grants could not be charged since the grants exceeded the approved budgets, improved oversight may have resulted in the recovery of some of these costs. For instance, direct labor charged to the Hunter Education grant was nearly \$265,000; however, these costs were not included in the grant's budget documents. By improving its grant monitoring system, the Department can ensure all charges to a grant are appropriate and charge indirect charges when sufficient funds remain.