



# Oregon Department of Fish and Wildlife: Federal Reimbursement and Cash Management Review

## Summary

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# Secretary of State Audit Report

### PURPOSE

The purpose of this audit was to determine whether opportunities exist to reduce both the extent and impact of delays experienced by the Oregon Department of Fish and Wildlife (department) in obtaining federal reimbursement of costs incurred on federal contracts.

### BACKGROUND

The mission of the department is to protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations. To leverage available resources, the department enters into contracts and other types of agreements with federal agencies. The department commits through those agreements to performing an established scope of work while meeting specified terms and conditions. In exchange, federal agencies agree to reimburse the department, fully or partially, for the costs of the work.

### RESULTS IN BRIEF

The department did not receive timely reimbursement for more than 65 percent of the contract expenditures it billed to federal agencies during fiscal year 2006. Specifically, the reimbursement for \$27.3 million of the \$41.4 million in total federal billings took longer than 30 days from preparation to receipt of payment. Reimbursement of \$8.6 million took longer than 120 days. As a result, the department had less cash available to meet its operating needs.

Although some delays were due to factors beyond the department's immediate control, opportunities appear to exist that should reduce the future extent of delays. These potential opportunities center on improving receivables and contract management practices. Moreover, two strategies—charging federal agencies interest for delayed reimbursements and using monies available in the Deferred Maintenance Subaccount—may help the department reduce the impact of reimbursement delays.

### RECOMMENDATIONS

We recommend the department:

- Develop clear, written policies and procedures for billing and collecting federal accounts receivable.
- Develop and implement appropriate monitoring procedures for its federal contracts.
- Analyze the extent of the reimbursement delays attributable solely to federal agencies and determine whether those delays are acceptable. If determined unacceptable, the department should work with the Department of Administrative Services and the U.S. Treasury to improve the timeliness of federal reimbursements and explore possible collection of interest.
- Consider using the Deferred Maintenance Subaccount as part of an overall cash management strategy.

### OTHER MATTERS

As part of the Flood Control Act of 1950, the U.S. Army Corps of Engineers (USACE) constructed numerous dams and related hydropower facilities, which resulted in the loss of salmon runs and other fish species. As a result, the USACE provided facilities to mitigate the loss of fish spawning, feeding, and rearing grounds.

In October 1990, the department and the USACE entered into a Cooperative Agreement for the operation and maintenance of certain federally-owned fish hatcheries. However, we learned that uncertainty exists regarding the department's status under the Cooperative Agreement. Specifically, management was uncertain if the department was a grantee or a vendor of the USACE. This is significant because federal regulations governing timely reimbursement of federal contract expenditures would depend upon the department's status. Moreover, according to USACE staff, the level

of scrutiny USACE gives to federal contract expenditures differs by status. The Cooperative Agreement also appears to be out of date.

**RECOMMENDATION**

We recommend department management update and clarify its Cooperative Agreement with the USACE to ensure there is a clear understanding of the department’s roles and responsibilities.

**AGENCY’S RESPONSE**

The Oregon Department of Fish and Wildlife generally agrees with the recommendations and plans on taking corrective action.

**Introduction/Background**

The mission of the Oregon Department of Fish and Wildlife (department) is to protect and enhance Oregon’s fish and wildlife and their habitats for use and enjoyment by present and future generations. To leverage available resources, the department enters into contracts and other types of agreements with federal agencies. The department commits through those agreements to performing an established scope of work while meeting specified terms and conditions. In exchange, federal agencies agree to reimburse the department, fully or partially, for the costs of the work.

The department’s Legislatively Adopted budget for the 2005-07 biennium—just over \$232 million—included more than \$95 million in anticipated federal funds. Most of the federal funds come to the department through contracts with the U.S. Army Corps of Engineers (USACE), the U.S. Fish and Wildlife Service (USFWS), the National Oceanic and Atmospheric Administration (NOAA), and the Bonneville Power Administration (BPA).

**Audit Results**

The department did not receive timely reimbursement for almost two-thirds of the contract expenditures it billed to federal agencies during fiscal year 2006. As a result, the department had less cash available to meet its operating needs. Although some reimbursement delays were due to factors beyond the department’s immediate control, opportunities

appear to exist that should reduce the future extent of delays. Moreover, there are additional strategies that may help the department reduce the impact of the delays on its cash flows.

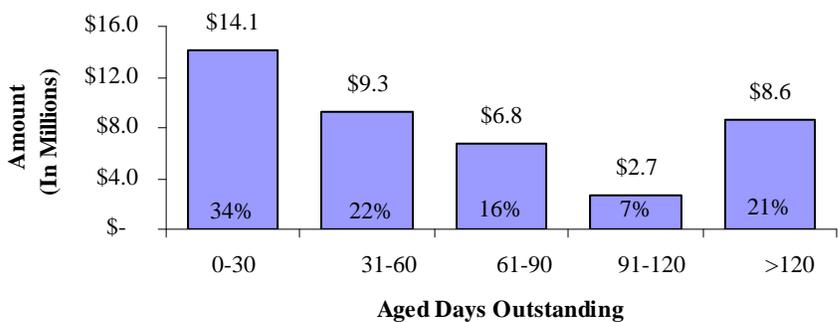
**Federal Reimbursement Delays Were Significant**

The department did not receive timely reimbursement for more than 65 percent of the contract expenditures it billed to federal agencies during fiscal year 2006. Specifically, the reimbursement for \$27.3 million of the \$41.4 million in total federal billings took longer than 30 days from preparation to receipt of payment.<sup>1</sup> Reimbursement of \$8.6 million took longer than 120 days. Figure

2006 federal billing reimbursements by age category.

On average, the department billed federal agencies about \$3.5 million a month during fiscal year 2006 for federal contract expenditures. Delayed reimbursements, however, resulted in an average monthly outstanding federal billing balance of approximately \$9.3 million. These delays required the department to use funds otherwise available for other uses to initially pay for the federal contract costs. Use of those funds resulted in cash flow impacts such as lost interest earnings and deferred expenditures. Department management reported, for example, that they held vacant positions open for extended periods in order to generate cost savings.

**Figure 1: Number of Days It Took To Collect Reimbursement of Fiscal Year 2006 Federal Billings**



1 shows a breakdown of fiscal year

<sup>1</sup> For purposes of this report, “preparation” refers to the process of summarizing monthly federal contract expenditures into a federal billing invoice and recording it as an accounts receivable in the department’s accounting system.

We found that just a 30-day improvement in the collection of federal billings would reduce the average monthly outstanding federal billing balance to about \$7.7 million, making \$1.6 million available for other uses. Moreover, the department received reimbursement of almost 76

percent of its fiscal year 2004 federal billings within 30 days. Likewise, the department received reimbursement of approximately 73 percent of its fiscal year 2005 federal billings within 30 days. At the 2004 reimbursement rates, the department would have had, on average, an additional \$4.3 million available for other uses in fiscal year 2006. The \$4.3 million represents about 5 percent of the department's non-federal expenditures in fiscal year 2006.

### **Federal Reimbursement Process Could Be Strengthened**

Although some reimbursement delays were due to factors beyond the department's immediate control, opportunities appear to exist that should reduce the future extent of delays. These potential opportunities center on improving receivables and contract management practices.

The Oregon Accounting Manual requires State agencies to collect all receivables and to establish procedures to effect the timely collection of all amounts owed. In addition, each agency must have clear, written policies and procedures for billing and collecting accounts receivable.<sup>2</sup> We found department management had not implemented formal written policies and procedures for billing federal contract expenditures or for the subsequent collection of reimbursement.

Prudent accounts receivable management practices have collection procedures based on the age of the original payment due date. However, we found that department staff did not consistently review aging reports to ensure timely follow-up or collection of outstanding federal billings.

<sup>2</sup> Oregon Accounting Manual 35.05.00.PO and 35.30.10.PO section .101

Furthermore, management did not ensure that regular monitoring of federal contracts and reimbursements occurred. Also, management had not assigned responsibility for ensuring that performance and financial reports required by the federal contracts were submitted on time. The on-line contract management system for at least one federal agency is set up to automatically cut off all contract funds to the department if a single required report is late or missing.

To determine the factors that led to the most significant delays we noted, we reviewed a judgmental sample of 36 federal billings the department submitted for reimbursement during fiscal year 2006. We found that the following issues contributed to the fiscal year 2006 reimbursement delays.

### **Signed Contracts Not Obtained in a Timely Manner**

Reimbursement of federal contract expenditures can occur only after a federal contract has been signed by both the federal agency and the department. We found significant delays between the contract start dates and the contract signature dates. Specifically, we identified seven contracts that were signed more than 160 days (approximately five months) after the contract start date. Six of the seven contracts contributed an average of 131 days to the reimbursement delays noted for 15 federal billings.<sup>3</sup>

We found evidence that these delays may be attributed, in part, to the federal appropriation process. However, management explained that during fiscal year 2006 the department placed priority on the compilation of its 2007-09 biennial budget and, as a result, preparation of federal contract budgets was put on hold. Department staff told us

<sup>3</sup> Some contracts had multiple federal billings included in our sample.

that generally management did not sign federal contracts until the budget documentation had been completed.

### **Notification of Signed Contracts Not Provided to Accounting Services Timely**

The department's Accounts Receivable section prepares federal billings monthly but cannot submit them for reimbursement until it receives notification that the federal contract has been signed. We found that reimbursements for 13 federal billings were delayed more than 50 days because the Accounts Receivable section was not notified timely of the signed contract.

### **Federal Billings Not Submitted to Federal Agencies in a Timely Manner**

We found reimbursements for three federal billings were delayed because the department did not submit them to the federal agency timely. Late submission of the federal billings contributed an average of 69 days to the total time the federal billings remained outstanding.

### **Department Staff Not Responding Timely to Federal Agency Inquiries**

Federal agencies review submitted billings for appropriateness and accuracy and may have questions regarding the claimed costs. In these instances, the federal agency may contact the department for additional information. We found reimbursements for seven federal billings were delayed because department staff did not respond timely to federal agency inquiries. For example, one federal agency contacted the department in June 2006 for additional information about two federal billings, but the

department did not respond until February 2007.

## Recommendations

We recommend department management develop clear, written policies and procedures for billing and collecting federal accounts receivable.

### Agency's Response:

ODFW generally agrees with Recommendation #1.

**Proposed action plan:** ODFW is in the process of filling the remaining vacancies in the Administrative Services Division, including the Fiscal Services Manager. The fiscal services unit will develop written policies and procedures for processing and collecting accounts receivable.

**Proposed completion date:** June 30, 2008

We recommend department management develop and implement appropriate monitoring procedures for its federal contracts. These procedures should include:

- ensuring regular monitoring of the federal contract, billing, and collection processes;
- preparing and reviewing accounts receivable aging schedules;
- proactively following-up on balances outstanding for more than 30 days from their original due date;
- following-up timely on federal agency inquiries to ensure questions about submitted federal billings are resolved; and
- proactively following-up with field staff and management to ensure they submit required performance and financial reports in a timely manner.

### Agency's Response:

ODFW generally agrees with Recommendation #2.

**Proposed action plan:** The Administrative Services Division management team reviewed the internal contract process and recommended establishing a central point of contact for all internal and external inquiries regarding contracts. The division has identified a position to be used for this purpose. The position's main focus will be proactively monitoring contracts throughout all phases. In addition, this position will be responsible for monitoring all progress reports to our federal stakeholders. A recruitment for the position will be completed by September 1, 2007.

**Proposed completion date:** January 1, 2009.

## Opportunities Exist to Mitigate the Impact of Delays on the Department's Cash Flows

Part of our work focused on potential strategies to reduce the impact of delays in reimbursement from federal agencies. In response to input provided by staff in the Legislative Fiscal Office, we explored two specific strategies: charging federal agencies interest for delayed reimbursements, and using monies available in the Deferred Maintenance Subaccount to reduce the impact of delays that occurred on the department's cash flows.

## Charging Federal Agencies Interest on Delayed Reimbursement

Under the federal Cash Management Improvement Act a State may charge interest to a federal agency for delayed reimbursement if the related contract for federal program funding meets certain requirements, which include a negotiated funding threshold.<sup>4</sup> For contracts that meet the funding threshold, States must

perform additional administrative steps, such as maintaining records that would support interest calculations, and documenting clearance patterns.<sup>5</sup> The State's funding threshold for fiscal year 2006 totaled \$37 million, while the department's largest federal contract totaled no more than \$7 million, well below the State's funding threshold. As a result, the department could not currently charge interest on delayed reimbursement of its federal contract expenditures.

Federal regulations also allow a State, upon request, to lower its funding threshold to incorporate additional federal contracts. However, all of the State's federal contracts that meet the lower funding threshold would become subject to the requirements set forth in the federal regulations. Department of Administrative Services (DAS) staff reported that it would be ineffective to lower the State's funding threshold because of the additional workload that would be placed upon other State agencies.

As a final alternative, if a federal agency is unwilling or unable to make timely reimbursements, a State can document the extent of reimbursement delays attributable to the federal agency and work through the U.S. Treasury to resolve the issue. If the reimbursement process does not improve, the U.S. Treasury can in effect permit the State to charge interest on the delayed reimbursements. However, the department should first ensure that delays resulting from its own internal processes have been minimized.

We recommend department management analyze the extent of the reimbursement delays attributable solely to federal

<sup>5</sup> Clearance pattern means a projection showing the daily amount subtracted from the department's bank account each day after the department makes disbursements.

<sup>4</sup> Code of Federal Regulations, Title 31, part 205

agencies and determine whether those delays are acceptable.<sup>6</sup> If determined unacceptable, the department should work with DAS and the U.S. Treasury to improve the timeliness of federal reimbursements and explore possible collection of interest.

**Agency's Response:**

*ODFW generally agrees with Recommendation #3.*

**Proposed action plan:** *ODFW is in the process of streamlining the agency's internal contract process to reduce the time it takes to produce and sign a contract with a federal agency. Once this process is completed, ODFW will review the status of federal reimbursement delays and take additional steps if warranted.*

**Proposed completion date:** *June 30, 2009.*

## Using the Deferred Maintenance Subaccount as a Bridging Strategy

Statutes permit the department to borrow monies from the principal balance of its Deferred Maintenance Subaccount to maintain adequate cash flow requirements. However, the department must repay borrowed monies, with interest, within six months. Repaid interest is then available to the department for the maintenance of fish hatcheries and other departmental facilities as prescribed by statute.<sup>7</sup>

As of March 27, 2007, the principal balance of the Deferred Maintenance Subaccount was \$3.5 million. We estimated that the department would have paid up to \$71,000 in interest had it borrowed \$3 million from the Deferred Maintenance Subaccount for a six month period during fiscal year

<sup>6</sup> This recommendation would likely require the department to begin tracking the date that federal billings are submitted to the federal agencies for reimbursement.

<sup>7</sup> ORS 496.303(7)

2006. With an average monthly outstanding federal billing balance of \$9.3 million, use of the Deferred Maintenance Subaccount may not make a significant difference. However, as improvements are made, use of these monies could provide the department with a means of supplementing its cash flows, specifically during low points in its revenue cycle. For example, during the three year period reviewed, the department experienced declining net revenues between October and March.

**We recommend** department management consider the use of the Deferred Maintenance Subaccount as part of an overall cash management strategy.

**Agency's Response:**

*ODFW generally agrees with Recommendation #4.*

**Proposed action plan:** *ODFW will continue to monitor the agency's cashflow, ending balance fluctuations, and critical low points in the revenue cycle. The agency will identify criteria and parameters for use of the Deferred Maintenance Subaccount as one of our cash management tools.*

**Proposed completion date:** *June 30, 2008*

## Other Matters

As part of the Flood Control Act of 1950, the USACE constructed numerous dams and related hydropower facilities. Construction and operation of these projects resulted in the loss of salmon runs and other fish species. As a result, the USACE provided facilities to mitigate the loss of fish spawning, feeding, and rearing grounds.

In October 1990, the department and the USACE entered into a Cooperative Agreement for the operation and maintenance of certain federally-owned fish hatcheries. The Cooperative Agreement specified the responsibilities of both the

department and the USACE. However, we learned that uncertainty exists regarding the department's status under the Cooperative Agreement. Specifically, management was uncertain if the department was a grantee or a vendor of the USACE. This is significant because federal regulations governing timely reimbursement of federal contract expenditures would depend upon the department's status. Moreover, according to USACE staff, the level of scrutiny USACE gives to federal contract expenditures differs by status. The Cooperative Agreement also appears to be out of date.

**We recommend** department management update and clarify its Cooperative Agreement with the USACE to ensure there is a clear understanding of the department's roles and responsibilities.

**Agency's Response:**

*ODFW generally agrees with Recommendation #5.*

**Proposed action plan:** *ODFW will start working on this recommendation after September 30, 2007. This timeline should afford ODFW and the USACE the opportunity to complete FY 2008 contracts, start the close out process for FY 2007, and adjust the agreement prior to development of FY 2009 contracts.*

**Proposed completion date:** *June 30, 2009.*

## Objectives, Scope and Methodology

The purpose of this audit was to determine whether opportunities exist to reduce both the extent and impact of delays experienced by the department in obtaining federal reimbursement of costs incurred on federal contracts.

To achieve our objectives and to gain a better understanding of the federal billing and reimbursement process, we performed the following steps:

- reviewed federal laws and regulations, and State statutes and rules that govern the administration of federal contracts;
- interviewed key department management and staff, representatives from other State agencies, and representatives from agencies in other State and federal governments;
- reviewed selected federal contracts; and
- conducted a walk-through of the federal billing and reimbursement process.

We reviewed the Oregon Accounting Manual for policies and procedures governing accounts receivable management. In order to identify best practices, we reviewed policies and procedures developed by other state governments, such as the States of Colorado and Utah.

We analyzed the department's federal revenue data, which we obtained from the department's accounting system, for fiscal years 2004 through 2006. We determined the data used in our analysis was sufficiently reliable for our audit purposes. Using the data for all federal billings prepared during fiscal years 2004 through 2006, we calculated the number of days between the date the federal billing was prepared and the date reimbursement was collected. We used the results of this analysis to determine the average monthly federal contract expenditures billed and the average monthly outstanding federal billing balances for fiscal year 2006. Our analysis was based upon the preparation date because the department did not maintain records with the date billings were actually submitted to federal agencies for reimbursement. As a result, our analysis included delays attributable to the department, as well as delays attributable to federal agencies.

In evaluating the timeliness of reimbursements, we considered

requirements set out in the Cash Management Improvement Act and the Prompt Payment Act. We also considered agreements with two major federal funding agencies in place during fiscal year 2006, which specified time frames for reimbursement.

We obtained the fiscal year 2004, 2005 and 2006 monthly operating cash account balances from the department's accounting system. We performed a preliminary review of the data and determined it was sufficiently reliable for our audit purposes. We used the data to identify operating trends over the three year period, to calculate the average monthly balance of the department's operating fund, and to determine the effect that a 30 day improvement in the collection of reimbursement of outstanding federal billings would have on the department's cash flows.

We reviewed a judgmental sample of federal billings older than 120 days. We examined hardcopy billing and contract documentation, and interviewed department and federal agency staff and management to identify the common causes that led to reimbursement delays.

When we estimated the cost of borrowing monies from the Deferred Maintenance Subaccount, we assumed that the department would make no principal or interest payments until the end of the six month repayment period allowed by statute. Additionally, in making the estimate, we used the average fiscal year 2006 interest rate earned on monies deposited in the Oregon Short Term Fund, and the standard 0.7 percent rate increase as charged by the Oregon State Treasury on six month loans.

We conducted our work according to generally accepted government auditing standards.





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*Courtesies and cooperation extended by officials and staff of the Oregon Department of Fish and Wildlife were commendable and much appreciated.*

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