



Office of Inspector General U.S. Department of the Interior

ADVISORY REPORT

**COSTS CLAIMED BY THE STATE
OF SOUTH CAROLINA,
DEPARTMENT OF NATURAL
RESOURCES AND THE MARINE
RESOURCES DIVISION, UNDER
FEDERAL AID GRANTS FROM
THE U.S. FISH AND WILDLIFE
SERVICE FROM JULY 1, 1996 TO
JUNE 30, 1998**

AUGUST 2002

Report No. 2002-E-0007



United States Department of the Interior

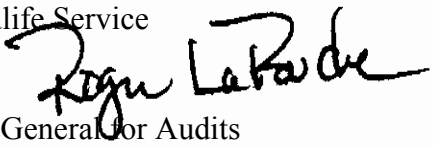
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

August 6, 2002

ADVISORY REPORT

Memorandum

To: Director
U. S. Fish and Wildlife Service

From: Roger La Rouché 
Assistant Inspector General for Audits

Subject: Final Advisory Report on Costs Claimed by the State of South Carolina
Department of Natural Resources and the Marine Resources Division Under
Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1996
through June 30, 1998 (No. 2002-E-0007)

Introduction

This report presents the results of our performance of procedures to review another audit agency's work related to costs claimed by the State of South Carolina Department of Natural Resources and the Marine Resources Division (Department) under Federal Aid grants from the U.S. Fish and Wildlife Service (FWS) for the period July 1, 1996 to June 30, 1998.

Background and Scope

The Federal Aid in Wildlife Restoration Act, as amended (16 U.S.C. 669) and the Federal Aid in Sport Fish Restoration Act, as amended (16 U.S.C. 777), (the Acts), authorize FWS to provide Federal assistance grants to states to enhance their sport fish and wildlife programs. The Acts provide for FWS to reimburse the states up to 75 percent of all eligible costs incurred under the grants. The Acts specify that state hunting and fishing license revenues cannot be used for any purpose other than sport fish and wildlife activities or the administration of the state's fish and game agencies. In addition, FWS provides grants to the states under the Clean Vessel Act and the Endangered Species Act.

In June 2001, another audit agency prepared a draft audit report entitled “Audit of the South Carolina Federal Aid Program Grants and Payments Awarded by the U.S. Fish and Wildlife Service, Division of Federal Aid, Fiscal Years 1997 and 1998” to the Department. The scope of its audit work, as stated in the announcement letter to the Department, was to evaluate (1) the adequacy of the Department’s accounting system as it relates to the accumulation and reporting of costs charged to grants; (2) the accuracy and eligibility of the direct costs claimed by the Department under the Federal Aid grant agreements with FWS; (3) the adequacy and reliability of the Department’s hunting and fishing license fees collection and disbursement process; and (4) the adequacy of the Department’s purchasing system and related internal controls. The audit was also to include an analysis of other issues considered to be sensitive and/or significant to FWS. The audit work at the Department covered claims totaling approximately \$21 million on FWS grants that were open during the Department’s fiscal years ending June 30, 1997 and 1998 (see Appendix 1). The audit agency’s agreement with FWS expired before issuance of its final report to the State of South Carolina. However, the State was provided an unsigned copy of the draft report in June 2001 and presented a written response in June 2001.

From 1996 through September 2001, the audit agency conducted audits of Federal Aid grants under a reimbursable agreement with FWS. FWS did not renew or extend its agreement with the audit agency, which expired on September 30, 2001. At the time of expiration, final audit reports on several uncompleted audits had not been issued and the audits were in various stages of the audit and reporting processes. The audit agency indicated in a September 28, 2001 memorandum to the file that its supervisors had not reviewed the working papers for the South Carolina audit to ensure that (1) sufficient, competent and relevant evidence was obtained, (2) evidential matter contained in the working papers adequately supported the audit findings in the report, and (3) sound auditing techniques and judgment were used throughout the audit.

On September 20, 2001, FWS and the Department of the Interior (DOI) Office of Inspector General (OIG) entered into an Intra-Departmental Agreement under which FWS requested the OIG to (1) review the audit work performed by the audit agency including its working papers, summaries and draft reports for these audits and (2) issue reports on the findings that were supported by the working papers. Accordingly, our review was limited to performing the procedures set forth in the Agreement and our conclusions presented in the report are limited to findings substantiated by the working papers. We did not perform any additional audit work of the grantee’s records and the limited work performed under these procedures does not constitute an audit by the OIG in accordance with Generally Accepted Government Auditing Standards.

Significant findings impacting South Carolina’s administration of the Federal Aid program are presented in the body of the report and other management issues and observations, which may require corrective action, are presented in Appendix 2. In

addition, we have included in Appendix 3 a list of the findings included in the draft report, along with the results of our corresponding analysis.

Results of Review

The working papers disclosed the following:

- Costs totaling \$56,280 (Federal share) were questioned because they were incurred outside of the grant period (\$32,490), represented payments to a sub grantee that were later refunded to the Department (\$13,468), and claimed in excess of the Federal share (\$10,322).
- The Department may not have received interest on license revenues.
- The Department did not adequately account for personal property acquired with Federal Aid funds.

A. Questioned Costs

The working papers identified questioned costs of \$56,280 (Federal share) as follows:

1. Out-of-Period Costs. Costs totaling \$32,490 (Federal share) were questioned because the costs were incurred prior or subsequent to the time period covered by the grant to which the costs were charged. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Attachment A, Part C, states that “to be allowable costs must conform to any limitations or exclusions set forth in Federal laws and conditions of the Federal award.” Each grant had a specified time period for the completion of work and there was no evidence that FWS had authorized any deviations. The questioned costs are summarized below:

Grant	Amount	Project Title
E-1-17	\$5,000	Long Leaf Pine
E-1-18	5,000	Long Leaf Pine
E-1-18	1,990	Lake Jocassee Caddisfly
E-1-19	5,000	Long Leaf Pine
E-1-19	15,500	Carolina Heelsplitter
Total	<u>\$32,490</u>	

The draft report recommended that the Department reimburse FWS for the questioned amounts and improve its monitoring of grant costs.

Department's Response:

The Department agreed that the costs were incurred outside the grant periods and offered to discuss the appropriate corrective action with FWS. However, the Department did not concur that the costs should be reimbursed stating that the total amount drawn down was for eligible projects under the program and the work was completed.

Office of Inspector General Comments:

The Department's response agreed with the basis of the finding. The eligibility of these costs for reimbursement will be resolved by FWS.

Recommendation:

We recommend that FWS resolve the \$32,490 (Federal share) in out-of-period costs.

2. Refunded Costs. Costs totaling \$13,468 (Federal share) were questioned because the Department did not credit the grant for a refund it received. The Department had an agreement with the University of Georgia Research Foundation to conduct a Carolina Heelsplitter project under Grant E-1-17. Since the Foundation did not accomplish the agreement objectives, it only charged the Department \$11,532 for incurred costs. Although the Federal share of the project budget was only \$21,856, the working papers disclosed that the Department drew down on its letter of credit \$25,000 and paid the Foundation the entire amount. The Foundation refunded \$13,468 to the Department but this amount was never repaid to FWS.

The draft report recommended the Department refund the questioned amount to FWS and improve its monitoring of grant costs.

Department's Response:

The Department agreed that the \$13,468 was returned by the Foundation and stated that it planned to use the funds for a new project approved by FWS.

Office of Inspector General Comments:

The method of resolving the \$13,468 refunded to the Department will be determined by FWS.

Recommendation:

We recommend the FWS resolve the \$13,468 of questioned costs.

3. Excess Drawdowns. Federal Aid reimbursements of \$10,322 were questioned in the draft report because they were drawn down on the Department's letter of credit in excess of the Federal share indicated in the agreement for Grant F-25-12. The Code of Federal Regulations (50 CFR 80.12) states that "Federal participation is limited to 75 percent of eligible costs incurred in the completion of approved work or the Federal share specified in the project agreement, whichever is less". The \$10,322 in questioned costs was computed as follows:

Federal Share in Grant Agreement (a)	\$ 50,000
Total Cost in Grant Agreement (b)	137,000
Federal Share Per Grant Agreement (c=a/b)	36.50%
Total Eligible Costs Claimed (d)	\$106,366
Federal Share of Costs Claimed (e=cxd)	\$ 38,820
Amount Drawn Down from Federal Aid (f)	49,142
Questioned Costs (f-e)	\$ 10,322

The draft report recommended that the Department refund the questioned amount to the FWS.

Department's Response:

The Department concurred with the finding and explained that the overdraw of funds occurred because of an oversight and, the Department's Grant Section did not request an adjustment to the original budget. Consequently, the amount drawn down was based on the budgeted Federal share and not the actual costs incurred. However, the Department disagreed with the recommendation to refund the questioned amount, stating that since all costs were allowable and the project was completed, FWS should recognize the total drawdown of Federal funds as allowable.

Office of Inspector General Comments:

We noted that the grant agreement identified the total project costs (\$137,000) and the costs to be funded by FWS (\$50,000) and the State (\$87,000). However, the agreement did not specifically cite a Federal cost sharing percentage. Therefore, it was not clear in the agreement whether the Federal share was limited to 36.5 percent of

incurred costs or whether the Department was entitled to reimbursement of the entire \$50,000. Therefore, FWS should determine the appropriate Federal share of costs applicable to this grant.

Recommendation:

We recommend that the FWS resolve the \$10,322 in questioned costs.

B. Interest on License Revenues

License revenues were placed in the State Treasury and earmarked for the purposes of restoration, conservation, management and enhancement of wildlife and fisheries resources. Interest was earned on the amounts deposited, but the interest earned on license revenue was not returned to the Department. The Code of Federal Regulations (50 CFR 80.4) requires that “Revenues from license fees paid by hunters and fishermen shall not be diverted to purposes other than administration of the State fish and wildlife agency.” The regulation further states that license revenues include income from interest earned on license revenues.

Computations in the working papers estimated the interest for fiscal years 1997 and 1998 to be \$620,994 and recommended that the State return the foregone interest income to the Department. However, we could not verify the validity of this amount.

Department’s Response:

The Department responded that it receives funds appropriated from the General fund (about \$31 million was budgeted for FY 2001) in addition to license fees, so that “technically” interest earned on license fees was given to the Department through the annual appropriation. In addition, during the 2001-2002 budget process, the Department requested an amendment from the State Legislature specifying that interest earned on license fees be appropriated to the Department. As a result, the Legislature agreed to appropriate the interest earned on license fees to Department as a separate line item.

Office of Inspector General Comments:

While the Department’s position that appropriations from the General fund compensated for the interest earned on license revenues may be valid, we were unable to substantiate the accuracy of the amount of interest earned as reported in the draft report or the amounts of General fund revenues received for the administration of the Department’s fish and game activities.

Recommendations:

We recommend that the FWS:

1. Ensure that sufficient unrestricted General fund revenues were received during the period in question to compensate for interest that was not received by the Department.
2. Ensure that the State has established a requirement that all future interest earned on license fees is appropriated to the Department as a separate line item to be used in administering the State's fish and wildlife programs.

C. Asset Management

The working papers concluded that the Department did not perform a physical inventory of assets and that property records were not adjusted on a timely basis for assets that had been transferred or stolen.

The Department used an annual self-reporting inventory process whereby employees were required to verify a listing of assets assigned to them and report any discrepancies. Under this process, the person to whom the asset is assigned is also the one responsible for reporting on its existence and condition. The lack of segregation of responsibilities is an internal control weakness in the asset management system.

In addition, the Department did not make timely adjustments to its property records for assets reported as transferred or stolen during the self-reporting inventory process, even though the employees involved stated that they reported the status of the items on every self-inventory as required. Some examples include:

- A form indicating the transfer of a color graphics monitor from Fisheries District III to Data Processing was completed in November 1995 but the asset (#G14571) was still assigned to the District.
- A personal computer (#G14712) was reported as salvaged equipment in November 1998 but was still assigned to Fisheries District V.
- A 20 gauge shotgun (#G13185) was reported as stolen in December 1991 but was still assigned to Hunter Education.

The following items or related paperwork could not be located:

- Laptop (#G20541)
- Personal computer (#G22509)
- Personal computer (#G20710)
- Personal computer (#G20683)

The draft report indicated that steps were being taken by the Department's internal auditor to conduct an inventory. The report recommended that the Department

perform a complete physical inventory every 2 years and update its property records on a timely basis to ensure that assets are being used solely for authorized purposes.

Department's response:

The Department stated that since the establishment of the Audit Services Section within the Department in January 1998, an annual physical inventory of fixed assets has been conducted. As part of the inventory process, the section:

- Physically verified a sample of equipment inventory,
- Confirmed properly completed Self-Reported Inventory forms,
- Verified that the equipment's value, description and location are accurately recorded in the Fixed Asset System, and
- Confirmed that the equipment is properly safeguarded.

The Section will continue to ensure that future work will include performing a physical inventory of a sample of all assets purchased with Federal Aid funds and reconciling results to property records at least once every 2 years as well as review the annual Self-Inventory process.

Office of Inspector General Comments:

The actions identified in the Department's response should improve overall asset management. Due to the significance of the issues raised, we believe that the Department should conduct a complete physical inventory of all equipment purchased with Federal Aid funds to establish an accurate, current and complete listing of property upon which its planned actions and reconciliation can be based.

Recommendation:

We recommend that the FWS ensure that the Department perform a complete physical inventory and update its property records to establish a baseline for future actions planned.

D. Labor System

The draft report stated that the Department's labor system did not record actual labor costs charged to Federal Aid grants. Instead, it was the Department's practice to charge budgeted labor amounts to the grants. The draft report stated that as a result of this deficiency, the auditors could not attest to the accuracy of the labor costs charged to Federal grants during the audit period.

OMB Circular A-87, Attachment B, Section 11(h)(4) states “where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5).” Subsection 5 states that “personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, and (b) They must account for the total activity for which each employee is compensated.” The report also stated that Department did not have formal written procedures describing the proper method to control time charges for personnel services.

The draft report recommended that the Department (1) develop written procedures and adequate internal controls to address all aspects of the Department’s timekeeping process and (2) implement a timekeeping system to accurately reflect employees’ actual time charges and ensure that grants are only charged actual costs.

Department’s Response:

The Department responded that it has implemented an electronic time and effort reporting system to track actual labor charges by hour, project and grant where required. The Department added that written procedures have been established and instruction was provided to all personnel for the new system.

Office of Inspector General Comments:

It appears that the Department has made the needed improvements by implementing new procedures, allowing it to take advantage of the cost recording and reporting capabilities of the existing State accounting system. We consider this response to be adequate to resolve the recommendations in the draft report.

Recommendation:

We recommend that the FWS ensure that these new procedures are adequate to track actual labor costs.

In accordance with the Departmental Manual (360 DM 5.3), please provide us with your written response by November 6, 2002, to the recommendations included in this report. If further information is needed regarding this report, please contact Gary Dail, Federal Assistance Audit Coordinator, at (703) 487-8011.

This Advisory Report is intended solely for the use of grant officials of the U.S. Fish and Wildlife Service, and is not intended for, and should not be used by anyone who is not cognizant of the procedures that were applied to the review of another audit agency’s work.

cc: Regional Director, Region 4
U.S. Fish and Wildlife Service

APPENDIX 1
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SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 1996, THROUGH JUNE 30, 1998

Grant Number	Grant Amount	Claimed Costs	Questioned Federal Share	Notes
F-25-10	\$78,850	\$76,590	\$0	
F-25-11	1,481,000	1,481,000	0	
F-25-12	137,000	106,366	10,322	1
F-59-4	133,000	296,657	0	
F-59-5	190,000	368,977	0	
C-5-1	360,000	357,108	0	
E-1-17	198,808	252,898	18,468	2
E-1-18	214,262	269,979	6,990	3
E-1-19	184,856	256,146	20,500	4
E-1-20	182,537	273,236	0	
F-27-11	16,000	16,000	0	
F-27-12	16,000	16,256	0	
F-58-4	10,000	10,000	0	
F-58-5	10,000	10,000	0	
F-63-2	2,025,360	2,019,710	0	
F-63-3	1,993,500	2,057,767	0	
F-66-1-F	378,000	161,000	0	
F-66-1-S		203,991	0	
F-66-2	213,000	161,023	0	
F-67-1	40,000	40,000	0	
W-1-22	1,540,000	1,381,721	0	
W-29-40	11,435	11,435	0	
W-29-41	12,120	12,120	0	
W-30-38	3,602,633	4,233,908	0	
W-30-39	3,187,700	4,106,844	0	
W-91-1	133,350	201,718	0	
W-91-2	133,350	176,080	0	
W-92-1	291,477	540,158	0	
F-29-10	1,666,667	149,453	0	
F-29-11	197,215	156,320	0	
F-29-12	253,488	214,061	0	
F-52-5	40,254	40,276	0	
F-52-6	24,000	12,555	0	
F-54-5	140,100	139,545	0	
F-54-6	146,670	145,207	0	
F-62-2	124,247	131,755	0	
F-62-3	90,667	90,667	0	
F-65-1	121,333	140,572	0	
F-65-2	121,958	137,875	0	
F-65-3	156,982	140,594	0	
V-2-1	357,900	185,066	0	
V-3-1	330,667	94,373	0	
V-4-1	98,667	11,276	0	
V-5-1	264,000	61,744	0	
V-6-1	232,000	118,058	0	
Total	<u>\$21,141,053</u>	<u>\$21,068,085</u>	<u>\$56,280</u>	

Explanatory Notes:

1. These questioned costs pertain to the costs drawn down in excess of the Federal share (Questioned Costs, 3).
2. These questioned costs include \$5,000 of out-of-period transaction costs and \$13,468 of costs refunded by sub-grantee (Questioned Costs, 1 and 2, respectively).
3. These questioned costs pertain to \$6,990 (\$5,000 and \$1,990) of out-of-period costs (Questioned Costs, 1).
4. These questioned costs relate to the \$20,500 (\$5,000 and \$15,500) of out-of-period costs (Questioned Costs, 1).

MANAGEMENT ISSUES

The working papers indicated that the Department's purchasing, cash management and billings, and draw down systems and related internal controls and assent legislation, in effect during fiscal years 1997 and 1998 were adequate for Federal Aid participation. However, the working papers identified several management issues that the U. S. Fish and Wildlife Service and the South Carolina Department of Natural Resources and the Marine Resources Division need to address, as follows:

A. Project Level Accounting

The Department accumulated and reported costs at the grant level even though the grants included multiple projects, with separate budgets. The Code of Federal Regulations [43 CFR 12.60(b)(4)] states, "Actual expenditures or outlays must be compared with budgeted amounts." Consequently, project costs should be monitored and compared to project budgets for better control of the Federal Aid grant funds. Apparently the State's accounting system utilized by the Department has the capability to accumulate and report costs at the project level but the Department did not do so because it was not required to by FWS.

The draft report recommended that the Department establish an adequate system and controls to account for costs at the project level. The Department responded that costs for projects in grant proposals submitted and approved for fiscal year 2000 were being accumulated at the project level. It maintained that during the audit period it was not required by FWS to accumulate and report costs at the project level, and therefore disagreed with the recommendation. If FWS requires accounting at the project level, then the Department should use the State accounting system to satisfy the requirement.

B. License Certification

The Department included lifetime licenses in its annual certification. The regulation [50 CFR 80.10(c)(3)] allows licenses for multiple years to be counted each year the license is valid if (1) net revenue is earned in the period the license is valid and (2) there is a technique to determine whether the licensee remains a holder in the year of certification. Apparently, the Department included such licenses in its annual certification even though its accounting system could not compute net revenue on license sales and had no method to eliminate license holders who died during the year. The Department has discontinued including these licenses in the annual certification. We consider this response to be adequate to resolve the recommendations in the draft report.

APPENDIX 3
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Findings Contained in the June 2001 Draft Report	Result of the OIG Review
QUANTIFIABLE ISSUES	
1. Questioned Costs: Diversion of Interest on License Fees	Included in this report as Finding B, "Interest on License Revenues" and quantified for only the 2 year audit period based on a decision of the Department of the Interior
2a. Questioned Costs for Grant E-1-17: Claimed Expenditures in Excess of Project Amount Out-of-Period Costs Purchased Vehicle Refunded Costs	Excluded from this report because cumulative transfers did not exceed 10 percent of the total approved grant budget Included in this report as Finding A, "Questioned Costs, 1. Out-of-Period Costs" Excluded from this report because the finding was not supported by the working papers Included in this report as Finding A, "Questioned Costs, 2. Refunded Costs"
2b. Questioned Costs for Grant E-1-18: Claimed Expenditures in Excess of Project Amount Out-of-Period Costs	Excluded from this report because cumulative transfers did not exceed 10 percent of the total approved grant budget Included in this report as Finding A, "Questioned Costs, 1. Out-of-Period Costs"
2c. Questioned Costs for Grant E-1-19: Claimed Expenditures in Excess of Project Amount Out-of-Period Costs	Excluded from this report because cumulative transfers did not exceed 10 percent of the total approved grant budget Included in this report as Finding A, "Questioned Costs, 1. Out-of-Period Costs"
2d. Questioned Costs for Grant E-1-20: Claimed Expenditures in Excess of Project Amount	Excluded from this report because cumulative transfers did not exceed 10 percent of the total approved grant budget
3. Questioned Costs: Boating Access Funds	Included in this report as part of Finding A, "Questioned Costs, 3. Excess Drawdowns"

APPENDIX 3
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COMPLIANCE ISSUES	
1. Accounting System: Inadequate for accumulation and reporting of costs due to problems with labor system and the following deficiencies: a. Project Level Accountability b. Misclassified Coordination Costs c. Appropriation Transfer Credits Not Reflected in Expenditure Totals d. Excessive Journal Entries	1. Excluded from this report because the finding is not supported by the working papers a. Included as a management issue in Appendix 2 b. Excluded from this report because it is immaterial c. Excluded from this report because it is immaterial d. Excluded from this report because it is immaterial
2a. Labor System: Inadequate Timekeeping	Included in this report as Finding D, "Labor System "
2b. Labor System: Lack of Written Policies	Included in this report as Finding D, "Labor System "
3a. Asset Management: Lack of Physical Inventories	Included in this report as Finding C, "Asset Management"
3b. Asset Management: Property Records	Included in this report as Finding C, "Asset Management"
4. Purchasing System	Noted in the Management Issues section of the report in Appendix 2
5. License Fee Collections and Disbursement System	Excluded from this report because it relates to Finding B "Interest on License Revenues"
6a. License Certification: Ineligible Lifetime Licenses Included in Annual Certifications	Included as a management issue in Appendix 2
6b. License Certification: Lack of Written Procedures for Annual License Certification	Excluded from this report because the finding was not supported by the working papers
7. Assent Legislation	Noted in the Management Issues section of the report in Appendix 2
8. Billing System Drawdowns	Noted in the Management Issues section of the report in Appendix 2
9a. Foundation Costs: Legislative Audit Council Findings	Excluded from this report because the finding was based on findings cited in another report and were resolved prior to the issuance of that report.
9b. Foundation Costs: Public Relations	Excluded from this report because the finding was not supported by the working papers
OTHER MATTERS	
1. Grant Management	Excluded from this report because it duplicates findings reported in other areas
2. Inadequate SF 269 Status Reports	Excluded from this report because it is immaterial
3. Inadequate Monitoring of Funds	Excluded from this report because it is immaterial

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