

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



ADVISORY REPORT

**COSTS CLAIMED BY THE
COMMONWEALTH OF
PENNSYLVANIA FISH AND BOAT
COMMISSION, UNDER FEDERAL
AID GRANTS FROM THE U.S. FISH
AND WILDLIFE SERVICE FROM
JANUARY 1, 1996 THROUGH
DECEMBER 31, 1997**

NOVEMBER 2002

Report No. 2003-E-0002



United States Department of the Interior


OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

November 4, 2002

ADVISORY REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Roger La Rouche 
Assistant Inspector General for Audits

Subject: Final Advisory Report on Costs Claimed by the Commonwealth of Pennsylvania Fish and Boat Commission, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from January 1, 1996 through December 31, 1997 (No. 2003-E-0002)

Introduction

This report presents the results of our performance of procedures to review another audit agency's work related to costs claimed by the Commonwealth of Pennsylvania Fish and Boat Commission (Commission) under Federal Aid grants from the U.S. Fish and Wildlife Service (FWS) for the period January 1, 1996 to December 31, 1997.

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 the 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. Additionally, the Acts specify that state hunting and fishing license revenues cannot to be used for any purpose other than the administration of the state's fish and game agencies. In addition, FWS also provides grants to the states under the Clean Vessel Act and the Endangered Species Act.

In February 1999, another audit agency initiated an audit of Federal Aid program grants awarded by the FWS to the Commonwealth of Pennsylvania for the Commonwealth's fiscal years 1996 and 1997, which ended December 31, 1996 and 1997, respectively. The scope of its audit work, as stated in its announcement letter to the Commission, was to evaluate (1) the adequacy of the Commission's accounting system as it relates to the accumulation of costs charged to grants, (2) the adequacy and eligibility of the direct costs claimed by the Commission

under the Federal Aid grant agreements with FWS; (3) the adequacy and reliability of the Commission's fishing license fee collection and disbursement process; and (4) the adequacy of the Commission's purchasing system and related internal controls. The audit was also to include an analysis of other issues considered sensitive and/or significant to FWS. The audit work at the Commission covered claims totaling approximately \$16.8 million on FWS grants that were open during calendar years 1996 and 1997 (see Appendix 1).

From 1996 through September 2001, the audit agency conducted audits of Federal Aid grants under a reimbursable agreement with FWS. The 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 other audit agency indicated in a September 25, 2001 memorandum that its supervisor and management had not reviewed the working papers for the Pennsylvania 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 Intra-Departmental 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 Commission'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.

Findings affecting Pennsylvania's administration of the Federal Aid program are presented in the body of the report and other management issues are presented in Appendix 2.

RESULTS OF REVIEW

The results of our review of the audit agency's working papers disclosed that the Commission's controls over purchasing, grant compliance, letter of credit drawdowns, and asset management in effect during calendar years 1996 and 1997 were adequate for Federal Aid participation. However, the working papers also showed that:

- Costs of \$262,210 were questioned because they were incurred outside the period of the grants to which they were charged. However, there were sufficient excess costs claimed on the grants to offset the questioned costs.
- In-kind contributions totaling \$220,197 were classified as unsupported because documentation to substantiate the costs could not be located.

- Program income of \$7,572 was not credited against grant costs.
- The Commission did not have adequate physical control over its accounting records, which resulted in the inadvertent destruction of source documents that supported certain charges to Federal Aid grants.

A. Questioned Costs - \$262,210

The working papers indicated that the Commission claimed costs of \$262,210 on the wrong grant segment. The Commission claimed costs of \$262,210 on calendar year 1996 Grant No. F-74-D-6 that were incurred in calendar year 1995. Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C.1.d. states in part that to be allowable under Federal awards, costs must conform to any limitations or exclusions set forth in the circular, Federal laws, and terms and conditions of the Federal award. The Federal Aid grant agreements stipulate a specific grant period. Therefore, we questioned the out-of-period costs charged to Grant No. F-74-D-6. The working papers noted, however, that the Commission claimed sufficient excess costs on the grant to offset the amount of questioned costs.

The working papers show that the Commission stated that the out-of-period costs occurred because it does not always reconcile expenditures with obligating documents until after the grant segment is closed. As a result, costs applicable to prior periods are charged to the next grant segment. The Commission needs to establish procedures to properly accrue expenditures against the proper grant segment.

Recommendation

We recommend that FWS resolve the \$262,210 of out-of-period costs and ensure that the Commission establishes procedures to properly accrue expenditures against the proper grant segment.

Commission and U.S. Fish and Wildlife Service Responses

The Commission stated that the nature and design of Grant No. F-74-D is to allow the Commission management and engineering staff flexibility in renovating and upgrading fish production facilities and for meeting environmental compliance issues. The staff has the flexibility to begin work at various locations during the grant segment period and when necessary, move or reschedule work under subsequent segments. The Commission also stated that due to a delay in billing by the contractor, it was not able to pay for the services before the 90-day grant agreement reporting period had expired, and therefore, charged the cost to the next segment. The Commission further stated that even though the questioned costs were associated with work that was completed under segment 5, the costs should be reimbursable under segment 6 because of the structure of the grant and the fact that the activities performed were eligible under both segments 5 and 6.

The FWS stated that the Commission should properly accrue expenditures under the proper grant segment, despite the Commission's need for flexibility. The FWS further stated that any future out-of-period costs would be addressed by amending the grant segment ending date to allow any incurred costs to be correctly posted. The FWS added that the questioned costs would be offset by excess allowable costs.

Office of Inspector General Comments

The responses are adequate to resolve the recommendation. The FWS needs to ensure that the Commission establishes procedures to accrue expenditures against the proper grant segment.

B. Unsupported Costs - \$220,197

Certain Federal Aid grant records were inadvertently destroyed (see the discussion on the Accounting System on page 6 for more details). As a result, the working papers indicate that the auditors were not able to examine documents to substantiate the amount of time charged to the grants for in-kind services. (The working papers did not take exception to the composite hourly rates used for in-kind contributions.) As a result, we identified the entire \$220,197 charged for in-kind contributions as unsupported as detailed below:

Grant No.	1996	1997
F-30-D	\$0	\$801
F-57-R	1,763	0
F-61-T	37,391	62,036
F-69-E	65,814	52,392
Total	\$104,968	\$115,229

The Department provided additional documentation at the close out conference to support the in-kind contributions claimed on Grant No. F-61-T. However, the documentation provided was not sufficient to determine whether the indicated hours actually applied to the grant.

Recommendation

We recommend that the FWS resolve the \$220,197 of unsupported in-kind costs.

Commission and U.S. Fish and Wildlife Service Responses

The Commission stated that the volunteer log sheets used by the Commission are clearly labeled with the name and social security number of each volunteer, and the work site name for each work location. The Commission further stated that these log sheets are used only for work effort associated with Grant No. F-61-T.

The FWS stated that as part of the Corrective Action Plan, it would review the time sheets and yearly time summaries that were available to, but not reviewed by, the auditors.

Office of Inspector General Comments

We agree with the action proposed by FWS and the recommendation will remain open until resolution is reached as part of the Corrective Action Plan.

C. Program Income - \$7,572

The working papers show that the Commission reported that it had received program income from one gas well and three rental housing properties during fiscal years 1996 and 1997. The Commission reported total program income of \$12,500 on Grant Nos. F-30-D-33 (\$10,000) and F-30-D-34 (\$2,500), which it deducted from the total costs of the grants. Our review of the working papers disclosed that the Commission received gross income of \$20,072 on Grant Nos. F-30-D-33 (\$10,400) and F-30-D-34 (\$9,672), for a total increase of program income of \$7,572. The Commission's Federal Aid Program Manager stated that the amounts reported were based on an estimate that included the receipts from rental of housing net of housing expenses such as the cost of repairs.

The Code of Federal Regulations (43 CFR 12.65(b)) defines program income as gross income received by the grantee directly generated by a grant supported activity or earned only as a result of the grant agreement during the grant period. The regulations (43 CFR 12.65(c)) allow for the deduction of the incidental cost for the generation of program income if authorized by Federal regulations or the grant agreement. The Federal Aid Manual, Part 522, Chapter 1.14 B, states that program income must be deducted from current costs, unless prior arrangements have been made with the Regional Director. We found no evidence in the working papers that FWS had authorized the deduction of incidental costs or provided supplemental guidance for disposition of program income. Therefore, the \$7,572 should be offset (\$400 on Grant No. F-30-D-33 and \$7,172 on Grant No. F-30-D-34) against applicable grant costs to determine net costs eligible for reimbursement.

Recommendation

We recommend that FWS resolve the \$7,572 of program income.

Commission and U.S. Fish and Wildlife Service Responses

The Commission stated that it charged net program income to these grants and that net income was derived by subtracting the costs incurred by the Commission to generate the gross program income. The Commission further stated that these corresponding costs associated with the generation of program income for this period were not charged to the grant.

The FWS agreed with the finding and stated that there were sufficient excess allowable costs on the grant segments involved to offset the questioned amount.

Office of Inspector General Comments

According to the working papers and Appendix 1, the Commission did not have excess costs available for these grant segments. Therefore, the FWS should request an offset against the appropriate grant segment.

D. Accounting System

The working papers indicated that the Commission did not comply with the Code of Federal Regulations (43 CFR Part 12, Subpart C, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments) requirements for source documentation, record retention, and internal controls. The regulations (43 CFR 12.60 (b)(6)) state that accounting records “must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.” However, for non-salary costs, the Commission could not locate source documents such as original invoices because records identifying the source documents were inadvertently destroyed.

Expenditures of the Commonwealth of Pennsylvania are recorded and accumulated in the statewide-automated accounting system, called the Integrated Central System. When an expenditure is made, the original invoice is processed through the statewide system, assigned a voucher transmittal (VT) number, and sent for payment. If the expenditure is for a Federal Aid grant, a copy of the invoice is sent to the Commission’s Federal Aid Office for recording in the Federal Aid subsidiary cost accounting system. The VT number on the invoice copy is the link to the original source documents maintained for the statewide system. In response to a request for records from the original auditors, the Director of the Commission’s Bureau of Administration wrote in an August 10, 1999, letter:

“In reference to your request, No. 2911, please be advised that it is our belief that the Federal Aid records in question were destroyed in error. They were forwarded on to our warehouse for storage in accordance with our standard operating procedures. Our best efforts in reconstructing subsequent events yields the probability that the boxes containing these data were placed in a holding area, and, due to space limitations, were moved to several temporary locations within the warehouse. At some juncture, they were inadvertently co-mingled with other records scheduled for destruction and destroyed along with those records.”

Although the records destroyed were not the original documents, they were the link to the original documents. Lacking the source documents, it was not possible to perform an adequate examination of costs claimed as other direct costs. Of claimed other direct costs of \$3,313,532, records were available to review \$1,043,228. The working papers make no representation as to the propriety of other direct costs for which source documentation was not available for review.

Recommendation

We recommend that FWS ensure that the Commission institutes controls to ensure that source documents are maintained and disposed of properly and that grant records are kept for the appropriate amount of time.

Commission and U.S. Fish and Wildlife Service Responses

The Commission stated that while the Federal Aid Section's source documents were inadvertently destroyed for the audit period, the Commission's backup system provided most, if not all of the requested documentation. The Commission stated that the other audit agency indicated that the material supplied was sufficient to make a determination about grant expenditures and the Commission's accounting system. The Commission also stated that they not only adhere to the records retention requirements of the Code of Federal Regulations, but they adhere to the Commonwealth of Pennsylvania's requirement that is more stringent. The Commission further stated that because of the Commonwealth's requirements, they were able to provide adequate backup material to satisfy the auditor's sampling questions.

The FWS stated that they question whether the lack of source documents due to the original records being inadvertently destroyed is a warranted records retention issue. The FWS further stated that the Commission was able to provide the auditors with backup records for most, if not all, of the documentation requested.

Office of Inspector General Comments

We do not agree that the Commonwealth was able to provide most, if not all, of the documents requested. According to the working papers, a Commission official reviewed cost spreadsheets and was only able to locate VT numbers to identify the source documents for several large expenditures that were posted individually. The official provided the VT numbers for 13 items, which represented 31 percent of the combined other direct costs claimed on the grants in calendar years 1996 and 1997. The Commission was not able to provide the VT link for the remaining 69 percent of other direct costs, including the claim for all in-kind contributions.

The working papers concluded that because the Commonwealth's Integrated Central System only captures costs at the organizational unit level, the VT number noted on the cost accounting copy of the documents was an important aspect in the audit trail. In addition, the working papers concluded that the accounting system should be enhanced to ensure that there is a backup link to the source documents in the event that cost accounting records are prematurely destroyed in the future. Therefore, we consider the recommendation unresolved and we are requesting that FWS reconsider its response.

E. Policies and Procedures

The Code of Federal Regulations (43 CFR 12.60 (b)(3)) requires that "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets." The Commission, however, does not have written policies and

procedures for reporting grant costs. Specifically, there is no documentation regarding the procedures used or the accounting records generated from the cost accounting system. Written documentation of processes and procedures ensure consistent accounting treatment.

Recommendation

We recommend that FWS ensure that the Commission prepares written policies and procedures for reporting grant costs.

Commission and U.S. Fish and Wildlife Service Comments

Neither the Commission nor the FWS addressed this finding in their response.

Office of Inspector General Comments

The Commission and FWS should provide a response to the recommendation.

In accordance with the Departmental Manual (360 DM 5.3), please provide us with your written response by February 7, 2003, regarding disposition of the cost exceptions and other issues identified in this report.

This advisory report is intended solely for the use of grant officials of the U.S. Fish and Wildlife Service, is not intended for, and should not be used by, anyone who is not cognizant of the procedures that were applied and who agreed to the sufficiency of those procedures.

If you have any questions regarding this report, please contact Mr. Gary Dail, Federal Assistance Audit Coordinator at (703) 487-8011.

Appendix 1

COMMONWEALTH OF PENNSYLVANIA FISH AND BOAT COMMISSION FINANCIAL SCHEDULE OF REVIEW COVERAGE CALENDAR YEARS 1996 AND 1997

Grant Number	Grant Amount	Amount Claimed	Questioned Costs	Unsupported Costs
F-30-D-33	\$1,268,637	\$1,211,956	\$0	\$0
F-30-D-34	1,363,333	1,324,352	0	801
F-57-R-19	4,316,000	3,653,772	0	1,763
F-57-R-20	4,200,000	4,047,483	0	0
F-61-T-16	878,276	1,044,707	0	37,391*
F-61-T-17	1,015,000	1,151,896	0	52,392*
F-69-E-8	250,000	216,564	0	65,814
F-69-E-9	314,000	381,672	0	62,036*
F-71-R-7	190,000	245,974	0	0
F-71-R-8	240,000	259,884	0	0
F-74-D-6	1,187,000	1,571,747	262,210*	0
F-74-D-7	1,000,000	719,417	0	0
F-82-D-1	114,000	100,484	0	0
F-83-D-1	300,000	266,074	0	0
F-84-D-1	180,000	284,287	0	0
F-85-D-1	475,000	252,052	0	0
F-86-D-1	120,000	43,409	0	0
Total	\$17,411,246	\$16,775,730	\$262,210	\$220,197

*Sufficient excess costs were claimed to offset questioned/unsupported costs.

MANAGEMENT ISSUES

The working papers identified two management issues that the Commonwealth of Pennsylvania Fish and Boat Commission and the Fish and Wildlife Service need to address as follows:

A. License Certification

The working papers indicated that the Commission should use more current information as a basis to certify the accuracy of its reported numbers of fishing license holders. The Code of Federal Regulations (50 CFR 80.10(a)) states that information concerning the number of persons holding paid licenses to fish for sport and recreation in the preceding year shall be furnished upon the request of FWS. The number of license holders is one of the factors used by FWS to determine the Federal Aid apportionment of Federal Aid Restoration funds. The Commission used 1995 license holder data for the 1997 certification. It was also noted in the working papers that the Commission used an actuarial factor taken from the “Lifetable for the Total Population of Pennsylvania” based on the 1980 U.S. Public Health Service census data, although the Commission had data from the 1990 census. Using old data may affect the accuracy of the reported number of license holders and the subsequent apportionment process. The Commission should use the most current information available to make its certification.

B. Limitation on Administrative Costs

The Code of Federal Regulations (50 CFR 80.15(d)) states, “Administrative costs in the form of overhead or indirect costs for State central services outside of the state fish and wildlife agency must be in accord with an approved cost allocation plan and shall not exceed in any one fiscal year three percentum of the annual apportionment.”

The working papers show that the auditors compared the amount of statewide central services costs included in the Commission’s indirect cost proposals for fiscal years 1996 and 1997 to three percent of the State’s fiscal year 1996 and 1997 annual apportionment and found that the limitation was exceeded by \$61,304 in fiscal year 1997. The auditors did not quantify the effect on Federal Aid grants. In the future, the Commission needs to ensure that the amount of the statewide central service costs included in the Commission’s indirect cost pool is limited to 3 percent of its annual apportionment for fish restoration.

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