



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

ADVISORY REPORT

**COSTS CLAIMED BY THE
STATE OF HAWAII,
DEPARTMENT OF LAND AND
NATURAL RESOURCES,
UNDER FEDERAL AID GRANTS
FROM THE U.S. FISH AND
WILDLIFE SERVICE FROM
JULY 1, 1998 THROUGH
JUNE 30, 2000**

NOVEMBER 2002

Report No. 2003-E-0003



United States Department of the Interior

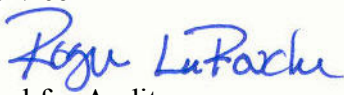
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

November 12, 2002

ADVISORY REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Roger La Rouché 
Assistant Inspector General for Audits

Subject: Advisory Report on Costs Claimed by the State of Hawaii Department of Land and Natural Resources Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1998 through June 30, 2000 (No. 2003-E-0003)

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 Hawaii Department of Land and Natural Resources (Department) under Federal Aid grants from the U.S. Fish and Wildlife Service (FWS) for the period July 1, 1998 through June 30, 2000.

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 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 September 2001, another audit agency prepared a draft audit report on the results of its review of Federal Aid Program grants awarded by the FWS to the State of Hawaii for fiscal years 1999 and 2000. The scope of the work to be performed by the audit agency, as stated in its draft report, was to evaluate (1) the adequacy of the Department's accounting system and related internal controls; (2) the accuracy and eligibility of the direct and indirect costs claimed by the

Department under the grant agreements; (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 \$16 million on FWS grants that were open during the Department's fiscal years ended June 30, 1999 and 2000 (see the Appendix).

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 other audit agency. 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 that its supervisor had reviewed a significant portion of the auditors' working papers, but the remaining working papers as well as the draft report had not been reviewed 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 the findings substantiated by the working papers. We did not perform any additional audit work of the Department'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.

RESULTS OF REVIEW

The results of our review of the working papers disclosed the following:

- Costs totaling \$420,910 were questioned representing costs that were incurred outside of grant periods (\$296,934), for items purchased but not used (\$64,958), claimed twice (\$35,840), and for in-kind contributions (\$23,178) that were incorrectly claimed or inadequately supported.
- Improvements are needed in the Department's financial management and accounting systems pertaining to budget control, time distribution, asset management, and subgrantee monitoring.

A. Questioned Costs - \$420,910

Questioned costs of \$420,910 are discussed below.

Outside of Period Costs - \$296,934. The working papers identified costs of \$296,934 that were incurred and claimed outside of the approved grant period. These costs were incurred by non-profit organizations that were sub-grantees of the Department. OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations, Subpart C, Paragraph 28, states that “Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.” Each subgrant specified a time period for the completion of work and there was no evidence that FWS authorized a deviation. Therefore, out-of-period costs claimed were questioned on the grants follows:

Grant	Amount	Sub-grant Contract Number
F-12-D-24	\$6,825	40401(a)
F-14-R-22	52,994	24588(b)
F-14-R-23	101,310	24588(b)
F-14-R-24	69,243	24588(b)
F-17-R-22	24,042	38733(c)
F-17-R-23	15,000	42878(a)
F-17-R-24	27,520	39082(b) and 42878(a)
Total	<u>\$296,934</u>	

- (a) University of Hawaii
- (b) The Research Corporation of the University of Hawaii (RCUH)
- (c) The Oceanic Institute

Unused Items - \$64,958. The working papers questioned costs of \$64,958 claimed by the RCUH for components of a computer system that were not assembled or otherwise in use under grants F-17-R-23 (\$25,854) and F-17-R-24 (\$39,104). OMB Circular A-21, Cost Principles for Educational Institutions, Part C.3 states that for a cost to be allowable, it must be necessary for the operation of the institution or the performance of the sponsored agreement. The equipment was purchased in support of grant number F-17-R, segments 23 and 24, but was in boxes and was not used during the segments for which they were purchased. According to a RCUH official, the equipment is for an electronic mailing system that would allow large maps to be electronically transmitted between islands. The official also advised that the system would save travel and mailing costs but that it was not installed because they no longer have staff capable of assembling the system.

Duplicate Costs - \$35,840. The working papers questioned costs of \$35,840 because they were claimed twice. These costs represent expenses that were correctly claimed under grant number F-14-R-22 and inadvertently also claimed on grant number F-14-R-23.

In-Kind Contributions - \$23,178. The work papers questioned costs of \$23,178, representing in-kind contributions on grant number W-22-G-5 for the following reasons:

Amount	Description
\$17,094	Costs of volunteer services that the Department included twice in the project billings.
134	Costs of volunteer services that were applicable to grant number W-23-NG-5.
5,950	Costs of a Department-owned tractor that was used to perform various grant-related tasks. As Department-owned equipment, it should not have been claimed as an in-kind contribution. In addition, these costs were improperly based on estimated hours and standard industry use rates rather than on the actual costs to the Department.

Recommendation

We recommend that the FWS resolve the \$420,910 of questioned costs representing out-of-period costs (\$296,934), items purchased but not used (\$64,958), items claimed twice (\$35,840), and incorrectly claimed or inadequately supported in-kind contributions (\$23,178).

Department and U.S. Fish and Wildlife Responses

In its September 4, 2002 letter to the U.S. Fish and Wildlife Service, the Department stated it generally concurred with the report findings. The Department stated that its practice is to report all allowable grant costs even though its matching requirement had been met and that the overmatch on the grants will reduce the amount of funds required to be returned by \$85,267. The Department further stated that the finding on out-of-period costs involved the charging of prior period contract invoices to the wrong grant segment. The Department stated that where there are remaining Federal funds in those prior grants, they are requesting that the Department be allowed to claim those charges on the correct segment, which will further reduce the amount of funds required to be returned by \$157,841.

The FWS stated that it had reviewed the issue as well as the documentation submitted by the Department and concurs with the proposed resolution, which leaves a total Federal share balance of \$54,083 in questioned costs.

Office of Inspector General Comments

The FWS response indicated that the Department will need to address the Federal share of \$54,083 in outstanding questioned costs for grant numbers F-14-R-22 (\$9,819 of questioned out of period costs), F-14-R-23 (\$26,880 of duplicate costs), and W-22-G-5 (\$17,384 of in-kind contribution claims).

B. Financial Management

Improvements are needed in the areas of budget control, time distribution, asset management, subgrantee monitoring, and non-Federal audits. Also, the Department needs to ensure that the deficiencies identified by the Hawaii State Auditor are corrected.

Budget Control. The Department accumulated and reported grant costs at the grant level even though the grant proposals included multiple projects, each with its own budget. The Code of Federal Regulations (43 CFR 12.60(b)(4)) states, “Actual expenditures or outlays must be compared with budgeted amounts.” The Department’s grant proposals specified budgets for individual projects. Consequently, project costs should be monitored and compared to project budgets for better control of the Federal Aid grant funds. The Department does not have formal written procedures to describe budget monitoring responsibilities or controls.

Time Distribution. The Department did not have formal written procedures to adequately control time charges for personnel services. The Code of Federal Regulations (43 CFR 12.60(b)(5)) requires grantees to have accounting procedures sufficient to ensure compliance with applicable Office of Management and Budget (OMB) cost principles. OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, Part 11, describes the standards for documenting employee time charges. To reduce the potential for errors in accounting for time distribution, the Department should institute procedures to address the following weaknesses noted during the review:

- Supervisors did not approve the timesheets.
- Outer island supervisors recorded time on the official timesheet for general worker employees who did not always sign the timesheets at the end of the month.
- Employees were not aware of the Federal regulations related to unallowable activities for Federal Aid grants and therefore were unable to determine whether the work completed should be charged to the activity codes listed on the timesheet.
- Timesheets were not supplied to employees until late in the month. Even though the majority of employees kept some type of daily log to document their work for transfer to the official timesheet, supplying and completing timesheets earlier should minimize the chance of errors.
- Employees completed timesheets in pencil.

Asset Management. The Code of Federal Regulations (43 CFR 12.60(b)(3)) states, “Effective control and accountability must be maintained for all grant and subgrant ...real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.” The working papers indicated that the Department could not readily provide a report to identify assets purchased with Federal Aid and/or restricted funds, the level of Federal Aid participation in the cost of the assets, or the location of assets. The Department was able to properly identify assets purchased with Federal Aid funds for the Hunter Education Program because the Program is one hundred percent funded by Federal Aid. The Department explained that the inventory system was in the process of renovation.

Subgrantee Monitoring. The Code of Federal Regulations (43 CFR 12.80), states that “Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities to assure compliance with applicable requirements and that performance goals are being achieved.” However, the working papers indicate that the Department did not have procedures for ensuring that the expenditures of subgrantees are necessary for the achievement of grant objectives and charged to the proper grant segment. Two employees of the Research Center of the University of Hawaii were responsible for reviewing the invoices received from the University as well as other subgrantees. Subsequently, the Federal Aid accountant recorded invoices in the grant cost ledgers without a further review of the invoices to determine the propriety of the charges or the appropriate grant period.

Non-Federal Audits. The Code of Federal Regulations (43 CFR 12.60(b)(3)) requires grantees to implement internal controls for the effective control and accountability for all grant and subgrant cash, real and personal property, and other assets. Audits of program activities are an effective control mechanism. The working papers noted that two audit reports by the Hawaii State Auditor had been completed of the Department’s Division of Boating and Ocean Recreation that identified weaknesses in the Division’s fiscal accountability and cash management. The first report (No. 00-11), issued in April 2000 states the Division (1) was unable to prepare accounts receivable aging reports, (2) did not prepare Treasury deposit receipts in a timely manner, (3) did not reconcile fund reports, (4) received payments for temporary mooring permits after the effective dates of the permits, and (5) did not have procedures to ensure that all amounts due from the issuance of temporary mooring permits were collected and recorded. The second report (No. 01-009), dated April 2001, states that Hawaii’s boating program has been mismanaged and neglected for years by both the Division and the Board of Land and Natural Resources to the point where their use threatens public safety. The findings in these reports could have an impact on the administration of Federal funds. Therefore, FWS should monitor the corrective action taken to ensure that the problems are resolved.

Recommendations

We recommend that FWS ensure that the Department:

1. Develops and implements procedures that address all aspects of budget monitoring including a provision that Federal Aid grant budgets be monitored on the project level.

2. Develops and implements procedures for the preparation of timesheets that include requirements for the completion of timesheets in ink and for the signature of the timesheet by the employee and supervisor.

3. Develops and implements a property management system that addresses the noted deficiencies.

4. Develops and implements procedures for adequately monitoring costs claimed by subgrantees.

5. Corrects the deficiencies cited in the Hawaii State Auditors reports.

Department and U.S. Fish and Wildlife Service Responses

The Department and the FWS did not provide a response to the five recommendations for Finding B.

Office of Inspector General Comments

The FWS needs to address the recommendations and provide an action plan on how the finding will be resolved.

In accordance with the Departmental Manual (360 DM 5.3), please provide us with written comments by February 7, 2003, regarding the questioned costs and financial management issues. Copies of documentation related to the final disposition of the questioned costs and other issues should be provided with your response. If you have any questions regarding this report, please contact Mr. 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 and who agreed to the sufficiency of those procedures.

cc: Regional Director, Region 1
U. S. Fish and Wildlife Service

**HAWAII DEPARTMENT OF LAND AND NATURAL RESOURCES
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 1999, THROUGH JUNE 30, 2000**

Grant Number	Grant Amount	Amount Claimed	Questioned Costs	Balance	Federal Share
F-11-D-22	\$660,000	\$731,364	\$0	\$731,364	\$495,000
F-11-D-23	510,000	526,763	0	526,763	382,500
F-11-D-24	510,000	253,077	0	253,077	189,808
F-12-D-23	765,000	1,196,670	0	1,196,670	573,750
F-12-D-24	1,065,000	1,326,726	6,825	1,319,901	798,750*
F-13-C-23	30,000	22,201	0	22,201	16,651
F-13-C-24	30,000	38,980	0	38,980	22,500
F-14-R-22	643,000	465,074	52,994	412,080	291,029
F-14-R-23	638,888	573,072	137,150	435,922	326,942
F-14-R-24	638,000	565,743	69,243	496,500	372,375
F-15-T-23	36,000	13,803	0	13,803	10,352
F-15-T-24	36,000	13,297	0	13,297	9,973
F-16-T-23	80,000	62,557	0	62,557	46,918
F-16-T-24	80,000	70,767	0	70,767	53,075
F-17-R-22	1,286,000	1,353,460	24,042	1,329,418	737,250*
F-17-R-23	1,286,000	1,357,847	40,854	1,316,993	737,250*
F-17-R-24	1,286,000	1,418,789	66,624	1,352,165	737,250*
F-18-AE-11	359,000	308,533	0	308,533	231,400
F-18-AE-12	359,000	360,945	0	360,945	269,250
F-18-AE-13	359,000	387,068	0	387,068	269,250
F-19-B-15	400,000	388,281	0	388,281	291,616
F-19-B-16	60,000	61,593	0	61,593	45,000
F-19-B-18	50,000	45,359	0	45,359	34,019
F-19-B-19	140,000	174,240	0	174,420	105,000
F-19-B-20	200,000	260,280	0	260,280	150,000
F-19-B-21	70,000	132,549	0	132,549	52,500
F-19-B-22	50,000	55,247	0	55,247	37,500
F-21-R-5	20,000	20,000	0	20,000	15,000
F-21-R-6	20,000	20,000	0	20,000	15,000
F-23-D-1	91,000	91,000	0	91,000	68,250
W-21-HS-22	485,000	506,952	0	506,952	325,734
W-21-HS-23	434,000	472,586	0	472,586	300,000
W-21-HS-24	434,000	451,587	0	451,587	300,000
W-22-G-4	737,500	743,435	0	743,435	553,125
W-22-G-5	872,700	862,835	23,178	839,657	629,743
W-23-NG-4	265,250	335,936	0	335,936	198,937
W-23-NG-5	273,700	396,517	0	396,517	205,275
Total	\$15,260,038	\$16,065,133	\$420,910	\$15,644,223	\$9,897,972

* Sufficient excess costs were claimed to offset the amount of questioned costs.

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