



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

## **AUDIT REPORT**

**U.S. Fish and Wildlife Service  
Federal Assistance Grants  
Administered by the State of  
North Carolina, Department of  
Environment and Natural  
Resources, Division of Marine  
Fisheries, from July 1, 2001,  
through June 30, 2003**

**Report No. R-GR-FWS-0011-2004**

**December 2004**



# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

External Audits

12030 Sunrise Valley Drive, Suite 230  
Reston, Virginia 20191

December 1, 2004

## AUDIT REPORT

### Memorandum

To: Director  
U.S. Fish and Wildlife Service

From: Andrew Fedak *Andrew Fedak*  
Director of External Audits

Subject: Final Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the State of North Carolina, Division of Marine Fisheries from July 1, 2001, through June 30, 2003 (No. R-GR-FWS-0011-2004)

This report presents the results of our audit of costs claimed by the State of North Carolina, Department of Environment and Natural Resources, Division of Marine Fisheries (Division) under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included claims that totaled approximately \$3.5 million on FWS grants that were open during the State's fiscal years ended June 30, 2002 and 2003 (see Appendix 1).

Generally, we found that the Division was in compliance with applicable grant accounting and regulatory requirements. However, we did find two issues that the Division needs to address. First, the Division did not have written instructions or procedures to monitor and ensure compliance with the three percent cost limitation for State central services costs allocated to its grant programs. In addition, we found that the Division filed nine required reports (six financial and three performance reports) late with FWS during the State's fiscal years 2002 and 2003.

FWS Region 4 responded to a draft of this report on September 27, 2004. We considered the response in preparing the final report and made changes to the report to clarify the issues. We also have added the responses after our recommendations and summarized the status of the recommendations in Appendix 3.

In accordance with the Departmental Manual (360 DM 5.3), please provide us with your written response to the recommendations included in this report by March 3, 2005. Your response should include information on actions taken or planned, including target dates and titles of officials responsible for implementation. If you have any questions regarding this report, please contact me at (703) 487-5345 or Mr. Steven Moberly, Audit Team Leader, at (916) 978-5650.

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

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## Introduction

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### Background

The Dingell-Johnson Sport Fish Restoration Act (Act)<sup>1</sup> authorizes the U.S. Fish and Wildlife Service (FWS) to provide Federal Assistance grants to the states to enhance their sport fish programs. The Act provides for FWS to reimburse the states up to 75 percent of the eligible costs incurred under the grants. It also specifies that state fishing license revenues cannot be used for any purpose other than the administration of the state's fish and game department. The Division of Marine Fisheries (Division), however, does not require licenses for fishing off the coast and therefore did not receive any fishing license revenues.

### Scope, Objective, and Methodology

We performed our audit at the Division headquarters in Morehead City, North Carolina, and at the Department of Environment and Natural Resources (Department) in Raleigh. The audit work at the Division included claims that totaled approximately \$3.5 million on FWS grants that were open during the State's fiscal years (SFYs) ended June 30, 2002, and 2003 (see Appendix 1). We also visited a district and a field office (see Appendix 2). The objective of our audit was to evaluate:

- the adequacy of the Division's financial management system and related internal controls;
- the accuracy and eligibility of the direct and indirect costs claimed under the Federal Assistance grant agreements with FWS;
- the adequacy of the Division's asset management system and related internal controls with regard to purchasing, control and disposal; and
- the adequacy of the State's compliance with the Act's assent legislation requirements.

We performed our audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that we considered necessary under the circumstances. Our tests included an examination of evidence supporting selected expenditures charged by the Division to the grants and interviews with employees to ensure that personnel costs charged to the grants were supportable. We did not evaluate the economy, efficiency, or effectiveness of the Division's operations.

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<sup>1</sup> As amended, 16 U.S.C. 777

## **Prior Audit Coverage**

On October 6, 1997, we issued audit report No. 98-E-13, “U.S. Fish and Wildlife Service Federal Aid Grants to the State of North Carolina, Division of Marine Fisheries, for Fiscal Years 1994, 1995, and 1996.” Also, the State Auditor issued single audit reports on the State of North Carolina for SFYs 2002 and 2003, but the Division was not audited as a major program in those single audits.

We reviewed these reports and followed up on all findings to determine whether they affected the Division’s operations and whether they had been resolved prior to our review. We determined that one of the findings in the audit of Federal Assistance grants had not been resolved. Specifically, as discussed in the Results of Audit section of this report, we found that some financial status and annual performance reports were still not being submitted to FWS within the allotted time frames established within the Code of Federal Regulations.

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## Results of Audit

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Generally, we found that the Division was in compliance with applicable regulatory and grant accounting requirements with respect to the following:

- the Division's accounting system and related internal controls adequately and accurately accounted for grant disbursements;
- the direct and indirect costs claimed under the Federal Assistance grant agreements with FWS were adequately recorded and supported;
- the asset management system accurately identified and tracked personal property with regard to acquisition, control, and disposal; and
- the State had adequate assent legislation in place that prohibited the use of license fees for any purpose other than the administration of the Division.

However, we also found that:

- A. The Division and the Department were unaware of the three percent limitation on the reimbursement of statewide central services costs and did not have written instructions or procedures to monitor and ensure compliance with the limitation.
- B. The Division did not file nine required reports (six financial and three performance reports) with FWS on time.

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### A. Indirect Costs

The Division did not have procedures for ensuring that reimbursements for State central services costs did not exceed the limitation cited in the Code of Federal Regulations (Regulations). The Regulations<sup>2</sup> state that administrative costs in the form of overhead or indirect costs for State central services outside of the State fish and wildlife agency shall not exceed in any one fiscal year, three percent of the State's annual apportionment of Sport Fish Restoration funds. In addition, the Regulations<sup>3</sup> state that each coastal State, to the extent practicable, shall equitably allocate its apportioned funds between projects having recreational benefits for marine fisheries and projects having recreational benefits for freshwater fisheries. Thus, the amount of central services costs that the Division can claim should not exceed three percent of the amount of the apportionment allocated to it.

Although the Division's reimbursements for central services costs did not exceed the three percent limitation, we found that neither the Division nor the Controller's Office for the Department were aware of the limitation. Accordingly, they had not developed written

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<sup>2</sup> 50 CFR § 80.15(d)

<sup>3</sup> 50 CFR § 80.23(a)

instructions or procedures for applying the limitation in developing an indirect cost rate or for monitoring compliance with the limitation to ensure that excessive central services costs were not charged to Federal Assistance grants.

We found no monetary impact from this condition because the costs allocated for central services were below the appropriate limitations for SFYs 2002 and 2003. However, without proper application and monitoring, the Division's reimbursement for central services costs could exceed the three percent limitation.

### **Recommendation**

We recommend that FWS require the Division or the Department to develop procedures to compute the three percent limitation on the Division's central services costs based on its share of the annual apportionment and ensure that it monitors the amount of central services costs it claimed under Federal Assistance grants.

### **FWS Response**

The FWS agreed with the finding. FWS added that they will require the Division to develop procedures to compute the three percent limitation on central services costs based on its share of the annual apportionment.

### **OIG Comments**

We consider the response sufficient to consider this matter resolved but the recommendation not implemented. FWS should identify target dates and an official responsible for implementation of the recommendation.

## **B. Financial and Performance Reporting Requirements**

The Division did not submit required financial and performance reports to FWS in a timely manner. The Regulations<sup>4</sup> state that within 90 days after the expiration or termination of the grant, the grantee must submit all financial, performance, and other reports required by the grant agreement. They also state that Federal agencies may extend the timeframe, upon request by the grantee. The required reports include (1) the final performance or progress report and (2) the Financial Status Report (SF-269) or Outlay Report and Request for Reimbursement for Construction Programs (SF-271), as applicable.

Our prior audit report (No. 98-E-13) showed that the Division was late submitting 28 required reports (15 financial and 13 performance reports). We followed up on this issue and found that although the Division has made improvements in meeting the Federal filing requirements, it did not fully comply with these requirements. We found that 9 required reports (6 financial and 3

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<sup>4</sup> 43 CFR § 12.90(b)

performance reports) out of 66 were filed late during SFYs 2002 and 2003. The Division had not requested time extensions from FWS in these nine instances.

For six of the nine reports, the Division did not provide a reasonable explanation for the late submission. For the other three reports, we believe that the Division would have been justified in requesting permission to file a late report because it discovered that the wrong retirement percentage had been used in calculating charges to the grants, which had to be corrected prior to the report submissions.

In response to the prior audit report recommendations, Division officials stated that they would develop written policy and procedures to guide Federal grant administration, designate one employee as the focal point for tracking the report due dates, and improve the accounting provided by the Controller's Office to enable timely submission of the required reports. We found, however, that the procedures developed only designate a person responsible for completing the financial reports and do not designate a person responsible for ensuring timely submission of the annual performance reports. We believe that the lack of a designated individual responsible for tracking and ensuring compliance with the filing requirements for both financial and performance reporting contributed to the Division's continued noncompliance with the Federal filing standards.

No monetary impact was identified. However, without the timely and reliable submission of financial and performance reports, the Division's and FWS's ability to assess the success of its Federal Assistance program and to plan and improve subsequent years' programs and financing is impaired.

### **Recommendations**

We recommend that FWS:

1. Require the Division to revise its procedures for handling Federal grants to designate a person responsible for ensuring timely submission of annual financial status and performance reports.
2. Work with and monitor the Division to ensure that financial and performance reports are submitted within the time requirements or that time extensions for cause are requested and granted.

### **FWS Response**

FWS agreed with the finding. FWS added that it considers the Division to be currently in compliance with the reporting requirements and provided a copy of the current Federal Aid Information Management System to illustrate that the Division has no late reports. FWS also stated it has not noted any significant reporting problems with the Division since the audit period. Finally, FWS stated that it has designated coordinators for each state agency who are responsible for monitoring their grant reports.



## **OIG Comments**

Based on the FWS response, we consider this matter resolved and the recommendations implemented.

**NORTH CAROLINA DIVISION OF MARINE FISHERIES  
FINANCIAL SUMMARY OF REVIEW COVERAGE**

Grant Number	Grant Amount	Claimed Costs
F-25-16	\$ 125,000	\$55,748
F-25-17	189,000	181,860
F-25-18	170,000	62,671
F-28-16	24,000	11,544
F-28-17	24,000	18,985
F-28-18	24,000	6,701
F-31-15	295,000	212,653
F-31-16	294,000	294,000
F-31-17	300,000	119,334
F-41-11	151,000	59,621
F-41-12	165,000	63,576
F-41-13	160,000	17,851
F-42-11	233,000	131,888
F-42-12	240,000	225,158
F-42-13	250,000	67,986
F-56-8	270,000	66,312
F-56-9	282,000	274,659
F-56-10	378,000	233,344
F-70-1	336,000	281,942
F-70-2	260,000	171,258
F-71-1	226,267	87,259
F-71-2	194,000	133,098
F-72-1	182,000	107,327
F-72-2	126,000	85,527
F-72-3	126,000	14,934
F-73-1	85,600	62,668
F-73-2	56,000	35,802

**NORTH CAROLINA DIVISION OF MARINE FISHERIES  
FINANCIAL SUMMARY OF REVIEW COVERAGE**

Grant Number	Grant Amount	Claimed Costs
F-73-3	\$56,000	\$11,948
F-74-1	100,000	64,811
F-74-2	80,000	2,655
F-75-1	200,000	135,743
F-75-2	200,000	200,000
F75-3	<u>200,000</u>	<u>30,342</u>
	<u>\$ 6,001,867</u>	<u>\$ 3,529,205</u>

**NORTH CAROLINA DIVISION OF MARINE FISHERIES  
SITES VISITED**

Division of Marine Fisheries Headquarters, Morehead City

Department of Environment and Natural Resources, Raleigh

Pamlico District Office, Washington

Wanchese Field Office, Wanchese

**NORTH CAROLINA DIVISION OF MARINE FISHERIES  
STATUS OF AUDIT FINDINGS  
AND RECOMMENDATIONS**

<b>Recommendation</b>	<b>Status</b>	<b>Action Required</b>
A	Finding Resolved and Recommendation Not Implemented.	Provide a corrective action plan that includes the target date and the official responsible for implementation of the recommendation. The unimplemented recommendation remaining at the end of 90 days (after March 3, 2005) will be referred to the Assistant Secretary of PMB for resolution and/or tracking of implementation.
B.1, B.2	Finding Resolved and Recommendations Implemented.	No further action is required.

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