



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, Wildlife
Resources Commission, from
July 1, 2001, through
June 30, 2003**

Report No. R-GR-FWS-0004-2004

March 2005



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

External Audits


12030 Sunrise Valley Drive, Suite 230
Reston, Virginia 20191

March 31, 2005

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Andy 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, Wildlife Resources Commission, from July 1, 2001, through June 30, 2003 (No. R-GR-FWS-0004-2004)

This report presents the results of our audit of costs claimed by the State of North Carolina, Wildlife Resources Commission (Commission), under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included claims that totaled approximately \$22.9 million on FWS grants that were open during the State's fiscal years ended June 30, 2002 and 2003 (see Appendix 1). The audit also covered the Commission's compliance with certain laws, regulations, and FWS guidelines, including those related to the collection and use of State hunting and fishing license revenues and the reporting of program income.

We found the Commission underreported program income of \$2,825,535 and overcharged the FWS on its Sport Fish and Wildlife Restoration grants by approximately \$928,000. We also identified minor issues, which the Commission has already corrected or is planning to correct.

FWS Region 4 responded to a draft of this report on November 9, 2004, and included the Commission's unsigned and undated response. The FWS response principally addressed the finding on program income, stating that the FWS and the Commission disagree with the finding "while concurring with all other findings" in the report. We summarized the FWS and Commission responses after the recommendations and added our comments regarding the responses. The status of the recommendations is in Appendix 3.

In accordance with the Departmental Manual (361 DM 1), please provide us with your written response to the recommendations included in this report by July 1, 2005. Your response should include information requested in Appendix 3. 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

Introduction

Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts) ¹ authorize the U.S. Fish and Wildlife Service (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 the eligible costs incurred under the grants. They also 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.

Scope, Objective, and Methodology

We performed our audit at North Carolina's Wildlife Resources Commission (Commission) headquarters in Raleigh, North Carolina. The audit work at the Commission included claims that totaled approximately \$22.9 million on 32 FWS grants that were open during State fiscal years (SFYs) ended June 30, 2002 and 2003 (see Appendix 1). We also visited two fish hatcheries, several wildlife management areas, wildlife management units, research stations, and boating access areas (see Appendix 2). The objective of our audit was to evaluate:

- the adequacy of the Commission's accounting 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 and reliability of the Commission's hunting and fishing license fee collection, certification, and disbursement processes;
- the adequacy of the Commission'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 Acts' 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 Commission to the grants; interviews with employees to ensure that personnel costs charged to the grants were supportable; and a review of the Commission's use of fishing and hunting license revenues to determine whether the revenues had been used for program purposes. We did not evaluate the economy, efficiency, or effectiveness of the Commission's operations.

¹ As amended, 16 U.S.C. § 669 and 16 U.S.C. § 777, respectively

Prior Audit Coverage

On May 31, 2000, we issued audit report No. 00-E-447, “U.S. Fish and Wildlife Service Federal Aid Program Grants and Payments Awarded to the State of North Carolina, Department of the Environment, Health and Natural Resources, Wildlife Resources Commission, for Fiscal Years Ended June 30, 1996, and 1997.” The State Auditor also issued Single Audit reports on the State of North Carolina for SFYs 2002 and 2003, but the Commission was not included as a major program in these audits.

We reviewed these reports and followed up on all significant findings that related to the Commission and its financial management system to determine whether they had been resolved prior to our review. During the conduct of our field work, we confirmed that all prior findings relating to the Commission had been resolved.

Results of Audit

Our review found that:

- The Commission's accounting system and related internal controls adequately and accurately accounted for grant and license fee receipts and disbursements.
- 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, maintenance, control, and disposal.

However, we also identified:

- A. Underreported program income of \$2,825,535
- B. Duplicate claims for Social Security and Medicare taxes of \$928,000
- C. Internal control weaknesses related to physical inventories, overtime, and land records
- D. Other matters on which the Commission is in the process of taking actions to correct

A. Underreported Program Income of \$2,825,535

During SFYs 2002 and 2003, the Commission earned \$3,428,496 in revenues generated on all of its State game lands. The Commission identified some revenues as program income and reported them on its respective Financial Status Reports (SF-269s) but did not report \$2,825,535 in program income generated on State game lands. Although Federal Assistance Grants W-57-27 and W-57-28 provided Federal Assistance funding to support the operation and maintenance (including a timber management component) of all State game lands, the Commission did not deduct as program income all of the revenues generated from timber and pine straw sales occurring on these lands from the total outlays in order to report net grant costs. Instead, the Commission deducted only the revenues received from sales associated with State game lands acquired with Federal Assistance funds. In addition, the Commission did not estimate and report the full amount of program income anticipated from these sales at the time it applied for its operations and maintenance Grants W-57-27 and W-57-28. During SFYs 2002 and 2003, the Commission collected \$3,428,496 from these timber and pine straw sales and credited Grants W-57-27 and W-57-28 with program income of \$602,961. As such, the Commission underreported program income associated with these grants by \$2,825,535 during the period.

Title 43 CFR § 12.65(b) of the Code of Federal Regulations state, "Program income means gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period." Also, 43 CFR § 12.65(g) states: "Program income shall be deducted from outlays which may be both Federal and

nonfederal . . . unless the Federal agency regulations or the grant agreement specify another alternative (or a combination of the alternatives).” Finally, 43 CFR §§ 12.65 (g) (1) and (2) state:

Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise. Program income which the grantee did not anticipate at the time of the award shall be used to reduce the Federal agency and grantee contributions rather than to increase the funds committed to the project. . . . When authorized, program income may be added to the funds committed to the grant agreement by the Federal agency and the grantee. The program income shall be used for the purposes and under the conditions of the grant agreement.

Commission staff relied on verbal guidance from FWS Region 4 for their accounting treatment of program income generated from game lands that were not obtained with Federal Assistance funds. Because this program income was not reported, FWS did not know the magnitude of the revenue. Furthermore, FWS did not have the opportunity to authorize in advance whether program income should be used to reduce program outlays or to enhance the grant’s program objectives.

Recommendations

We recommend that FWS:

1. Resolve the \$2,825,535 in underreported program income.
2. Require the Commission to identify estimated timber and pine straw sales revenues in future Applications for Federal Assistance and report actual revenues and program income on the applicable Financial Status Report.

Commission Response

The Commission stated that it had relied upon written guidance from the “Federal Aid Manual” citing language that states in part that “When products are sold....such as timber....the income must be credited if the land was acquired with Federal Aid funds.” The Commission further stated that it did not receive written guidance that “program income is also derived from lands managed with Federal assistance funds” until March 11, 2004. As such, the Commission believes that it “...should not be made to comply with this clarification in policy retroactively.”

Finally, the Commission stated that it believes that program income should be reported only if the revenues have resulted directly from a grant supported activity, stating that the Commission’s cost center structure allows them to charge costs for grant supported activities, which directly produce revenues on lands purchased in part with Federal funds while charging all other grant supported activities to State accounts.

FWS Response

FWS disagreed with the finding and reiterated the Commission's position that the State's accounting system and cost centers can "clearly identify grant activities which generate timber revenue." FWS stated that the "State has separate accounting codes (#3108 and #3106) for timber management on Federal lands and (#8730 and #8733) for State lands." FWS stated further that "It is our interpretation that timber revenue generated on North Carolina WMAs is not grant supported and therefore, not program income."

Office of Inspector General Comments

We believe that the main factors used to determine if revenues should be reported as program income are whether the Commission received an operation and maintenance grant for its Wildlife Management Areas and whether any of the other directly supported grant funded activities contribute to improving timber yield or timber health on these lands. The March 11, 2004 Director's Order No.168 states, "Income generated from the harvest of assets that contribute to grant objectives on land purchased or managed with Federal Assistance funds (e.g., timber revenue,...)" should be treated as program income. We do not believe that the Director's Order represents a new policy or a change in policy, but simply provides guidance on applying the current regulations. We believe that FWS should clarify to the Commission that program income from timber sales can be derived from any Wildlife Management Area regardless of its acquisition funding source, because it (i.e. program income) is incidental to accepted wildlife management practices on lands purchased or managed with Federal Assistance funds. FWS should address the finding and recommendations in its corrective action plan.

B. Duplicate Claims for Social Security and Medicare Taxes

We questioned costs totaling \$928,000 for duplicate claims for Social Security and Medicare taxes.

In January 2000, the Commission began using its new Federal Aid and Management Reporting System (FAMRS). FAMRS was developed to combine various data elements (accounting codes and cost structures) and use a uniform process to ensure accurate and consistent allocation of expenditures to Federal grants and allow Federal funds to be drawn down (reimbursed to the State) after the cost was incurred.

When the Commission developed and implemented FAMRS, it created an interface with the State's central payroll system and created computer coding to calculate an hourly employee pay rate based on the payroll interface, FAMRS system calculations, and matching rate tables. This hourly employee pay rate was then used to allocate labor costs to the Federal grants that the employee worked on during the month, based on the following formula: the employee's gross pay (payroll interface) plus the retirement match (payroll interface), the calculation for Old Age and Survivors Disability Insurance (OASDI) and Medicare match, the employer match for health benefits (rate table), and other payroll expenses. FAMRS used the formula to derive the total

payroll expenses, multiplied the total payroll expenses by 12, and then divided these amounts by the standard hours of pay (2,080) for the fiscal year. The resulting hourly rate was multiplied by the number of hours the employee worked on each grant to arrive at the labor expenditure charged to the grant and to draw down Federal funds against the grant.

We found, however, that when Commission staff developed the FAMRS' calculation for the OASDI and Medicare match, they also included an additional system calculation for Federal Insurance Contributions Act (FICA) expenses, which resulted in a doubling of the match (7.65 percent) for Social Security and Medicare costs. This duplicate calculation of Social Security and Medicare costs occurred on all direct labor associated with Commission grants since January 2000.

Commission staff made an unintentional mistake when developing FAMRS. Specifically, a programming error occurred because Commission staff did not recognize that FICA was the same as OASDI plus Medicare. We estimated that during SFYs 2002 and 2003, the Commission overcharged FWS on its Sport Fish and Wildlife Restoration grants by approximately \$928,000.

Recommendations

We recommend that FWS:

1. Resolve the \$928,000 in claims made by the Commission for the duplication of Social Security and Medicare costs for SFYs 2002 and 2003.
2. Require the Commission to identify and repay the duplicate claims for Social Security and Medicare costs for SFYs 2000, 2001, and 2004.
3. Ensure that the Commission changes FAMRS to eliminate the duplicate calculation for Social Security and Medicare costs.

Commission Response

The Commission did not comment on the finding and recommendations.

FWS Response

FWS did not specifically address this finding and the three recommendations except to state that "the Service disagrees with finding A while concurring with all other findings."

Office of Inspector General Comments

Since neither the Commission nor FWS specifically addressed the finding and recommendations, we consider the finding unresolved and the recommendations not implemented. FWS should address the finding and recommendations in its corrective action plan.

C. Internal Controls

During our site visits, we identified internal control weaknesses and made suggestions for improvements. We made suggestions regarding the separation of duties between the person taking the annual physical inventories of equipment and the person responsible for the equipment, the elimination of the potential to charge Federal Assistance grants for labor costs of employees who work overtime but do not get paid for it because they are exempt under the Fair Labor Standards Act (FLSA), and the identification in the land records of those lands that were acquired with Federal Assistance funds or license revenues. During our May 27, 2004 exit conference, Commission staff stated they would make improvements to address these deficiencies.

Recommendations

We recommend that FWS ensure that the Commission completes the following internal control improvements:

1. Separate the duties of personnel taking the annual fixed asset property inventory from the person responsible for the property.
2. Eliminate the potential of overcharges to Federal grants for FLSA-exempt employees working unpaid overtime.
3. Expand the official land management records to identify those lands acquired with Federal Assistance funds and those acquired with license revenues.

Commission Response

The Commission did not comment on the finding and recommendations.

FWS Response

FWS did not specifically address this finding and the three recommendations except to state that “the Service disagrees with finding A while concurring with all other findings.”

Office of Inspector General Comments

Since neither the Commission nor FWS specifically addressed the finding and recommendations, we consider the finding unresolved and the recommendations not implemented. FWS should address the finding and recommendations in the corrective action plan.

D. Other Matters

The following issues were identified and brought to the Commission's attention during the audit. Commission staff took prompt action to address these issues prior to the completion of our fieldwork.

-- The Commission initiated action for a legislative change to ensure that the State's assent legislation conformed to the Federal requirement that hunting and fishing license revenues could be used only to administer the State's fish and wildlife programs. The State's legislation did not specifically prohibit any agency other than the Commission from using license fees for the administration of the State's fish and wildlife programs. We did not, however, identify any instances where the State used license fees during our audit period for anything other than its fish and wildlife programs.

-- The Commission revised its indirect cost accounting procedures to ensure that it used only its allocable portion of the State's Fish and Wildlife Restoration apportionments to compute the amount of grant funds that could be used for statewide central service costs. The Restoration Acts limit the amount of Federal Assistance funds that may be used for the cost of services provided by State central service activities outside the state's fish and game department to 3 percent of the annual apportionment under each act. Previously, the Commission was using the State's total apportionment (which includes the funds allocated to the Division of Marine Fisheries) to compute the three percent limitation. Because the Commission did not exceed the three percent limitation of its allocable share of the apportionment during the period of our audit, no questioned costs resulted.

Since the Commission took action while we were on site to address and correct the deficiencies, we have made no recommendations concerning these two issues.

**NORTH CAROLINA WILDLIFE RESOURCES
COMMISSION FINANCIAL
SUMMARY OF REVIEW COVERAGE
JULY 1, 2001, THROUGH JUNE 30, 2003**

Grant Number	Amount	Claimed Costs	Questioned Costs
F-22-26	\$457,000	\$423,191	\$16,095
F-22-27	392,000	478,163	16,602
F-23-26	270,000	261,168	13,162
F-23-27	261,000	260,365	14,188
F-24-26	477,000	442,859	23,822
F-24-27	515,000	467,637	24,133
F-26-17	966,667	1,126,177	43,071
F-26-18	934,410	1,026,730	33,182
F-35-14	535,176	556,067	27,124
F-35-15	624,708	558,252	29,406
F-57-8	20,000	20,000	-0-
F-58-7	200,000	46,307	-0-
F-58-8	355,000	207,279	-0-
F-63-6	380,000	377,913	24,399
F-63-7	375,000	415,578	25,854
F-65-5	250,000	289,634	8,965
F-65-6	250,000	321,962	9,794
F-68-3	150,669	150,665	14
F-68-4	150,668	150,669	-0-
F-76-1	70,000	69,440	3,357
F-76-2	70,000	70,827	3,282
W-1-31	1,180,000	1,457,472	55,446
W-1-32	1,149,021	1,454,164	51,910
W-57-27	4,119,343	5,075,472	227,911
W-57-28	4,133,333	5,680,462	235,508
W-59-1	567,500	488,260	1,503
W-60-1	559,100	230,368	74
W-61-1	300,000	348,883	11,893
W-61-2	300,000	450,641	27,107
W-62-1	369,920	69,549	24
W-63-1	300,000	22,739	182
W-64-1	<u>589,268</u>	<u>- 0 -</u>	<u>- 0 -</u>
TOTAL	<u>\$21,271,783</u>	<u>\$22,998,893</u>	<u>\$928,008</u>

**NORTH CAROLINA WILDLIFE RESOURCES COMMISSION
SITES VISITED**

Alamance Depot (Inland Fisheries)

Cedar Point Boating Access Area

Cumberland County Wildlife Club (Hunter Education)

Bell's Church Public Fishing Area

Burgaw (Hunter Education)

Butner Depot (Game Land)

Farrington Point Boating Access Area

Holly Shelter Depot (Game Land)

Marion Depot (Game Land)

Marion Fish Hatchery

Morehead City Boating Access Area

Morganton Depot (Game Land)

Pisgah Center for Wildlife Education

Suggs Mill Pond (Game Land)

Vanceboro (Hunter Education)

Watha Fish Hatchery

**NORTH CAROLINA WILDLIFE RESOURCES COMMISSION
STATUS OF AUDIT FINDINGS
AND RECOMMENDATIONS**

Recommendation	Status	Action Required
A.1, A.2	Finding Unresolved and Recommendations Not Implemented.	Reconsider the finding and provide a corrective action plan that identifies the actions taken or planned and the target date and official responsible for implementation of each recommendation, or provide an alternative solution. The unimplemented recommendations remaining at the end of 90 days (after July 1, 2005) will be referred to the Assistant Secretary for Policy Management and Budget for resolution and/or tracking of implementation.
B.1, B.2, B.3, C.1, C.2, C.3	Finding Unresolved and Recommendations Not Implemented.	Provide a corrective action plan that identifies the actions taken or planned and target date and official responsible for implementation of each recommendation, or provide an alternative solution. The unimplemented recommendations remaining at the end of 90 days (after July 1, 2005) will be referred to the Assistant Secretary for Policy Management and Budget for resolution and/or tracking of implementation.

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