

***Department of the Interior
Office of Inspector General***

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Audit Report

***U.S. Fish and Wildlife Service
Federal Assistance Grants
Administered by the
Commonwealth of Virginia,
Virginia Marine Resources Commission,
from July 1, 2003 through June 30, 2005***

***Report No. R-GR-FWS-0022-2005
April 2006***





United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230
Reston, Virginia 20191

April 28, 2006

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Patti Boyd *Patti L. Boyd*
Acting Director of External Audits

Subject: Final Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the Commonwealth of Virginia, Virginia Marine Resources Commission, from July 1, 2003, through June 30, 2005 (No. R-GR-FWS-0022-2005)

This report presents the results of our audit of costs incurred by the Commonwealth of Virginia (Commonwealth), Virginia Marine Resources Commission (Commission), under Federal Assistance grants from the U.S. Fish and Wildlife Service (FWS). The audit included total reported outlays of approximately \$2 million on FWS grants that were open during the Commonwealth's fiscal years ended June 30, 2004 and 2005 (see Appendix). The audit also covered the Commission's compliance with applicable laws, regulations, and FWS guidelines, including those related to the use of saltwater sport fishing license revenues and the reporting of program income.

Generally, we found that the Commission complied with applicable grant accounting and regulatory requirements for administering its Federal Assistance programs. However, we found that the Commission had not adopted policies and procedures to ensure compliance with the 3 percent limitation requirement for central services costs. We also found that the Commonwealth had not passed laws assenting to the provisions of the Dingle-Johnson Sport Fish Restoration Act. However, the Commission initiated corrective action during our audit by drafting an amendment to the Commonwealth's legislation in order to comply with the assent requirement. The Governor signed the amendment February 14, 2006, which becomes effective July 1, 2006.

FWS Region 5 provided a copy of the Commission's April 4, 2006 response to the draft of this report on April 12, 2006. We summarized the Commission's and FWS response after the recommendation and added our comments pertaining to the responses. The status of the recommendation is summarized in Appendix 2.

Based on FWS and the Commission's responses, we consider the recommendation resolved and implemented and no response to the final report is necessary.

If you have any questions regarding this report, please contact me at (703) 487-5345.

cc: Regional Director, Region 5, U.S. Fish and Wildlife Service

Introduction

Background

The Dingell-Johnson Sport Fish Restoration Act (Act)¹ authorizes FWS to provide Federal Assistance grants to states to enhance their sport fish program. The Act provides for FWS to reimburse the states up to 75 percent of the eligible costs incurred under the grants. The Act 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.

Objective

The objectives of our audit were to determine whether costs incurred and claimed under Federal Assistance grants to the Commission were in accordance with the Acts and related regulations, FWS guidelines, and the grant agreements; saltwater sport fishing license revenues were used solely for the Commission's sport fish programs; and program income was reported and used in accordance with federal regulations.

Scope

The audit work included total reported outlays of approximately \$2 million on nine FWS grants that were open during the Commonwealth's fiscal years ended June 30, 2004 and 2005 (see Appendix). We conducted our audit at the Commission's offices in Newport News, Virginia, and at the main campus of the Virginia Institute of Marine Sciences (Institute) in Gloucester Point, Virginia. This audit was performed to supplement, not replace, the audits required by the Single Audit Act of 1984, as amended and the Office of Management and Budget Circular A-133. The audit included steps to determine whether:

- The Commission's financial management system was adequate to account for grant receipts and disbursements.
- The direct and indirect costs incurred and claimed by the Commission under Federal Assistance grants were necessary and reasonable, allocable, accurate, and eligible for reimbursement.
- The Commission had an adequate system to account for and report license fee revenues, and ensure that saltwater sport fish license revenues were used only for the Commission's sport fish programs.
- The Commission complied with selected grant agreement provisions and requirements of the Act, regulations, and FWS guidance.
- The Commonwealth enacted assent legislation in compliance with the Acts.

¹ As amended 16 U.S.C. § 777.

The audit did not include certain steps that our Federal Assistance grant audits normally include. Specifically, we did not review the sport fishing license certifications because the Virginia Department of Game and Inland Fish (Department) submitted the license certifications for the Commission². We also did not review the controls over real property and equipment acquired with Federal Assistance funds or sport fishing license revenues because the Commission did not acquire any real property or equipment.

Methodology

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 examining the evidence supporting selected expenditures charged to the grants by the Commission; reviewing time certification reports for selected Institute employees to ensure that personnel costs charged to the grants were supportable; and determining whether the Commission used saltwater sport fishing license revenues solely for sport fish program purposes. To the extent possible, we relied on the work of the Commonwealth's Auditor of Public Accounts to avoid duplication of audit effort. We did not evaluate the economy, efficiency, or effectiveness of the Commission's operations.

We reviewed the accounting systems for labor and license fees in order to identify the internal controls over transactions recorded in those systems and to test the operation and reliability of those controls. Based on the results of our initial assessments, we assigned a level of risk to these systems and, based on the level of risk assigned, we selected a judgmental sample of transactions for substantive testing. We also reviewed transactions related to purchases, other direct costs, drawdowns of reimbursements, and program income. We did not project the results of the substantive tests to the total population of recorded transactions.

Prior Audit Coverage

On March 22, 2002, we issued a memorandum summarizing the results of our performance of agreed-upon procedures related to costs claimed by the Commission under grants awarded by FWS for the period July 1, 1997, through June 30, 1999. Based on our review of work performed by the Defense Contract Audit Agency, we were unable to determine whether the costs claimed for labor were accurate and eligible under the grant agreements, whether license revenues were used only for authorized purposes, or whether all of the grantee's systems and controls were adequate. However, in reviewing the working papers, nothing came to our attention indicating potential problems concerning the costs claimed or the adequacy of the grantee's systems and controls.

We also reviewed the Commonwealth's Comprehensive Annual Financial Report and the Single Audit Report for fiscal year 2004. However, the Commission's Sport Fish Restoration grant program had not been selected for testing in the Single Audit. These reports did not contain any findings that would directly affect the Commission's Federal Assistance grants.

² The license certifications will be included in the audit report issued on the Department of Game and Inland Fisheries.

Results of Audit

We found that the Commission was generally in compliance with applicable regulatory and grant accounting requirements with respect to the following:

- The Commission's financial management system and related internal controls were adequate to account for grant receipts and disbursements.
- The Commission's direct costs claimed under the Federal Assistance grants were reasonable, supported, and eligible for reimbursement.
- The Commission had an adequate system to ensure that saltwater sport fish license revenues were used only for the Commission's sport fish programs.
- The Commission complied with selected grant agreement provisions and requirements of the Act, regulations, and FWS guidance.

However, we determined that the Commission had not adopted procedures to ensure compliance with the 3 percent limitation on central services costs.

Limitation on Central Services Costs

The Commission did not have procedures for ensuring that reimbursements for State central services did not exceed the limitation cited in the Dingell-Johnson Sport Fish Restoration Act and the Code of Federal Regulations. The Act requires States to limit indirect costs for State central services. The FWS has interpreted and codified this requirement in the Code of Federal Regulations (50 CFR 80.15(e)). The regulation states 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 3 percent of the annual apportionment to that State in any one fiscal year.

Although the indirect costs charged to the grants were based on approved indirect cost rates, the Commission had not adopted procedures to ensure compliance with the 3 percent limitation requirement. The Commission did not implement procedures because it was not aware of the 3 percent limitation requirement.

The States are responsible for complying with all the rules and regulations of the grant programs for which they are participating. As such, the States must establish procedures, which includes documenting steps to calculate, and ensure that indirect costs for central services will not exceed three percent of the annual apportionment. Without proper application and monitoring, the Commission's reimbursement for central services cost could exceed the three percent limitation.

Recommendation

We recommend that FWS require the Commission to develop procedures to analyze central services costs to ensure compliance with the 3 percent limitation requirement.

Commission Response

The Commission did not specifically state concurrence with the finding but developed procedures using the format provided by FWS to ensure that the cost for State central services outside the State fish and wildlife agency will not exceed the 3 percent limitation. These procedures have been incorporated in the Commission's Accounting Policies and Procedures Manual.

FWS Response

FWS has reviewed and accepted the procedures outlined in the Commission's response and has verified that the procedures have been incorporated into the Commission's Accounting Policies and Procedures Manual.

OIG Comments

The Commission has developed procedures to resolve the finding and FWS has verified that the procedures have been incorporated into the Commission's Accounting Policies and Procedures Manual. Based on FWS response, we consider the recommendation resolved and implemented.

Appendix 1

VIRGINIA MARINE RESOURCES COMMISSION FINANCIAL SUMMARY OF REVIEW COVERAGE JULY 1, 2003 THROUGH JUNE 30, 2005

<u>Grant Number</u>	<u>Grant Amount</u>	<u>Total Outlays</u>
F-77-R-16	\$357,721	\$366,998
F-77-R-17	377,344	388,152
F-87-R-15	131,969	138,772
F-87-R-16	131,808	142,029
F-114-C-9	23,641	11,117
F-114-C-10	24,527	13,953
F-116-R-6	353,453	353,605
F-116-R-17	353,792	386,850
F-126-R-1	<u>282,949</u>	<u>281,625</u>
Total	<u>\$2,037,204</u>	<u>\$2,083,101</u>

**VIRGINIA MARINE RESOURCES COMMISSION
STATUS OF AUDIT FINDINGS
AND RECOMMENDATIONS**

Recommendations	Status	Action Required
A	Finding Resolved and Implemented	No further action is required

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