



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

AUDIT REPORT

**U.S. Fish and Wildlife Service
Federal Assistance Program Grants
Awarded to the State of Maine,
Department of Marine Resources,
From January 1, 2004, Through December 31, 2005**

Report No. R-GR-FWS-0015-2005

April 2007



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230
Reston, Virginia 20191

April 12, 2007

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Christina M. Bruner *Christina M. Bruner*
Director of External Audits

Subject: Audit on the U.S. Fish and Wildlife Service Federal Assistance Program
Grants Awarded to the State of Maine, Department of Marine Resources,
From January 1, 2004, Through December 31, 2005 (No. R-GR-FWS-0015-2005)

This report presents the results of our audit of costs incurred by the State of Maine (State), Department of Marine Resources (Department), under grants awarded by the U.S. Fish and Wildlife Service (FWS). The FWS provided the grants to the State under the Federal Assistance Program for State Wildlife and Sport Fish Restoration (Federal Assistance Program). The audit included claims totaling approximately \$2.0 million on the grants awarded for calendar years (CYs) 2004 and 2005 (see Appendix 1). The audit also covered Department compliance with applicable laws, regulations, and FWS guidelines, including those related to the reporting of program income.

We found that the Department complied, in general, with applicable grant accounting and regulatory requirements. We did, however, question \$1,632 (federal share) of indirect costs because the Department did not always use the proper indirect cost rate for Federal Assistance Program reimbursement claims.

We provided a draft of the report to FWS and the Department for response. This report includes a summary of Department and FWS Region 5 responses after the recommendations, as well as our comments on the responses. We list the status of the recommendations in Appendix 2.

Please respond in writing to the finding and recommendations included in this report by July 11, 2007. Your response should include information on actions taken or planned, targeted completion dates, and titles of officials responsible for implementation.

If you have any questions regarding this report, please contact the audit team leader, Mr. Robert Leonard at 916-978-5646, or me at 703-487-5345.

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

Introduction

Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts)¹ established the Federal Assistance Program for State Wildlife and Sport Fish Restoration. Under the Federal Assistance Program, FWS provides grants to states to restore, conserve, manage, and enhance their sport fish and wildlife resources. The Acts and federal regulations contain provisions and principles on eligible costs and allow FWS to reimburse the states up to 75 percent of the eligible costs incurred under the grants. The Acts also require that hunting and fishing license revenues be used only for the administration of the state fish and wildlife agency.² Finally, federal regulations and FWS guidance require states to account for any income they earn using grant funds.

Objectives

Our audit objectives were to determine whether the Department:

- incurred the costs claimed under Federal Assistance Program grants in accordance with the Acts and related regulations, FWS guidelines, and the grant agreements and
- reported and used program income in accordance with federal regulations.

Scope

Audit work included claims totaling approximately \$2.0 million on 10 FWS grants that were open during CYs 2004 and 2005 (see Appendix 1). We performed our audit at Department headquarters in Hallowell and West Boothbay Harbor, Maine. We performed this audit to supplement, not replace, the audits required by the Single Audit Act Amendments of 1996 and by Office of Management and Budget Circular A-133.

Methodology

We performed our audit in accordance with the “Government Auditing Standards” issued by the Comptroller General of the United States. We tested records and conducted other auditing procedures as necessary under the circumstances. Our tests and procedures included:

- examining the evidence that supports selected expenditures charged to the grants by the Department;

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

² The Department of Marine Resources does not sell any sport fishing licenses. As a result, we did not need to address the issue of whether license revenues were used solely for sport fish restoration activities.

- interviewing Department employees to ensure that personnel costs charged to the grants were supportable; and
- reviewing transactions and supporting documentation related to purchases, other direct costs, drawdowns of reimbursements, in-kind contributions, and program income.

We also identified the internal controls over transactions recorded in the labor accounting system and tested the operation and reliability of those controls. Based on the results of our initial assessment, we assigned a level of risk to the system and selected a judgmental sample of transactions for testing. We did not project the results of tests to the total population of recorded transactions nor did we evaluate the economy, efficiency, or effectiveness of Department operations.

Prior Audit Coverage

On May 24, 2002, we issued, “Final Agreed-Upon Procedures Report on Costs Claimed by the State of Maine Department of Marine Resources, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from July 1, 1996 to June 30, 1998” (Report No. 2002-E-0004). The report did not contain any findings or recommendations.

We also reviewed Maine’s Comprehensive Annual Financial Reports and Single Audit Reports for the State’s fiscal years (SFYs) ended June 30 of 2004 and 2005. None of these reports contained any findings that would directly impact the Department’s Federal Assistance Program grants or programs under the grants. In addition, the Department’s Sport Fish Restoration Program was not selected for compliance testing in either the SFY2004 or 2005 Single Audits.

Results of Audit

Audit Summary

We found, in general, that the Department incurred the costs claimed under Federal Assistance Program grants in accordance with the Acts and related regulations, FWS guidelines, and the grant agreements, and that the Department did not report or earn program income. We did, identify one finding involving questioned costs of \$1,632 (federal share) due to the use of the wrong indirect cost rate. We discuss this finding in more detail in the Finding and Recommendations section.

Finding and Recommendations

A. Questioned Costs: Incorrect Indirect Cost Rate Used — \$1,632

The Department did not always use the proper indirect cost rates for calculating its Federal Assistance Program reimbursement claims. The Department's indirect cost rates are negotiated and approved on a fiscal year basis, which runs July 1 through June 30. However, its Federal Assistance Program grants are awarded on a calendar year basis. The Department used the same indirect cost rate to claim grant reimbursements for the entire grant period instead of the rates that were negotiated for the applicable fiscal years. Department officials told us they believed, incorrectly, that the indirect cost rate in effect at the time the grant was awarded should be used throughout the grant period. As a result, the total grant outlays on the CY2004 and 2005 financial status reports included reimbursements for indirect costs that were based on the incorrect indirect cost rates.

Office of Management and Budget Circular A-87 (recently codified as 2 C.F.R. § 225) requires government entities to prepare an indirect cost rate proposal for allocating indirect costs to federal programs. The regulations require each state agency to submit a certified indirect cost rate proposal each fiscal year to its cognizant federal agency as a condition for seeking reimbursement of indirect costs under its federal grants.

The Department negotiated indirect cost rate agreements with the U.S. Department of Health and Human Services for July 1 through June 30 2004, 2005, and 2006 of 18.9 percent, 30 percent, and 29.1 percent, respectively. Indirect costs are calculated by applying these rates to total direct costs, less capital expenditures.

For the period July 1, 2005, through December 31, 2005, the Department claimed indirect costs using the 30 percent rate negotiated for SFY2005 rather than the 29.1 percent rate negotiated for SFY2006. The 30 percent rate was only applicable for the period January 1, 2005, through June 30, 2005. As shown in the following table, the Department claimed \$3,263 (\$1,632 federal share) in indirect costs above what they were entitled to under the CY2005 grants.

Grant Number	Correct Amount, Claimed	Per Audit	Difference	Federal Share	Questioned Costs
F-40-T-12	\$26,850	\$26,407	\$443	50 percent	\$221
F-41-R-12	44,823	44,068	755	50 percent	378
F-42-R-8	53,605	52,692	913	50 percent	457
F-43-R-6	62,551	61,399	1,152	50 percent	576
Totals			<u>\$3,263</u>		<u>\$1,632</u>

We did not question the indirect costs claimed for the CY2004 grants because the Department did not claim all of the indirect costs it could have claimed for the period July 1, 2004, through December 31, 2004.

Subsequent to our audit fieldwork, Department officials told us that they agreed with the finding and were in the process of submitting corrections to FWS.

Recommendations:

We recommend that FWS require the Department to:

1. resolve the \$1,632 of excess indirect costs that were claimed under the CY2005 grants and
2. develop procedures to ensure it uses the approved indirect cost rate(s) for the appropriate fiscal year(s) in its future claims for reimbursements under Federal Assistance Program grants.

Department Response

Department officials concurred with the recommendations and stated that the excess indirect cost reimbursements of \$1,632 were electronically returned to FWS. They also sent to FWS the revised financial status reports for the affected grants. Finally, they stated that internal procedures have been revised and implemented to account for indirect cost rate changes that occur within the grant award period.

FWS Response

FWS Region 5 management concurred with the recommendations and stated that they received and approved the revised financial status reports reflecting the reimbursements. Additionally, FWS officials stated that the \$1,632 of questioned costs was credited back to the Sport Fish Restoration Program. The officials believe these actions satisfy recommendation one. They will consider recommendation two satisfied upon receipt of the written revised procedures.

OIG Comments

FWS Region 5 management concurred with the recommendations. Based on the responses and documentation provided by FWS and the Department, we consider recommendation one resolved and implemented. While the Department has taken steps to revise their internal procedures, additional information is needed in the corrective action plan, including:

- supporting documentation for revised procedures;
- the actions taken;
- the titles of officials responsible for implementation; and
- verification that FWS headquarters officials reviewed and approved of actions taken by the Department.

Appendix 1

MAINE DEPARTMENT OF MARINE RESOURCES FINANCIAL SUMMARY OF REVIEW COVERAGE JANUARY 1, 2004 THROUGH DECEMBER 31, 2005

Grant Number	Grant Amount	Costs Claimed ¹	Questioned Costs	
			Total	Federal Share
F-29-E-18	\$310,194	\$245,423		
F-29-E-19	340,958	340,958		
F-40-T-11	109,668	102,154		
F-40-T-12	121,110	116,348	\$443	\$221
F-41-R-11	203,726	179,178		
F-41-R-12	221,398	194,234	755	378
F-42-R-7	214,968	195,115		
F-42-R-8	257,640	232,289	913	457
F-43-R-5	179,968	167,319		
F-43-R-6	301,340	271,053	1,152	576
Totals	\$2,260,970	\$2,044,071	\$3,263	\$1,632

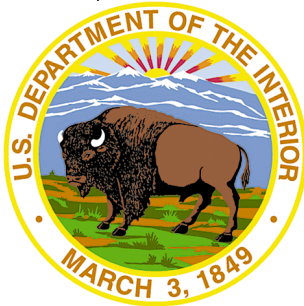
¹ Represents total outlays shown on the financial status reports (SF-269).

Appendix 2

MAINE DEPARTMENT OF MARINE RESOURCES STATUS OF AUDIT FINDING AND RECOMMENDATIONS

Recommendations	Status	Action Required
A.1	Resolved and implemented.	No further action is required.
A.2	FWS management concurred with the recommendation, but additional information is needed.	Additional information is needed in the corrective action plan, including the actions taken or planned to implement the recommendation, targeted completion date(s), the title of official(s) responsible for implementation, and verification that FWS officials reviewed and approved of actions taken or planned by the Department. We will refer the recommendation if not resolved and/or implemented at the end of 90 days (after July 11, 2007) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

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