



**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 Mississippi,  
Department of Marine Resources, From  
July 1, 2004, Through June 30, 2006**

**Report No. R-GR-FWS-0004-2007**

**June 2007**



# United States Department of the Interior

## OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230  
Reston, Virginia 20191

June 6, 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 Mississippi, Department of Marine Resources, From July 1,  
2004, Through June 30, 2006 (No. R-GR-FWS-0004-2007)

This report presents the results of our audit of costs incurred by the State of Mississippi (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 its Federal Assistance Program for State Wildlife and Sport Fish Restoration (Federal Assistance Program). The audit included total reported outlays of approximately \$2.1 million on 22 FWS grants that were open during State fiscal years (SFYs) ended June 30 of 2005 and 2006 (see Appendix 1). The audit also covered Department compliance with applicable laws, regulations, and FWS guidelines, including those related to the collection and use of fishing license revenues and the reporting of program income.

We found that the Department complied, in general, with applicable grant accounting and regulatory requirements. We also identified issues that require FWS attention, including inadequate data backup, inadequate drawdown procedures, and charges for budgeted instead of actual payroll costs.

We provided a draft of the report to FWS and the Department for response. We summarized Department and FWS Region 4 responses after each recommendation, as well as our comments on the responses. FWS stated they will work with the Department when preparing the corrective action plan. We list the status of each recommendation in Appendix 2.

Please respond in writing to the findings and recommendations included in this report by September 4, 2007. Your response should include information on actions taken or planned, targeted completion dates, and titles of the officials responsible for implementation.

If you have any questions regarding this report, please contact Mr. Lawrence Kopas, the audit team leader, at 703-487-5358 or me at 703-487-5345.

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

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## Introduction

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### Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts)<sup>1</sup> 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 Department is responsible only for marine sport fish 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. 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:

- claimed the costs incurred under Federal Assistance Program grants in accordance with the Act and related regulations, FWS guidelines, and the grant agreements;
- used State fishing license revenues solely for Department fish and wildlife program activities; and
- reported and used program income in accordance with federal regulations.

### Scope

Audit work included claims totaling approximately \$2.1 million on 22 FWS grants that were open during SFYs 2005 and 2006 (see Appendix 1). Four grants did not have any outlays during the audit period. We performed our audit at Department headquarters located in Biloxi, Mississippi. No other locations were visited due to damage resulting from Hurricane Katrina. This audit was performed to supplement, not replace, the audits required by the Single Audit Act amendments of 1996 and the 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 performed other auditing

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<sup>1</sup>As amended 16 U.S.C. §§ 669 and 777, respectively.

procedures that we considered necessary under the circumstances. Our tests and procedures included:

- examining the evidence that supports selected expenditures charged to the grants by the Department;
- reviewing transactions and supporting documentation related to purchases, other direct costs, drawdowns of reimbursements, equipment, and other property;
- interviewing Department employees to ensure that personnel costs charged to the grants were supportable; and
- determining whether the Department used fishing license revenues solely for its sport fish and wildlife program purposes.

We also identified the internal controls over transactions recorded in the labor accounting systems and tested its operation and reliability. Based on the results of the 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 November 4, 1998, we issued “U.S. Fish and Wildlife Service Federal Aid Grants to the State of Mississippi, Department of Marine Resources, for the Fiscal Years Ended June 30, 1996 and 1997” (Report No. 99-E-78). We followed up on all recommendations in the report and determined that the Department of the Interior, Office of the Assistance Secretary for Policy, Management and Budget considered them resolved and implemented.

We reviewed the State’s most recent SFY2005 Comprehensive Annual Financial Report and Single Audit Report. Our review of the Single Audit Report found that the Department’s Sport Fish and Wildlife Program grants were not considered major programs and were assessed a low risk. In addition, there were no other audits of the Department or its programs during the audit period.

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## Results of Audit

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### Audit Summary

We found that the Department complied, in general, with applicable grant agreement provisions and requirements of the Acts, regulations, and FWS guidance. However, we identified conditions that resulted in the findings listed below. We discuss these findings in more detail in the Findings and Recommendations Section.

**Inadequate Backup System for Federal Assistance Program Data.** The Department did not have adequate procedures for backing up grant accounting data files to prevent loss in the event of a disaster.

**Inadequate Drawdown Procedures.** Department personnel drew down (requested reimbursement for) the federal share of grant expenditures without ensuring they expended an adequate amount to meet the State matching expenditure requirement.

**Payroll Overcharges to a Federal Assistance Program Grant.** Department personnel did not ensure that payroll charges to Federal Assistance Program grants were for actual time worked on the grants.

### Findings and Recommendations

#### A. Inadequate Backup System for Federal Assistance Program Data

A basic management control objective for any organization is to protect the data supporting its critical operations. Protecting such data requires periodically backing up data files and storing them at an off-site location. The Department's backup system is inadequate to prevent loss of financial data for its Federal Assistance Program grants. In the event a disaster occurred, critical data files could be lost.

The Government Accountability Office Federal Information Systems Controls Audit Manual, Chapter 3.6 discusses service continuity and identifies various steps that an organization can take to prevent or minimize the potential damage to and/or interruption of automated operations. These steps include routinely duplicating and backing up data files, computer programs, and critical documents with offsite storage.

The Accounting and Finance Director, who is responsible for tracking Federal Assistance Program grant costs, maintains the grant cost data in Excel spreadsheets on a local hard drive. The hard drive is not connected to the Department's network. The Director backs up the data on disks, which are kept in the Director's desk. No additional backup data is maintained for this grant cost data.

The Department does back up network data on a daily, weekly, and monthly basis. However, the backup data is not exported to an off-site location. A recently completed network assessment identified this lack of an off-site storage location as a control weakness. The Department has not developed policies and procedures that require backup data files to be adequately safeguarded.

These weaknesses in the Department's backup system increase its risk of losing the backup data files containing financial information, in the event of a disaster. Such a loss would require the Department to reconstruct the Excel spreadsheets related to Federal Assistance Program grants to be able to report or provide support for grant expenditures claimed.

### **Recommendation**

We recommend that FWS require the Department to ensure that Federal Assistance Program grant data be kept on the Department's local area network and that backup network data be stored off-site to prevent loss of the data in case of a disaster.

### **Department Response**

Department officials concurred with the recommendation and stated they will work with FWS to comply with the recommendation.

### **FWS Response**

FWS Region 4 management concurred with the recommendation and stated they will develop a corrective action with the Department.

### **OIG Comments**

FWS Region 4 management concurs with the recommendation, but additional information is needed in the corrective action plan, including the actions taken or planned; targeted completion dates; titles of the officials responsible for implementation; and verification that FWS headquarters officials reviewed and approved of actions taken.

## **B. Inadequate Drawdown Procedures**

Under the Federal Assistance Program, FWS may reimburse states up to 75 percent of grant expenditures, provided the state expends the required matching share of grant costs. This requirement also applies to sub-grantees. The University of Southern Mississippi (University) is a sub-grantee of the Department on some Federal Assistance Program grants. The University, and subsequently the Department, did not expend an adequate amount of State matching share before drawing down (requesting reimbursement for) the federal share of expenditures, as required.

The Code of Federal Regulations (50 C.F.R. § 80.16) requires states to incur the costs for approved projects before they are reimbursed the federal share of those costs. Additionally, 2 C.F.R. § 225, Appendix A, Item C1(j), which outlines basic guidelines on cost principles, states that for a cost to be considered allowable, a grantee must provide adequate documentation. Finally, 50 C.F.R § 80.12 limits federal reimbursement to 75 percent of eligible costs incurred in the completion of approved work.

Department officials relied on the University to spend an adequate amount on matching expenses before the University invoiced the Department for the drawdown. However, the University did not ensure it met the matching requirement. For example, grant F-131-5, for which the University was the sub-grantee, had a matching requirement of 26.9 percent. A March 21, 2005 invoice for \$40,171 identified a charge to the grant of \$32,092 in federal share costs (79.9 percent) with a State match of only \$8,079 (20.1 percent). The Department drew down the \$32,092 on April 21, 2005. This drawdown resulted in reimbursement for \$2,727 in costs for which sufficient matching costs had not been incurred. Department officials told us that drawdowns were made with the expectation that, by the end of the grant period, the match requirement would be satisfied.

We are not questioning the costs associated with having an inadequate matching share of State expenditures, since the University expended sufficient funds by the end of the grant period. However, without procedures to ensure adequate match is obtained before drawing down funds, the potential exists for the State to receive excess federal reimbursement.

### **Recommendation**

We recommend that FWS require the Department to establish and implement policies and procedures that ensure sufficient State match is available before funds are drawn down during the grant period.

### **Department Response**

Department officials concurred with the recommendation and stated they will work with FWS to comply with the recommendation.

### **FWS Response**

FWS Region 4 management concurred with the recommendation and stated they will develop a corrective action with the Department.

### **OIG Comments**

FWS Region 4 management concurs with the recommendation, but additional information is needed in the corrective action plan, including the actions taken or planned; targeted completion dates; titles of the officials responsible for implementation; and verification that FWS headquarters officials reviewed and approved of actions taken.

## **C. Grant Payroll Overcharges**

The State financial systems calculate charges for payroll costs to Federal Assistance Program grants based on budgeted estimates of hours employees will work on a grant instead of the actual time worked. It does this by applying a default percentage of employee time to the monthly pay and employer's portion of fringe benefits, and allocating the resulting dollar amount to the relevant grant. The Department did not adjust the payroll charges when actual time an employee worked under a grant differed from the default percentage.

Title 50 C.F.R. § 80.16 requires states to incur the costs for approved projects before they are reimbursed the federal share of those costs. Additionally, 2 C.F.R. § 225.55, Item C1(j), which outlines basic guidelines on cost principles, states that for a cost to be considered allowable, a grantee must provide adequate documentation.

The payroll cycle in Mississippi is monthly. The Statewide Payroll and Human Resource system pays employees 1/12 of their annual salary each month unless other actions are taken, such as termination of employment. All Department employees submit a monthly timesheet to the payroll office in Biloxi. Because the payroll system has default cost percentages for charging payroll costs to grants, pay period costs are calculated based on these percentages regardless of the actual time worked during the month on a particular grant. Adjustments required to the current monthly pay should be done, according to Department officials, in the following month, based on hours recorded on the timesheets. For example, adjustments for May would be done in June, based on May's timesheets.

Based on our tests for one month of the four employee timesheets included in our review, an adjustment to annual payroll charges was necessary but not made. For example, one employee had a default percentage of 65.10 percent in the payroll system, but the employee's timesheet showed that he only worked 46.3 percent of his time during the month on grant F-126-7. This situation led to 65.10 percent of payroll charges for that individual to be allocated to the grant in May 2006 rather than 46.3 percent. The failure to adjust the discrepancy in June resulted in a \$542.75 (federal share) overcharge to grant F-126-7 for the May 2006 pay period.

We are not questioning this amount because it is not material. However, material overcharges to the grants are possible if the Department does not adjust charges to the grants for payroll, when necessary.

### **Recommendations**

We recommend that FWS require the Department to:

1. establish and implement procedures to ensure that when employees charge time to more than one grant, payroll charges are adjusted to reflect the actual hours worked on those grants, and



2. review the hours charged for the employee charging time on grant F-126-7 to ensure that appropriate adjustments were made to reflect actual time worked.

### **Department Response**

Department officials concurred with the recommendations and stated they will work with FWS to comply with the recommendations.

### **FWS Response**

FWS Region 4 management concurred with the recommendations and stated they will develop corrective actions with the Department.

### **OIG Comments**

FWS Region 4 management concurred with the recommendations, but additional information is needed in the corrective action plan, including the actions taken or planned; targeted completion dates; titles of the officials responsible for implementation; and verification that FWS headquarters officials reviewed and approved of actions taken by the Department.

## Appendix 1

### MISSISSIPPI DEPARTMENT OF MARINE RESOURCES FINANCIAL SUMMARY OF REVIEW COVERAGE JULY 1, 2004 THROUGH JUNE 30, 2006

<u>Grant Number</u>	<u>Grant Amount</u>	<u>Claimed Costs<sup>1</sup></u>
F-80-10	\$278,000	\$0
F-80-11	170,000	0
F-95-14	75,000	75,059
F-95-15	75,000	74,857
F-95-16	75,000	0
F-118-7	130,000	129,393
F-118-8	180,000	133,371
F-118-9	236,000	34,830
F-122-3	60,000	41,084
F-122-4	60,000	29,738
F-122-5	60,000	36,895
F-126-5	190,000	190,201
F-126-6	190,000	198,535
F-126-7	190,000	82,829
F-131-4	260,775	256,485
F-131-5	532,482	246,259
F-132-4	118,903	122,021
F-132-5	119,205	116,244
F-132-6	119,205	0
F-135-3	227,100	227,039
F-136-2	58,466	58,614
F-137-1	53,295	53,375
	<u>\$3,458,431.00</u>	<u>\$2,106,829.00</u>

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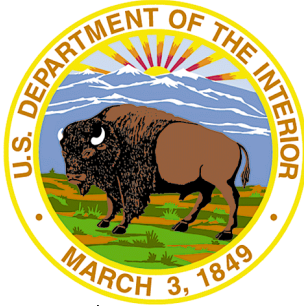
<sup>1</sup> Represents total outlays shown on State accounting and financial status reports (SF-269).

## Appendix 2

### MISSISSIPPI DEPARTMENT OF MARINE RESOURCES STATUS OF AUDIT FINDING AND RECOMMENDATIONS

Recommendations	Status	Action Required
A, B, C.1 and C.2	FWS management concurred with the recommendations, but additional information is needed.	Additional information is needed in the corrective action plan, including the actions taken or planned to implement the recommendations, targeted completion date(s), title of the 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 recommendations if not resolved and/or implemented at the end of 90 days (after September 4, 2007) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

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