



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

# **AUDIT REPORT**

**U.S. Fish and Wildlife Service  
Federal Assistance Program Grants  
Awarded to the Virgin Islands,  
Department of Planning and Natural Resources,  
Division of Fish and Wildlife,  
From October 1, 2003,  
Through September 30, 2005**

**Report No. R-GR-FWS-0006-2007**

**October 2007**



# United States Department of the Interior

**OFFICE OF INSPECTOR GENERAL**  
12030 Sunrise Valley Drive, Suite 230  
Reston, Virginia 20191

October 18, 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 U.S. Fish and Wildlife Service Federal Assistance Program Grants  
Awarded to the Virgin Islands, Department of Planning and Natural Resources,  
Division of Fish and Wildlife, From October 1, 2003, Through September 30,  
2005 (No. R-GR-FWS-0006-2007)

This report presents the results of our audit of costs incurred by the Government of the Virgin Islands, Department of Planning and Natural Resources (Department), Division of Fish and Wildlife (Division), under grants awarded by the U.S. Fish and Wildlife Service (FWS). FWS provided the grants to the Virgin Islands under the Federal Assistance Program for State Wildlife Restoration and Sport Fish Restoration (Federal Assistance Program). The audit included claims totaling \$2,994,621 on 31 grants that were open during fiscal years (FYs) ended September 30 of 2004 and 2005 (see Appendix 1). The audit also covered the Division's compliance with applicable laws, regulations, and FWS guidelines, including those related to the collection and use of hunting and fishing license revenues and the reporting of program income.

We found that the Division complied, in general, with applicable grant accounting and regulatory requirements. However, we questioned \$60,000 in costs for work that was charged to the grants and not performed. In addition, we found that the Division:

- used an indirect cost rate that did not ensure compliance with all federal regulations;
- had inadequate controls over its real property; and
- failed to follow reporting requirements for all of its Federal Assistance Program grants.

Further, we found that the Division had not addressed some conditions that we discussed in our prior audit report. These included inadequate controls over equipment and noncompliance with the requirements to pass specific legislation.

We provided a draft of the report to FWS and the Department for response on July 7, 2007. We agreed with FWS to issue the report in final with no responses if the Department did not respond by September 30, 2007. Accordingly, the FWS issued a letter to the Department dated September 14, 2007 giving the Department two weeks to respond to the draft. We did not receive a response from the Department by the due date, so we are issuing the final report without the grantee's response.

Please respond in writing to the findings and recommendations included in this report by January 16, 2008. Your response should include information on actions taken or planned, targeted completion dates, and titles of officials responsible for implementation. The unimplemented recommendations from our prior audit report should be addressed separately, through the audit resolution process, with Department of the Interior, Office of the Assistant Secretary for Policy, Management and Budget.

If you have any questions regarding this report, please contact the audit team leader, Mr. Chris Krasowski, 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 Restoration and Sport Fish Restoration. Under the Federal Assistance Program, FWS provides grants to States<sup>2</sup> 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 States up to 75 percent of the eligible costs incurred under the grants. For certain government entities, including the Virgin Islands, the Acts allow for full reimbursement of eligible costs incurred under the grants. The Acts also require that hunting and fishing license revenues be used only for the administration of each State's fish and game 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 if the Division:

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

### Scope

Audit work included claims totaling \$2,994,621 on the 31 grants that were open during October 1, 2003, through September 30, 2005 (see Appendix 1). We report only on the conditions that existed during this audit period. We performed our audit at the Division headquarters in St. Thomas and visited the Frederiksted Pier in St. Croix and the Red Hook facility in St. Thomas. 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.

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

<sup>2</sup> The Acts define the term "State" to include the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

## **Methodology**

We performed our audit in accordance with the “Government Auditing Standards” issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We tested records and conducted auditing procedures as necessary under the circumstances. We believe that the evidence obtained from our tests and procedures provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our tests and procedures included:

- examining the evidence that supports selected expenditures the Division charged to the grants;
- reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, and program income;
- interviewing Division employees to ensure that personnel costs charged to the grants were supportable;
- conducting site visits to inspect equipment and other property; and
- determining whether the State passed required legislation assenting to the provisions of the Acts.

To the extent possible, we relied on the relevant work of the certified public accounting firm that performed the Single Audit for FY2004, which helped us to avoid duplication of audit effort.

We identified the internal controls over transactions recorded in the labor and accounting systems and tested their operation and reliability. Based on the results of initial assessments, we assigned a level of risk to these systems and selected a judgmental sample of transactions recorded in them for testing. We did not project the results of the tests to the total population of recorded transactions or evaluate the economy, efficiency, or effectiveness of Division operations.

## **Prior Audit Coverage**

On October 7, 2002, we issued our “Final Advisory Report on Costs Claimed by the U.S. Virgin Islands, Department of Planning and Natural Resources, Division of Fish and Wildlife, Under Federal Aid Grants from the U.S. Fish and Wildlife Service from October 1, 1996 through September 30, 1998 (No. 2003-E-0001).” We followed up on all recommendations in the report. Three of the recommendations (A.1, A.2, and B.3) were resolved and implemented. We discuss the status of the remaining seven recommendations, which are resolved but unimplemented, in the 2002 Audit Findings and Recommendations section of this report.

Finally, we reviewed the Single Audit report for the Government of the Virgin Islands for FY2004. The FWS grants were not considered a major program. The Single Audit report for FY2005, had not been issued before we completed our fieldwork.

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## Results of Audit

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### Audit Summary

We found that the Division complied, in general, with applicable grant agreement provisions and requirements of the Acts, regulations, and FWS guidance and that the Division earned no program income or license revenue. However, we identified several conditions that resulted in the findings listed below, including questioned costs totaling \$60,000. We discuss the findings in more detail in the Findings and Recommendations section.

**Unallowable Payment.** The Division made an advance payment of \$60,000 to a contractor who provided no services. The Division has been unable to find the contractor and anticipates that no work will be performed.

**Noncompliant Indirect Cost Rate.** The Division computed indirect costs it charged to the grants using a rate that could have led to excess reimbursement for central services costs.

**Inadequate Real Property Controls.** The Division did not maintain an inventory of real property constructed using Federal Assistance Program funds.

**Noncompliant With Reporting Requirements.** The Division failed to submit to FWS the financial status reports and performance reports on several of its grants.

### Findings and Recommendations

#### A. Unallowable Payment — \$60,000

Under grant FW-18-2, the Division paid \$60,000 in advance to a contractor who failed to provide services. The payment was for dredging operations at the Division's Red Hook facility (pier). Division personnel informed us that they have been unable to locate the contractor and that it is unlikely any of the work will be performed.

To be allowable, costs must meet basic Code of Federal Regulations (C.F.R.) guidelines. Specifically, 2 C.F.R. § 225, Appendix A, General Principles for Determining Allowable Costs, allows grantees to charge only certain costs. Such costs must be necessary and reasonable for the efficient performance and administration of the federal award. In addition, 50 C.F.R. § 80.16 allows a grantor to reimburse grantees for the federal share of allowable costs incurred by the State (Territory) in accomplishing approved projects.

Since the contractor completed no work, the \$60,000 payment is unreasonable and unallowable under 2 C.F.R. § 225, Appendix A and 50 C.F.R. § 80.16. As a result, we questioned the \$60,000 payment. Division personnel were unaware that an advance payment is unreasonable and that they should pay based only on services performed.

## **Recommendation**

We recommend that FWS work with the Division to resolve the \$60,000 in questioned costs.

### **B. Noncompliant Indirect Cost Rate**

The Acts limit indirect costs that a State can charge to Federal Assistance Program grants for State-provided central services, and 50 C.F.R. § 80.15(e) codifies the limitation. The Division did not take steps to limit such costs.

Central services costs are one type of indirect cost, which means a State allocates them across multiple grants and programs. Title 2 C.F.R. § 225, Appendix E, Section C.4(b) and Section E.1 require each State to use a rate approved by an independent agency when it charges indirect costs to grants. The limit imposed by 50 C.F.R. § 80.15(d) is 3 percent of a State's annual apportionment in any 1 fiscal year.<sup>3</sup>

Under this regulation, the costs for central services must follow an approved cost allocation plan. A State cannot simply adjust its approved rate to comply with the 3 percent limitation. Rather, under both 50 C.F.R. and 2 C.F.R. § 225, a State must use a special restricted rate to charge central services costs to the grants if using the approved rate would cause the State to exceed the 3 percent limitation. A restricted rate helps to ensure a State does not overcharge the grants for central services.

Further, FWS issued guidance on September 6, 2005, to ensure consistent compliance among the States with the requirements of 50 C.F.R. § 80.15(d) and 2 C.F.R. § 225 (then OMB Circular A-87). Under this guidance, if the State does not have a restricted rate, it must establish procedures and document steps to ensure compliance with the 3 percent limitation.

The Division did not 1) apply for a restricted indirect cost rate or 2) establish policies or procedures to limit reimbursement for central services indirect costs as required. Rather, the Division applied a 3 percent rate to allocate central service costs charged to Federal Assistance Program grants.

While FWS determines the grant apportionment annually, the Division applied the indirect cost rate to grants that spanned several fiscal years. As a result, we were unable to determine whether the Division actually exceeded the 3 percent limitation in any 1 fiscal year, but it could have.

## **Recommendations**

We recommend that FWS require the Division to:

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<sup>3</sup> The annual apportionment refers to the total funding a State receives from FWS under Federal Assistance Program grants.



1. develop controls to ensure Division personnel follow the September 6, 2005 FWS guidance memorandum;
2. determine whether the 3 percent limit was exceeded for FYs 2004 and 2005; and
3. resolve any questioned costs — if the Division received excess reimbursement.

### **C. Inadequate Real Property Controls**

The Division used Federal Assistance Program funds to build boat ramps and fishing piers, but did not maintain a real property inventory list of them. Lack of such an inventory could result in misuse of the property or loss of its control.

According to 50 C.F.R. § 80.19 and 80.20 and 43 C.F.R. § 12.71, real property that is acquired or constructed with federal funds must be properly controlled and used for its intended purposes. In addition, Title 31, Chapter 21, Sections 201(a) and (b) of the Virgin Islands Code 1) require the Commissioner of Property and Procurement to manage and control Government property and 2) grant the Commissioner authority over property disposition and use. Such authority and responsibility include inventorying Government property and establishing forms and procedures that cover its sale, rental, and disposition.

#### **Recommendations**

We recommend that FWS require the Division to:

1. maintain a list of real property constructed with federal funds and
2. ensure that real property acquired and constructed with Federal Assistance Program funds is properly controlled and used for its intended purposes.

### **D. Noncompliant Reporting**

The Division did not submit to FWS the required annual financial status reports (SF-269s) for grants FW-18-1 or FW-18-2 or the required performance reports for grants FW-18-2 or W-14-3. As a result, the Division did not comply with the grant agreement and other applicable rules, regulations, policies, and guidance.

Under 43 C.F.R. §§ 12.951 and 12.952, Monitoring and reporting program performance and Financial reporting, respectively, a recipient of a federal award must submit final program performance and financial reports no later than 90 calendar days after the grant period ends. In addition, FWS Handbook 522 FW 1.23, Financial Reporting, requires each State to submit its SF-269 no later than 90 days after the grant agreement period ends. If the State cannot provide the report within this period, it must request an extension from the regional director.

The Division's noncompliance limited FWS ability to monitor the grants.

## **Recommendations**

We recommend that FWS:

1. require the Division to submit the delinquent reports; and
2. work with the Division to develop controls to ensure that it a) submits financial status reports and performance reports within the required reporting timeframes, or b) requests a written extension prior to the original reporting deadline.

## **2002 Audit Findings and Recommendations**

FWS reported in its Corrective Action Plan that actions to address our 2002 audit recommendations were to be taken by March 1, 2006, and three of our recommendations were resolved and implemented.

We list below the recommendations that the Department of the Interior, Office of the Assistant Secretary for Policy, Management and Budget (PMB) considers resolved but not implemented. The corrective actions for these recommendations have either not been taken or not been documented. We address below each open recommendation based on the information we obtained during our current audit that pertains to the open recommendations.

- **Recommendations A.3.1, A.3.2, and A.4.** We questioned:
  - \$14,435 in costs charged to grants for retroactive pay raises, a portion of which fell outside of the grant period (A.3.1);
  - \$3,266 in out-of-period payments (A.3.2); and
  - \$708 in costs for travel that was charged twice (A.4).

### ***Status***

PMB has received no supporting documentation that addresses the questioned costs for recommendations A.3.1, A.3.2, and A.4.

- **Recommendations B.1 and B.2.** We recommended that the Division:
  - reconcile records from its subsidiary accounting system with Department of Finance records (B.1.) and
  - stop posting purchase orders as expenses in the subsidiary system and start posting them in the system to an intermediate account such as accounts payable or obligations. We made this recommendation because purchase orders contain estimated rather than actual costs.

### *Status*

We found that the Division is currently implementing a new financial management system to address our 2002 recommendations B.1 and B.2, although PMB has received no related documentation.

- **Recommendation C.** We recommended that the Division implement a property management system that adequately controls equipment purchased with Federal Assistance Program funds.

### *Status*

Federal regulations (43 C.F.R. § 12.72(d)) contain the minimum requirements for maintaining controls over property. These include, among other items, an identification number, percentage of Federal Assistance Program funds used to purchase the equipment, and location. We reported previously that the Division's field offices did not adequately tag their equipment, identify in their written inventories the equipment purchased with Federal Assistance Program funds, or conduct physical inventories.

We found the same conditions at the Division during the audit period covered in this report. Therefore, our prior recommendation that FWS require the Division to maintain adequate controls over equipment purchased with Federal Assistance Program funds remains unimplemented.

- **Recommendation D.** We recommended that FWS require the Division to enact legislation that assents to the provisions of the Dingell Johnson Sport Fish Restoration Act, as required.

### *Status*

According to 50 C.F.R. § 80.3, a State must pass legislation assenting to the Act before it can benefit from the Federal Assistance Program. The Virgin Islands has not passed legislation assenting to this Act. Therefore, our prior recommendation that FWS require the Division to enact the required legislation remains unimplemented.

**VIRGIN ISLANDS**  
**DEPARTMENT OF PLANNING AND NATURAL RESOURCES**  
**FINANCIAL SUMMARY OF REVIEW COVERAGE**  
**OCTOBER 1, 2003 THROUGH SEPTEMBER 30, 2005**

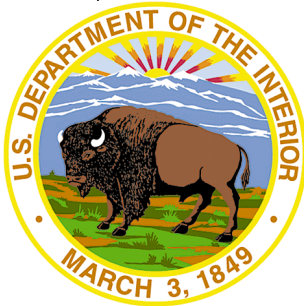
Grant Number	Grant Amount	Claimed Costs	Questioned Costs (Federal Share)	
			Cost Exceptions	Total
F-07-19	\$84,782	\$52,404		
F-07-20	98,543	70,428		
F-08-13	44,211	30,500		
F-08-14	27,659	19,256		
F-09-09	558,000	557,108		
F-09-11	106,277	37,439		
F-09-12	76,633	32,611		
F-10-13	141,189	89,451		
F-10-14	105,476	104,275		
F-14-4	97,307	77,015		
F-14-5	119,994	97,418		
FW-14-12	256,168	247,999		
FW-14-13	260,534	230,708		
FW-15-12	130,297	106,985		
FW-15-13	150,648	126,414		
FW-16-3	85,307	47,399		
FW-16-4	72,632	72,231		
FW-17-2	20,487	4,515		
FW-18-1	383,642	306,934		
FW-18-2	472,864	313,331	60,000	60,000
W-11-7	104,160	84,232		
W-12-7	42,902	31,729		
W-12-8	26,638	16,111		
W-15-3	15,155	8,572		
W-15-4	19,505	14,157		
W-16-3	37,918	22,221		
W-16-4	23,019	10,741		
W-17-2	64,389	53,608		
W-17-3	50,713	40,973		
W-18-1	50,630	48,869		
W-18-2	55,371	38,987		
<b>Total</b>	<b>\$3,783,050</b>	<b>\$2,994,621</b>	<b>\$60,000</b>	<b>\$60,000</b>

## Appendix 2

**VIRGIN ISLANDS**  
**DEPARTMENT OF PLANNING AND NATURAL RESOURCES**  
**STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

<b>Recommendations</b>	<b>Status</b>	<b>Actions Required</b>
A, B.1, B.2, B.3, C.1, C.2, D.1, and D.2	Unresolved	FWS should provide a response to the recommendations indicating concurrence or nonconcurrence. If the FWS concurs, provide a plan that identifies the actions taken or planned to implement the recommendations, 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. If FWS does not concur, provide the reasons for the nonconcurrence. We will refer recommendations not resolved and/or implemented at the end of 90 days (January 16, 2008) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

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