



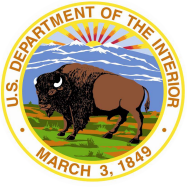
**Department of the Interior
Office of Inspector General**

AUDIT REPORT

**U.S. Fish and Wildlife Service
Wildlife and Sport Fish Restoration
Program Grants Awarded to the
State of North Carolina,
Division of Marine Fisheries,
From July 1, 2005 Through June 30, 2007**

Report No. R-GR-FWS-0008-2008

November 2008



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230
Reston, VA 20191

November 21, 2008

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: *for* Christina M. Bruner *Suzanna D. Park*
Regional Manager, Eastern Region

Subject: Audit on U.S. Fish and Wildlife Service Sport Fish Restoration Program Grants
Awarded to the State of North Carolina, Division of Marine Fisheries, From July 1,
2005 Through June 30, 2007 (No. R-GR-FWS-0008-2008)

This report presents the results of our audit of costs incurred by the State of North Carolina (State), Division of Marine Fisheries (Division), under grants awarded by the U.S. Fish and Wildlife Service (FWS). FWS provided the grants to the State under the Sport Fish Restoration Program (the Program). The audit included claims totaling approximately \$5.1 million on 36 grants that were open during Division of Marine Fisheries' State fiscal years (SFYs) ended June 30 of 2006 and 2007 (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 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 found that the Division overcharged FWS grants for health benefit premiums.

We provided a draft report to FWS for a response. We summarized the Division and FWS responses to the recommendations, as well as our comments on the response. We list the status of each recommendation in Appendix 3.

Please respond in writing to the findings and recommendations included in this report by February 19, 2009. 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, Lawrence Kopas, or me at 703-487-5345.

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

Introduction

Background

The Dingell-Johnson Sport Fish Restoration Act (Act)¹ established the Sport Fish Restoration Program. Under the Program, FWS provides grants to States to restore, conserve, manage, and enhance their sport fish resources. The Act 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. The Act also requires that fishing license revenues be used only for the administration of the 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 the Program grants in accordance with the Act and related regulations, FWS guidelines, and the grant agreements;
- used State fishing license revenues solely for sport fish program activities; and
- reported and used program income in accordance with federal regulations.

Scope

Audit work included claims totaling approximately \$5.1 million on the 36 grants that were open during SFYs ended June 30 of 2006 and 2007 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at Division Headquarters in Morehead City, NC, and visited three district offices and one field office (see Appendix 2). We performed this audit to supplement, not replace, the audits required by the Single Audit Act Amendment 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. 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

¹ 16 U.S.C. § 777, as amended.

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 charged to the grants by the Division;
- reviewing transactions related to purchases, direct costs, and drawdowns of reimbursements;
- interviewing Division employees to ensure that personnel costs charged to the grants were supportable;
- conducting site visits to inspect equipment;
- determining whether the Division used fishing license revenues solely for administration of sport fish program activities; and
- determining whether the State passed required legislation assenting to the provisions of the Act.

We also identified the internal controls over transactions recorded in the labor accounting system and tested its operation and reliability. Based on the results of initial assessments, we assigned a level of risk to this system and selected a sample of transactions recorded in the system 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. The review of internal controls over transactions recorded in the license fee accounting system was performed under the audit for the North Carolina Wildlife Resources Commission (R-GR-FWS-0007-2008).

Prior Audit Coverage

On December 1, 2004, we issued “Final Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the State of North Carolina, Division of Marine Fisheries from July 1, 2001, through June 30, 2003” (Report No. R-GR-FWS-0011-2004). We followed up on all recommendations in the report and found that they were all resolved and implemented.

We reviewed the Single Audit Report and the Comprehensive Annual Financial Report for the SFY2007. Neither report contained findings requiring corrective actions by the Division.

Results of Audit

Audit Summary

We found that the Division complied, in general, with applicable grant agreement provisions and requirements of the Act, regulations, and FWS guidance. We identified one condition where the Division overcharged Program grants for health benefit premiums. We discuss the finding in more detail below.

Finding and Recommendations

The Division overcharged Program grants for State-paid health premiums. Before October 2006, the State offered only a State Health Plan to employees for their health benefits. The State paid \$321.14 per employee per month for these benefits. Beginning in October 2006, the State made available to employees an additional Preferred Provider Organization (PPO) for health benefits. The State paid \$311.52 per employee per month for the PPO benefits. The State Time Cost Allocation System (system) used by the Division was not updated to reflect the use of the new rate by some employees. For each employee enrolled in the PPO who charged time to the Program grants, the system continued using a monthly rate of \$321.14 instead of the correct rate of \$311.52. For these employees, the Division overcharged the Program grants \$9.62 per month per employee.

Under the Code of Federal Regulations (50 C.F.R. §§ 80.15 and 80.16), grantees may charge to the grants only costs which are necessary and reasonable for accomplishment of approved project purposes and which are in accordance with the cost principles of 2 C.F.R. § 225. These regulations also specify that the federal share of allowable costs include only costs incurred by the State in accomplishing approved projects.

Division officials responded that as of June 2008, the State no longer carries the State Health Plan and this problem will not be an issue for cost allocations after June 2008. They added that the programmer responsible for the allocation system was not aware that there were two rates. The payroll files did include a code for each rate that could have been used to identify each employee's health plan rate. The officials added that all grants during the audit period will be recalculated to determine any excess charges to the Program grants. They will report this information to FWS.

We recommend that FWS ensure the Division:

1. calculates the correct health insurance costs for the audit period for all FWS grants and reimburses or otherwise resolves any overcharges to the grants, and
2. develops policies and procedures to ensure that health insurance costs are correctly calculated.

Division Response

Division officials concurred that FWS Program grants were overcharged for health premiums and calculated the amounts owed to FWS on the individual grants. The total amount of \$594.24 was credited back to FWS on Grant Agreement No. F-31-22 in July 2008. In addition, they said that, beginning July 1, 2008, the State only offers one health care plan for all State employees, so this issue will no longer occur. The officials also indicated the possibility of additional payments to FWS for grants in fiscal year 2008.

FWS Response

FWS management concurred with the audit recommendations.

OIG Comments

Based on the Division and FWS response, additional information is needed in the corrective action plan, including:

- the specific action(s) taken or planned to address the recommendation;
- targeted completion dates;
- titles of officials responsible for implementing the actions taken or planned; and
- verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Division.

Appendix 1

NORTH CAROLINA DIVISION OF MARINE FISHERIES FINANCIAL SUMMARY OF REVIEW COVERAGE JULY 1, 2005 THROUGH JUNE 30, 2007

GRANT NUMBER	GRANT AMOUNT	CLAIMED COSTS
F-25-20	\$208,000	\$160,817
F-25-21	210,000	249,900
F-25-22	244,981	87,802
F-28-20	120,000	32,871
F-28-21	152,000	44,153
F-28-22	88,784	28,307
F-31-19	316,000	354,048
F-31-20	326,000	365,958
F-31-21	392,472	159,093
F-41-15	136,000	26,823
F-41-16	127,000	34,435
F-41-17	105,216	23,952
F-42-15	250,000	244,303
F-42-16	242,452	234,380
F-42-17	229,000	104,848
F-56-12	370,000	401,940
F-56-13	348,000	344,050
F-56-14	348,763	301,013
F-70-5	216,000	197,892
F-70-6	256,000	217,867
F-74-4	80,000	41,918
F-75-5	214,667	225,096
F-75-6	234,900	162,291
F-75-7	234,900	13,543
F-78-1	160,000	115,633
F-79-2	136,000	153,020
F-79-3	110,861	53,061
F-80-2	128,000	92,400
F-80-3	128,000	98,407
F-80-4	128,000	26,663
F-81-2	100,000	47,645
F-81-3	102,000	56,402
F-81-4	104,000	14,948
F-83-1	418,008	214,439
F-84-1	164,000	191,275
F-88-1	24,000	0
TOTAL	\$7,154,004	\$5,121,193

**NORTH CAROLINA DIVISION OF MARINE FISHERIES
SITES VISITED**

Division of Marine Fisheries

Headquarters (Morehead City)

District Offices

Northern (Elizabeth City)
Pamlico (Washington)
Southern (Wilmington)

Field Office

Wanchese

**NORTH CAROLINA DIVISION OF MARINE FISHERIES
STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

Recommendations	Status	Action Required
1 and 2	FWS management concurs with the recommendations, but additional information is needed, as outlined in the “Actions required” column.	Additional information is needed in the corrective action plan, including 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 State. We will refer recommendations not resolved and/or implemented at the end of 90 days (after February 19, 2009) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

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