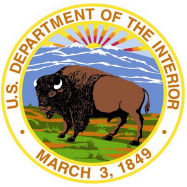




**Department of the Interior
Office of Inspector General**

AUDIT REPORT

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



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

12030 Sunrise Valley Drive, Suite 230

Reston, VA 20191

December 1, 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 Wildlife and Sport Fish Restoration Program Grants Awarded to the State of North Carolina, Wildlife Resources Commission, From July 1, 2005 Through June 30, 2007 (No. R-GR-FWS-0007-2008)

This report presents the results of our audit of costs incurred by the State of North Carolina (State), Wildlife Resources Commission (Commission), under grants awarded by the U.S. Fish and Wildlife Service (FWS). FWS provided the grants to the State under the Wildlife and Sport Fish Restoration Program (the Program). The audit included claims totaling approximately \$31.8 million on 37 grants that were open during State fiscal years (SFYs) ended June 30 of 2006 and 2007 (see Appendix 1). The audit also covered Commission 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 Commission complied, in general, with applicable grant accounting and regulatory requirements. However, we identified problems with the in-kind (non-cash) contributions the Commission claimed. We also found that the Commission had incomplete real property records and had understated fixed asset program accounts.

We provided a draft report to FWS and the Commission for a response. We summarized the Commission and FWS Region 4 responses after each recommendation, as well as our comments on the responses. We list the status of each recommendation in Appendix 3.

Please respond in writing to the findings and recommendations included in this report by March 2, 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, Tom Nadsady, or me at 703-487-5345.

cc: Regional Director, Region 4, 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 Wildlife and Sport Fish Restoration Program. Under the 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 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'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 Commission:

- claimed the costs incurred under the Program grants in accordance with the Acts and 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 approximately \$31.8 million on the 37 grants that were open during SFYs 2006 and 2007 ended June 30, 2007 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at Commission headquarter in Raleigh, NC, and visited three boating access maintenance depots, four gamelands, three gamelands maintenance depots, three boating access sites, a fish hatchery, a hunter education warehouse, and a wildlife education center (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

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

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 charged to the grants by the Commission;
- reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, in-kind contributions, and program income;
- interviewing Commission employees to ensure that personnel costs charged to the grants were supportable;
- conducting site visits to inspect equipment and other property;
- determining whether the Commission used hunting and fishing license revenues solely for administration of the Commission; and
- determining whether the State passed required legislation assenting to the provisions of the Acts.

We also identified the internal controls over transactions recorded in the labor and license fee 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 these systems 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 Commission operations.

Prior Audit Coverage

On March 31, 2005 we issued “U.S. Fish and Wildlife Service Federal Assistance Grants Administered by the North Carolina, Wildlife Resources Commission, from July 1, 2001 to June 30, 2003” (Report No. R-GR-FWS-0004-2004). We followed up on all recommendations in the report and found that all of them had been resolved and implemented.

We reviewed North Carolina’s Comprehensive Annual Financial Reports for SFYs 2006 and 2007 and Single Audit Reports for SFYs 2005 and 2006. None of these reports contained any findings that would directly impact the Commission’s Program grants or programs under the grants.

Results of Audit

Audit Summary

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

Questionable In-Kind Contributions Claimed. The Commission overstated the amount of in-kind contributions it received as the State matching share of grant costs on its Aquatic Education and Hunter Education grants.

Inadequate Land Records. The Commission did not reconcile its land records with the FWS records. We identified discrepancies between the two sets of records, which document land purchased with Program funds.

Improperly Recorded and Understated Assets. The Commission improperly coded purchases for assets worth over \$2 million in its accounting system and omitted the assets from its fixed asset system.

Findings and Recommendations

A. Questionable In-Kind Contributions Claimed

Under the Program, States must use “State matching” (non-federal) funds to cover at least 25 percent of costs incurred in performing projects under the grants. The State’s matching share of costs for Grants F-35-18 and F-35-19, which were for aquatic education, and Grants W-1-35 and W-1-36, which were for hunter education, was partially composed of non-cash (“in-kind”) contributions provided by volunteer workers. States may use the value of such third-party contributions to meet the matching requirement, but they must follow various requirements in doing so. We identified multiple problems—such as lack of support and certain unallowable costs—with a portion of the in-kind contributions reported for each of these grants.

States must follow a number of requirements when claiming in-kind contributions. As described in table 1 below, the Code of Federal Regulations (C.F.R.) provides the general documentation requirements for in-kind contributions. It also provides guidance on calculating the value of the contributions. State regulations and policies and FWS guidance provide further clarification.

Governing Rules for In-Kind Contributions	Source of Criteria	Description
Must be adequately documented.	2 C.F.R. 225.55 C.1.j	Grantee must maintain adequate documentation.
	43 C.F.R. 12.64(b)(6)	Grantee must maintain records that show how it determined the value of the contributions claimed.
Allowable if they would also be allowable as cash payments.	43 C.F.R. 12.64(b)(7)(i)	Third party in-kind contributions count toward satisfying a matching requirement only when, if the party receiving the contributions were to pay for them, the payments would be allowable costs.
	State Travel Policies (“Travel Policies and Regulations” in the State Budget Manual)	State travel policies apply because the Commission claimed volunteer travel costs as in-kind contributions. These policies allow reimbursement for meals for official overnight travel. The destination must be at least 35 miles from the employee’s regularly assigned duty station or home. Employees traveling over 35 miles who do not stay overnight may be reimbursed for breakfast if they depart their duty station before 6:00 a.m. and extend the workday by 2 hours. They may be reimbursed for dinner if they return to their duty station after 8:00 p.m. and extend the workday by 3 hours.
For Hunter Education grants, certain certification requirements apply (signatures and use of specific forms).	Chapter 4, FWS Hunter Education Guide	Volunteer instructors should document their hunter education activity on a signed and dated time/course report form.
	Commission Hunter Education Program Procedure Manual	The lead instructor and District Hunter Education Specialist will sign the Instructor Cover Sheet after they have reviewed it for accuracy and completeness. Instructor Cover Sheets, similar to timesheets, detail the volunteer hours, mileage, and meals contributed to the Hunter Education Program. The Commission bases its calculation of in-kind contributions related to Grants W-1-35 and W-1-36 upon those documents.

Table 1. Summary of Requirements for Claiming In-Kind Contributions

The Commission determined the value of in-kind hours donated by multiplying the hours worked by various hourly rates. For Hunter Education grants, the Commission also claimed as in-kind contributions costs for mileage and meals reported by the volunteers. We tested the in-kind contributions by reviewing the supporting documentation for four months of in-kind contributions claimed for both the Aquatic Education and Hunter Education grants.

Aquatic Education

For the two Aquatic Education grants, the State received volunteer services from two groups of individuals: “regular volunteers,” who offered their own time to assist the Commission, and “community service volunteers,” who performed court-ordered volunteer work. We identified numerous problems with the in-kind contributions received from both groups.

Unsupported and incorrect labor rates. The Commission could not provide the support used to determine hourly labor rates associated with labor codes charged by regular volunteers. Some of these labor codes are now defunct, and the Commission did not have documentation on the work activities associated with them. Furthermore, there has been turnover in the volunteer coordinator position so the “corporate knowledge” on these codes is lost. We therefore determined the entire in-kind value contributed by regular volunteers in SFYs 2006 and 2007 is an ineligible in-kind cost.

The Commission also used an incorrect labor rate to calculate the value of community service volunteers’ in-kind contributions on these grants. It applied a rate of \$10 per hour to certain volunteer activities, even though the Commission’s documentation supported a rate of only \$5.15 per hour.

Inaccurate hours. The number of volunteer hours notated in monthly summary reports submitted to the Commission’s Federal Funds Accountant did not consistently reconcile with community service volunteers’ time sheets in three of the four months we reviewed.

Based on these observations regarding both labor rates and the accuracy of hours reported, we determined that \$43,225, or 100 percent of the regular volunteers’ in-kind contributions on the two Aquatic Education grants were not supported. Concerning the community service volunteers’ contributions, \$1,877 of the \$4,087 that we reviewed (46 percent) were not supported.

Hunter Education

We noted three major issues with the two Hunter Education grants.

Inadequate Supervisory Review of Hours. We found that Commission staff did not ensure Instructor Cover Sheets in our sample were consistently signed by lead instructors and/or District Hunter Education Specialists to indicate completeness and accuracy.

Database Errors. Hours and miles were at times inaccurately inputted in the Commission’s electronic database, causing the value of these in-kind contributions to be overstated.

We reviewed \$16,657 of the in-kind contributions claimed on Hunter Education grants. As a result of the errors identified, we determined that \$3,890 (23 percent) were not supported.

Unallowable Costs. The Commission claimed meals paid by volunteers as part of its in-kind match on these grants. However, State employees traveling under similar circumstances may not be reimbursed for meals (see Table 1 above for criteria). Therefore, we determined that \$9,528, the full amount of meals claimed on these two grants (not just the amount in our sample), were ineligible in-kind costs.

We determined that there was no monetary impact on the grants, because the Commission accumulated excess matching cash outlays on the grants. However, the State overstated in-kind contributions by at least \$58,520. Overstating in-kind contributions claimed as the State matching share of costs could lead the Commission to be reimbursed more than it should be under the grants. Therefore, addressing the deficiencies concerning the rates used to value the in-kind contributions claimed, accuracy of hours reported, supervisory review of those hours, and types of costs charged will help ensure the appropriate use of federal funds for the Commission's Aquatic Education and Hunter Education Programs in the future.

Recommendations

We recommend that FWS:

1. require the Commission to maintain records supporting the labor rates used to calculate the value of in-kind contributions for the Aquatic Education grants and to use rates supported in their documentation,
2. require the Commission to ensure the hours recorded on monthly summary reports reconcile with the hours reported on volunteer time sheets for that month,
3. ensure the Commission enforces its policies and procedures requiring lead instructors and District Hunter Education Specialists to certify the hours worked and mileage contributed by volunteers on the Hunter Education program, and
4. ensure the Commission follows the C.F.R. and State travel policies to determine eligible in-kind costs on future Hunter Education grants.

Commission Response

The Commission stated that they are unsure about the differences in unsupported amounts between those originally discussed with them and the amounts identified in the draft report. The Commission also stated that they agreed with the finding as it was originally written, but since they did not receive any additional documentation to support the finding as presented in the draft report they could not say whether or not they agreed. As a result, the Commission could "not take appropriate action to ensure there are no future findings with possible questioned costs."

FWS Response

FWS management concurred with the recommendations.

OIG Comments

We do not believe the revised amounts affect the finding since there was no monetary impact on the grants. In addition to the information provided in the response to the draft report, the Commission needs to submit a corrective action plan. The corrective action plan should include:

- actions taken, if any, to address enforcement of its policies and procedures to ensure costs are adequately documented and allowable;
- targeted completion dates for those actions;
- titles of officials responsible; and
- verification that FWS headquarters officials reviewed and approved of all actions taken or planned by the Commission.

B. Inadequate Land Records

Federal Regulations (50 C.F.R. § 80.19) require each State to maintain complete property records and to follow the records requirements in the Federal Aid Manual and OMB Circular A-102. Under 50 C.F.R. § 80.18(c), the Commission is responsible for controlling all assets and assuring they serve the purpose for which acquired. The Commission relies on the North Carolina Department of Administration, State Property Office (SPO), to handle all real estate purchases and official record keeping. The Commission also maintains supporting documentation—such as land acquisition maps, deeds, appraisals, and accounting transactions—for land purchases. To determine whether the Commission has adequate controls over federally-purchased land, we compared land records contained in a FWS database to those maintained by SPO and the Commission. We identified discrepancies among the lists.

FWS records show a total of 16 FWS-funded land grants to the Commission. The Commission had adequate documentation that matched FWS records for two relatively recent acquisitions: land purchased under Grant W-60 in 2003 and under Grant W-49 in 2007. However, there were fewer Commission records for the other 14 FWS-funded land acquisitions from 1941 to the 1990s. We found that these 14 acquisitions did not identify a source of funding in either Commission or SPO records. In addition, the Commission's records show land purchased under Grant W-58-L-1 is owned by the FWS Roanoke Refuge, land shown as purchased under Grant F-9-L-1 in FWS records does not appear in Commission or SPO records, and the acres recorded in FWS records for land purchased under Grant W-4-L-1 acreages does not match acres recorded in Commission or SPO records.

A Commission official stated that federal ownership for the 13 land acquisitions (14 less land purchased under W-58-L-1, which is owned by the FWS) is not shown in Commission records because the hard copy files were lost. Without accurate records, the Commission cannot ensure that it maintains control of land purchased with Program grant funds and that such land is not used for unallowable purposes.

Recommendations

The FWS should work with the Commission to:

1. ensure the funding source of the lands are properly recorded in the SPO and in the Commission's electronic and hard copy files and
2. reconcile its land records with the with FWS records.

Commission Response

The Commission did not respond to the recommendations.

FWS Response

FWS management concurred with the recommendations.

OIG Comments

The Commission did not respond to the recommendations. The Commission needs to submit a corrective action plan. The corrective action plan should include:

- actions taken, if any, to address the funding source of lands and reconciliation of its land records with FWS;
- targeted completion dates for those actions;
- titles of officials responsible; and
- verification that FWS headquarters officials reviewed and approved of all actions taken or planned by the Commission.

C. Improperly Recorded and Understated Assets

The Commission accounts for property by maintaining an inventory in its fixed asset system. Purchases of property should be recorded in the fixed asset system. The Commission spent \$1,538,269 in license funds to pay for exhibits for the Outer Banks Wildlife Education Center (\$883,582) and the Centennial Wildlife Center (\$654,687). The Commission considers these exhibits as personal property. The exhibits therefore

should have been, but were not, included in the fixed asset system's inventory of personal property (specifically, office equipment).

In addition, the State expended license revenue for cabinets for the Outer Banks Wildlife Education Center. The Commission considers these cabinets as part of the building's structure. The Commission should have included them in the total building cost in the fixed asset system and capitalized them as an asset in the accounting system, but did not. Under 2 C.F.R. § 225.15(a), capital expenditures specifically include expenditures to increase the value or useful life for equipment, buildings, and land.

The Commission also follows the North Carolina Department of Administration Internal Operating Policies number "Fiscal 002" accounting for fixed assets. Although the policy provides general guidance on fixed assets, it leaves the final determination of how to classify and treat assets to departmental discretion. This policy suggests that "fixed assets historically valued between \$500 and \$4,999.99 are recorded in the fixed asset system for inventory purposes" and that "assets historically valued at \$5,000 and above shall be capitalized."

A Commission official stated the expenditures were incorrectly recorded as described above due to a coding error that showed the amounts as contract services in the accounting system. The coding error allowed the expenditures to bypass the fixed asset manager, who otherwise would have corrected the mistake. Consequently, the fixed asset inventory was understated by \$1,538,269 for the omitted exhibits and the fixed asset system's building capital account was understated by \$570,246.

Recommendations

The FWS should work with the Commission to:

1. ensure the Commission updates the statements of assets in the fixed asset accounts and inventory to include the missing items and
2. provide training to Commission personnel on established procedures that control project cost coding.

Commission Response

The Commission did not respond to the recommendations.

FWS Response

FWS management concurred with the recommendations.

OIG Comments

The Commission did not respond to the recommendations. The Commission needs to submit a corrective action plan. The corrective action plan should include:

- actions taken, if any, to address the updating of the statements and training to staff;
- targeted completion dates for those actions;
- titles of officials responsible; and
- verification that FWS headquarters officials reviewed and approved of all actions taken or planned by the Commission.

**STATE OF NORTH CAROLINA
WILDLIFE RESOURCES COMMISSION
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2005 THROUGH JUNE 30, 2007**

Grant Number	Grant Amount	Claimed Costs
F-22-30	\$535,000	\$486,291
F-22-31	599,000	624,214
F-23-30	306,000	340,967
F-23-31	509,000	533,077
F-24-30	467,000	498,740
F-24-31	569,000	577,068
F-26-21	987,496	971,915
F-26-22	2,111,691	2,040,535
F-35-18	708,769	857,116
F-35-19	734,104	834,940
F-58-10	583,000	415,097
F-58-11	71,000	60,999
F-63-10	380,000	441,968
F-63-11	460,000	463,827
F-65-9	570,550	507,753
F-65-10	286,000	357,879
F-68-7	147,672	147,672
F-68-8	275,757	228,114
F-76-5	82,500	83,391
F-76-6	82,500	100,331
F-82-D-1	2,666,667	3,270,290
F-85-1	184,000	195,852
F-86-CR-1	127,000	68,307
F-87-E-1	160,000	216,392
F-89-B-1	202,000	200,695
W-1-35	1,531,104	1,554,173
W-1-36	1,352,481	1,553,273

**STATE OF NORTH CAROLINA
WILDLIFE RESOURCES COMMISSION
FINANCIAL SUMMARY OF REVIEW COVERAGE
JULY 1, 2005 THROUGH JUNE 30, 2007**

Grant Number	Grant Amount	Claimed Costs
W-49--L2	472,000	459,922
W-57-31	5,000,000	5,796,868
W-57-32	5,600,000	6,246,438
W-59-1	607,500	40,500
W-60-1	501,071	35,847
W-61-5	320,000	462,367
W-61-6	320,000	526,938
W-62-1	417,920	71,006
W-63-1	400,000	88,207
W-65-1	744,153	425,997
TOTAL	<u>\$31,071,935</u>	<u>\$31,784,966</u>

**STATE OF NORTH CAROLINA
WILDLIFE RESOURCES COMMISSION
SITES VISITED**

Headquarters

Raleigh

Boating Access Depots

Chinquapin

Hertford

Weldon

Gamelands and Depots

Angola Bay Gameland

Butner-Falls of Neuse Gameland and Depot

South Mountain Gameland and Depot

Suggs Mill Pond Gameland and Depot

Boating Access Areas

Gunpowder

Johns River

Sawpit Landing

Other

Hunter Education Warehouse

Outer Banks Wildlife Education Center

Watha Fish Hatchery

**STATE OF NORTH CAROLINA
WILDLIFE RESOURCES COMMISSION
STATUS OF AUDIT FINDINGS AND RECOMMENDATIONS**

Recommendation	Status	Action Required
A.1, A.2, A.3, A.4, B.1, B.2, C.1 and C.2	FWS management concurs with the recommendations, but additional information is needed, as outlined in the “Action 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 Headquarters officials reviewed the actions taken or planned by the State. We will refer recommendations not resolved and /or implemented after 90 days (after March 2, 2009) to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

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