



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

**U.S. FISH AND WILDLIFE SERVICE WILDLIFE AND
SPORT FISH RESTORATION PROGRAM GRANTS**

Awarded to the Commonwealth of the Northern Mariana Islands,
Department of Lands and Natural Resources,
From October 1, 2007, Through September 30, 2009



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

October 5, 2010

AUDIT REPORT

Memorandum

To: Director
U.S. Fish and Wildlife Service

From: Suzanna I. Park 
Director of External Audits

Subject: Audit on U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the Commonwealth of the Northern Mariana Islands, Department of Lands and Natural Resources, From October 1, 2007, Through September 30, 2009 (No. R-GR-FWS-0007-2010)

This report presents the results of our audit of costs claimed by the Commonwealth of the Northern Mariana Islands (the Commonwealth), Department of Lands and Natural Resources (the Department), under grants awarded by the U.S. Fish and Wildlife Service (FWS). FWS provided the grants to the Commonwealth under the Wildlife and Sport Fish Restoration Program (the Program). The audit included claims totaling approximately \$3.6 million on 18 grants that were open during Commonwealth fiscal years (CFYs) ended September 30 of 2008 and 2009 (see Appendix 1). The audit also covered the Department'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 Department complied, in general, with applicable grant accounting and regulatory requirements; however, we questioned costs totaling \$57,630 (Federal share) for indirect costs claimed in excess of the allowable amount and for a variety of ineligible direct costs. We also found that the Department did not ensure annual property inventories were completed.

We provided a draft report to FWS for response. We summarized the FWS Region 1 response, as well as our comments on the response after the recommendations. We list the status of the recommendations in Appendix 3.

Please respond in writing to the findings and recommendations included in this report by January 3, 2011. Your response should include information on actions taken or planned, targeted

completion dates, and titles of officials responsible for implementation. Please address your response to:

Director of External Audits
U.S. Department of the Interior
Office of Inspector General
12030 Sunrise Valley Drive, Suite 230
Reston, VA 20191

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

cc: Regional Director, Region 1, U.S. Fish and Wildlife Service

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Introduction

Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (the Acts)¹ established the Wildlife and Sport Fish Restoration Program. Under the Program, FWS provides grants to States² 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 Commonwealth, 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 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 Department:

- Claimed the costs incurred under the Program grants in accordance with the Acts and related regulations, FWS guidelines, and the grant agreements.
- Used hunting and fishing license revenues solely for fish and wildlife program activities.
- Reported and used program income in accordance with Federal regulations.

Scope

Audit work included claims totaling approximately \$3.6 million on the 18 grants that were open during CFYs 2008 and 2009 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at Department headquarters in Saipan and visited two offices of the Department's Division of Fish and Wildlife and five boating access facilities (see Appendix 2). 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.

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

² 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 charged to the grants by the Department.
- Reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, in-kind contributions, and program income.
- Interviewing Department employees to ensure that personnel costs charged to the grants were supportable.
- Conducting site visits to inspect equipment and other property.
- Determining whether the Department used hunting and fishing license revenues solely for the administration of its fish and game agency.
- Determining whether the Commonwealth 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 the Department’s operations.

Prior Audit Coverage

On April 3, 2007, we issued “Audit on the U.S. Fish and Wildlife Service Federal Assistance Program Grants Awarded to the Commonwealth of the Northern Mariana Islands, Department of Lands and Natural Resources, From October 1, 2002 Through September 30, 2004” (No. R-GR-FWS-0023-2005). We followed up on all 19 recommendations in the report and found that the U.S. Department of the Interior, Office of Assistant Secretary for Policy, Management and Budget (PMB) considers 13 recommendations closed and 6 recommendations resolved but not implemented. We did not identify any conditions during our current audit that warrant repeating the findings from the prior report, but we note that PMB cannot classify recommendations as implemented until it receives adequate documentation supporting that classification.

We also reviewed the Commonwealth's Comprehensive Annual Financial Report and Single Audit Report for CFY 2008 and determined that the Department's Wildlife and Sport Fish Restoration Programs were not identified as major programs in the Single Audit. Neither of these reports contained any findings that would directly affect the Program grants.

Results of Audit

Audit Summary

We found that the Department complied, in general, with applicable grant agreement provisions and requirements of the Acts, regulations, and FWS guidance. We identified several conditions, however, that resulted in the findings listed below, including questioned costs totaling \$57,630. We discuss the findings in more detail in the Findings and Recommendations section.

Questioned Costs. We questioned costs totaling \$57,630 (Federal share) for indirect costs claimed in excess of the allowable amount and for a variety of ineligible direct costs charged to the Program grants.

Inadequate Equipment Management. The Department did not ensure that annual property inventories were completed for CFYs 2008 and 2009.

Findings and Recommendations

A. Questioned Costs — \$57,630

1. Excess Indirect Costs Claimed — \$51,122

To claim indirect costs under the Program grants, States are required to obtain approval for an indirect cost rate from the Federal Government. The U.S. Department of the Interior's National Business Center (NBC) is responsible for negotiating and approving the Commonwealth's rate. The Commonwealth's Department of Finance (Finance), however, did not submit indirect cost rate proposals for CFYs 2008 or 2009 to NBC in a timely manner. Instead, Finance used the approved indirect cost rate of 14.57 percent from CFY 2003 to claim indirect costs on the CFY 2008 and 2009 Program grants. After NBC approved a lower rate of 7.42 percent for CFYs 2008 and 2009, the Commonwealth did not reimburse the Federal Government for the excess indirect costs it had already claimed.

According to the Code of Federal Regulations (CFR), in 2 CFR § 225, Appendix E, subsection D.1.a, all departments or agencies of a governmental unit planning to claim indirect costs under Federal awards must prepare an indirect cost rate proposal. Furthermore, 2 CFR § 225, Appendix E, subsection E.1, states that indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency.

This condition occurred because Finance did not have procedures to timely prepare and submit indirect cost rate proposals to NBC. We therefore recomputed the indirect costs by applying the correct negotiated rate to the allowable direct

cost base for each grant. Our calculations resulted in questioned costs of \$51,122 (Federal share) for eight of the Department's grants.

Grant	Indirect Costs Claimed	Indirect Costs Allowed	Questioned Costs
F-2-R-10	\$33,069	\$16,780	\$16,289
F-2-R-11	21,440	21,127	313
F-5-D-5	5,053	2,573	2,480
F-6-B-10	5,581	2,842	2,739
F-6-B-11	857	436	421
F-9-B-1	688	350	338
FW-1-C-26	21,345	10,871	10,474
W-3-R-2	39,509	21,441	18,068
Total			\$51,122

Recommendations

We recommend that FWS:

1. Resolve the ineligible questioned costs totaling \$51,122.
2. Require the Department to implement policies and procedures to ensure that indirect cost proposals are prepared and submitted timely so that indirect costs are based on an approved rate.

Department Response

The Department did not provide a response to the draft report.

FWS Response

FWS regional officials concurred with the finding and recommendations.

OIG Comments

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

- The specific action(s) taken or planned to address the recommendations.
- Targeted completion date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

2. Ineligible Direct Costs — \$6,508

States are required to demonstrate that costs claimed under the Program grants were incurred during the grant periods, are allocable to the grants, and are adequately documented. Nevertheless, the Department was reimbursed \$6,508 under four grants for a variety of ineligible costs:

- Under Grant F-2-R-10, the Department drew down the Federal share of \$819 for a pressure washer purchased after the end of the grant period.
- Under Grant F-2-R-11, the Department drew down the Federal share of \$1,913 for an advance payment on a water quality instrument that was never received.
- Under Grant F-4-B-23, the Department drew down the Federal share of \$2,542 for labor expenses incurred prior to the start of the grant period.
- Under Grant W-3-R-3, the Department drew down the Federal share of \$1,234 for labor expenditures that were included in the final Federal financial report for this grant but were later reclassified as non-Program grant costs.

According to 50 CFR § 80.15 and 2 CFR § 225, Appendix A, to be allowable, costs must be necessary and reasonable, allocable, and adequately documented. Furthermore, 2 CFR § 225, Appendix B, states that a cost is allowable for Federal reimbursement only to the extent that it benefits Federal awards.

Based on our review, these issues occurred because the Department did not ensure that only eligible costs were included in claims for reimbursement. As a result, we are questioning costs totaling \$6,508 (Federal share).

Recommendation

We recommend that FWS resolve the ineligible questioned costs totaling \$6,508.

Department Response

The Department did not provide a response to the draft report.

FWS Response

FWS regional officials concurred with the finding and recommendation.

OIG Comments

Based on the 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 date.

- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

B. Inadequate Equipment Management

Federal regulations (50 CFR § 80.18(c)) and the FWS Manual (522 FW1.16) require that States account for and control all assets acquired with Program funds. Furthermore, the Commonwealth has issued policies and procedures to help its employees manage and account for equipment. Section III of its Property Management Policies and Procedures requires Finance's Division of Procurement and Supply (Procurement) to conduct an annual inventory of property held by each accountable person and perform random property audits. We determined, however, that Procurement did not conduct comprehensive equipment inventories in CFYs 2008 and 2009.

According to a Department official, this issue occurred because Procurement personnel have not responded to repeated requests to perform physical inventories. As a result, the Department has no assurance that equipment purchased with Program funds and license revenue is being used for its original intended purpose, and the equipment is at risk of being lost.

Recommendation

We recommend that FWS require the Department to conduct an annual physical inventory of equipment purchased with Program funds.

Department Response

The Department did not provide a response to the draft report.

FWS Response

FWS regional officials concurred with the finding and recommendation.

OIG Comments

Based on the 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 date.
- Titles of officials responsible for implementing the actions taken or planned.
- Verification that FWS headquarters officials reviewed and approved of actions taken or planned by the Department.

Appendix I

**Commonwealth of the Northern Mariana Islands
Department of Lands and Natural Resources
Financial Summary of Review Coverage
October 1, 2007, Through September 30, 2009**

Grant Number	Grant Amount	Claimed Costs	Questioned Costs (Federal Share)
F-2-R-9	\$561,495	\$344,499	
F-2-R-10	567,789	260,874	\$17,108
F-2-R-11	714,669	331,405	2,226
F-4-B-23	255,208	240,464	2,542
F-4-B-24	275,364	229,873	
F-5-D-4	193,945	127,620	
F-5-D-5	206,864	39,732	2,480
F-6-B-9	157,894	115,221	
F-6-B-10	106,068	43,889	2,739
F-6-B-11	86,665	6,740	421
F-8-D-2	457,160	434,029	
F-9-B-1	1,605,126	5,409	338
FW-I-C-25	227,965	201,805	
FW-I-C-26	191,155	168,056	10,474
FW-I-C-27	191,779	164,891	
W-3-R-1	419,499	246,665	
W-3-R-2	334,673	328,792	18,068
W-3-R-3	397,516	355,133	1,234
Totals	\$6,950,834	\$3,645,097	\$57,630

Appendix 2

**Commonwealth of the Northern Mariana Islands
Department of Lands and Natural Resources
Sites Visited**

Headquarters

Saipan

Division of Fish and Wildlife Offices

Rota

Saipan

Boating Access Facilities

Fishing Base Boat Ramp

Smiling Cove Marina

Sugar Dock Boat Ramp

Tanapag Beach Public Boat Ramp

West Harbor Marina (Rota)

Appendix 3

**Commonwealth of the Northern Mariana Islands
Department of Lands and Natural Resources
Status of Audit Findings and Recommendations**

Recommendations	Status	Action Required
A.1.1, A.1.2, A.2, and B	FWS management concurs with the recommendations, but additional information is needed as outlined in the "Action Required" column.	Based on the FWS response, additional information is needed in the corrective action plan, as listed in the Findings and Recommendations section under OIG Comments. We will refer the recommendations, if not resolved and/or implemented at the end of 90 days (after January 3, 2011), to the Assistant Secretary for Policy, Management and Budget for resolution and/or tracking of implementation.

Report Fraud, Waste, and Mismanagement



Fraud, waste, and mismanagement in government concern everyone: Office of Inspector General staff, Departmental employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to Departmental or Insular Area programs and operations. You can report allegations to us in several ways.



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