AUDIT

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

U.S. Fish and Wildlife Service Grants Awarded to the State of Hawaii, Department of Land and Natural Resources, From July 1, 2018, Through June 30, 2020, Under the Wildlife and Sport Fish Restoration Program

This is a revised version of the report prepared for public release.

Report No.: 2020–WR–070

March 2023

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INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

MAR 17 2023

Memorandum

To: Martha Williams
Director, U.S. Fish and Wildlife Service

From: Bryan Brazil
Director, Western Region Audit Division

Subject: Final Audit Report – *U.S. Fish and Wildlife Service Grants Awarded to the State of Hawaii, Department of Land and Natural Resources, From July 1, 2018, Through June 30, 2020, Under the Wildlife and Sport Fish Restoration Program*
Report No. 2020–WR–070

This report presents the results of our audit of costs claimed by the State of Hawaii, Department of Land and Natural Resources (Department), under grants awarded by the U.S. Fish and Wildlife Service (FWS) through the Wildlife and Sport Fish Restoration Program.

We provided a draft of this report to the FWS. The FWS concurred with eight recommendations and will work with the Department to implement corrective actions. The full responses from the Department and the FWS are included in Appendix 4. In this report, we summarize the Department's and FWS Region 1's responses to our recommendations, as well as our comments on their responses. We list the status of the recommendations in Appendix 5.

Please provide us with a corrective action plan based on our recommendations by June 15, 2023. The plan should provide information on actions taken or planned to address each recommendation, as well as target dates and titles of the officials responsible for implementation. It should also clearly indicate the dollar value of questioned costs that you plan to either allow or disallow. If a recommendation has already been implemented, provide documentation confirming that the action is complete. Please send your response to aie_reports@doioig.gov.

We will notify Congress about our findings, and we will report semiannually, as required by law, on actions you have taken to implement the recommendations and on recommendations that have not been implemented. We will also post a public version of this report on our website.

If you have any questions regarding this report, please contact me at 916–978–6199.

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Introduction

Objectives

In June 2016, we entered into an intra-agency agreement with the U.S. Fish and Wildlife Service (FWS) to conduct audits of State agencies receiving grant funds under the Wildlife and Sport Fish Restoration Program (WSFR). These audits assist the FWS in fulfilling its statutory responsibility to oversee State agencies' use of these grant funds.

The objectives of this audit were to determine whether the Hawaii Department of Land and Natural Resources (Department) used grant funds and State hunting and fishing license revenue for allowable fish and wildlife activities and complied with applicable laws and regulations, FWS guidelines, and grant agreements.

See Appendix 1 for details about our scope and methodology. See Appendix 2 for sites we visited.

Background

The FWS provides grants to States[1] through WSFR for the conservation, restoration, and management of wildlife and sport fish resources as well as educational and recreational activities. WSFR was established by the Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act.[2] The Acts and related Federal regulations allow the FWS to reimburse grantees a portion of eligible costs incurred under WSFR grants—up to 75 percent for States and up to 100 percent for the Commonwealths, territories, and the District of Columbia.[3] The reimbursement amount is called the Federal share. The Acts require that hunting and fishing license revenue be used only for the administration of participating fish and wildlife agencies. In addition, Federal regulations require participants to account for any income earned from grant-funded activities and to spend this income before requesting grant reimbursements.

[1] Federal regulations define the term "State" as the 50 States; the Commonwealths of Puerto Rico and the Northern Mariana Islands; the territories of Guam, the U.S. Virgin Islands, and American Samoa; and the District of Columbia (Dingell-Johnson Sport Fish Restoration Act only).

[2] Formally known, respectively, as the Federal Aid in Wildlife Restoration Act, 16 U.S.C. § 669, as amended, and the Federal Aid in Sport Fish Restoration Act, 16 U.S.C. § 777, as amended.

[3] The District of Columbia does not receive funding under the Pittman-Robertson Wildlife Restoration Act.

Results of Audit

We determined that the Department generally ensured that grant funds and State hunting and fishing license revenue were used for allowable fish and wildlife activities. We noted, however, an issue regarding the allocations of leave payouts charged to grants. We also determined that the Department did not generally comply with applicable laws and regulations, FWS guidelines, and grant agreements, as we noted issues with improper advance drawdowns, insufficient financial management controls, late financial and performance reporting, indirect cost calculation and reporting, and subaward reporting and determination.

We found the following:

- **Questioned Costs.** We questioned $71,016 ($53,262 Federal share) as unsupported. These questioned costs arose due to unsupported leave payouts.

- **Control Deficiencies.** We found opportunities to improve controls in drawdowns, financial management, financial and performance reporting, indirect cost calculation and reporting, subaward reporting, and subaward determination.

See Appendix 3 for a statement of monetary impact.

Questioned Costs—$71,016 ($53,262 Federal Share)

Unsupported Leave Payouts—Questioned Costs of $71,016 ($53,262 Federal Share)

Federal regulations at 2 C.F.R. § 200.403(a) state that costs must be necessary and reasonable for performance of the Federal award and be allocable thereto. Federal regulations at 2 C.F.R. § 200.405(a) further state that a cost is allocable to a particular Federal award if the goods or services involved are chargeable to that Federal award in accordance with relative benefits received. That standard is met if the cost is incurred specifically for the Federal award.

Additionally, Federal regulations at 2 C.F.R. § 200.431(b)(2) state that the costs of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job—such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits—are allowable if they are equitably allocated to all related activities, including Federal awards.

When a Department employee separates from the State of Hawaii government service, the Department can allocate a portion of the employee's leave payout to a Federal grant. However, the portion of payout allocated to the grant must be commensurate with the amount of activity the employee charged to that grant.

As part of our audit testing procedures, we reviewed a sample of 36 leave payouts and determined that 6 payouts were fully charged to 4 Federal grants, but the value of leave earned on those grants was less than the payouts charged. Because the Department could not provide a calculation showing the portion of leave payouts allocable to the grants, we question the entire leave payout amount totaling $71,016 ($53,262 Federal share) as unsupported costs charged to WSFR grants (see Figure 1).

Figure 1: Federal Share of Questioned Costs Related to Unsupported Leave Payouts Charged to Grants

Grant No.	Grant Title	Unsupported ($)
F19AF00276	Hunter Education Program Fiscal Year (FY) 2020	23,987
F18AF00432	Game Management Program FY 2019	19,721
F16AF00587	Nongame Management Program FY 2017	5,400
F19AF00471	Nongame Management Program FY 2020	4,154
Total		**$53,262**

The Department did not properly allocate leave payouts because it did not track the amount of leave earned on a per-grant basis and could not determine the amount of payout attributable to each grant. According to the Department's payroll procedures, when an employee separates from the Department, the relevant division[4] in the Department provides the accounting codes to Human Resources for charging the leave payout. However, the division does not provide a limit or allocation for the amount of the leave payout charged to the grant based on the amount of leave earned from working on the grant. When we asked why there is no limit or allocation for the leave payout, the Department told us that it uses the cash basis of accounting, so the cost of leave is recognized in the period that the leave is taken and paid for. The Department believes payments for unused leave are allowable in the year the employee leaves without regard to the amount of leave that the employee earns on the grant the payments are charged to. However, this practice is unallowable because it does not ensure leave payout costs charged to grants align with the amount of leave payouts earned on those grants.

Because the Department did not properly allocate employee leave payouts, it charged unsupported costs to WSFR grants. Therefore, we question whether the entire $53,262 was fully allocable to those grants.

[4] The Department is composed of 10 separate divisions that focus on distinct mission objectives.

Recommendations
We recommend that the FWS: 1. Work with the Department to resolve the Federal share of questioned costs related to unsupported leave payouts totaling $53,262. 2. Require the Department to implement policies and procedures to ensure that leave payouts are allocated based on activity charged to specific grants, as required by Federal regulations.

Control Deficiencies

Improper Advance Drawdowns

Federal regulations at 50 C.F.R. § 80.95(a), which refer to reimbursements for WSFR, state that a State fish and wildlife agency may receive Federal grant funds through either (1) a request for reimbursement or (2) a request for an advance of funds if the agency maintains or demonstrates that it will maintain procedures to minimize time between transfer of funds and disbursement by the agency or its subgrantee.

Additionally, Federal regulations at 31 C.F.R. § 205.11(a) state that the time elapsing between the transfer of funds from the U.S. Treasury and the State's payout of funds must be minimized.

During our review of drawdowns performed during the audit period, we determined that the Department requested eight drawdowns of $314,073 ($235,554 Federal share) for advance payroll payments across three grants. We consider the lapses in time between these drawdowns and the associated payroll payments as excessive (see Figure 2).

Figure 2: Advance Drawdowns

Grant No.	Drawdown Dates	Associated Pay Periods	Amount ($)
F17AF00370	05/06/19	05/05/19 05/20/19	23,992
	05/06/19	06/05/19 06/20/19	23,992
F19AF00276	08/28/19	09/05/19 09/20/19	30,205
	11/13/19	11/05/19 11/20/19 12/05/19	46,428
	11/13/19	12/20/19	15,476
	05/12/20	05/05/20 05/20/20 06/05/20	35,603
	05/12/20	6/20/20	11,868
F18AF00432	03/29/20	04/05/20	47,990
Total			**$235,554**

Figure 2 shows the drawdowns by drawdown date. These drawdowns often contained reimbursements for multiple pay period expenses. Some of the pay period expenses contained in the drawdown requests were not incurred until a month after the drawdown date. Although Federal regulations at 31 C.F.R. § 205.11(a) do not specify a target timeframe for the transfer of funds, we have determined that the lapses in time shown in the table above are excessive[5] and demonstrate that the Department has not met the requirement to minimize time between the transfer of drawdown funds and the disbursement of the related payroll expenses.

The Department's Administrative Services Office told us that drawdowns were advance requests:

- To ensure that adequate funds would be available to meet payroll requirements.
- To ensure that a negative cash balance in the appropriation account would not occur since a deficit would hold up payment of invoices for other current expenditures.
- To time the deposit of funds into the appropriation account to the date payroll expenditures would be charged to the account.

[5] We determined that 72 hours would be a reasonable time between transfer of funds and disbursement. As a result, we found the timing of these advance drawdowns to be excessive as some of them occurred a month or more before disbursement.

While these may be valid reasons for why the Department needs to drawdown funds in advance of payroll expenditures, it must still comply with Federal requirements to minimize the time elapsing between the drawdown date and related expenditures. We found that the Department did not minimize that timeframe. Because the Department failed to comply with Federal regulations at 31 C.F.R. § 205.11(a), the advance drawdown amounts were improper and did not comply with Federal cash management requirements. Advance drawdowns can lead to idle funds and also increase the risk of grantees using these funds for their own financial gain, including the generation of interest, or potential misuse.

Recommendation
We recommend that the FWS: 3. Require the Department to establish policies and procedures that ensure the Department minimizes the time between the drawdown date and related expenditures.

Insufficient Financial Management Controls

Federal regulations at 2 C.F.R. § 200.302(a) require that the State's financial management system must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to Federal statutes, regulations, and the terms and conditions of the Federal award.

Further, 2 C.F.R. § 200.302(b)(1) requires each grant recipient's financial management system to identify in its accounts all Federal awards received and expended.

In addition, 2 C.F.R. § 200.430(i)(1)(i) requires records of charges to Federal awards for salaries and wages to be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable, and properly allocated; and that they are incorporated into the State's official records.

We found that the Department did not demonstrate sufficient support for expenditures charged to WSFR grants. Specifically, when we compared the Federal share of expenses reported on grant Federal Financial Reports (Standard Form (SF)–425s) to expenditures reported under grant codes in the State's official accounting system, the Financial Accounting Management Information System (FAMIS), the totals differed for the amounts claimed for some grants (see Figure 3).

Figure 3: Amount Claimed for Grants on Federal Financial Reports Compared to Within FAMIS

Grant No.	Federal Financial Report ($)	FAMIS ($)	Difference ($)	Percentage (%)
F18AF00425	47,462	37,592	9,870	21
F18AF00426	360,793	312,094	48,699	13
F18AF00427	1,533,984	1,481,248	52,736	3
F18AF00428	61,678	36,963	24,715	40
F18AF00429	158,162	151,883	6,279	4
F18AF00430	41,570	39,384	2,186	5
F18AF00431	224,882	187,418	37,464	17
F18AF00437	431,951	423,136	8,815	2
Totals	**$2,860,482**	**$2,669,718**	**$190,764**	**7**

The Department could not provide sufficient support for expenditures charged to WSFR grants because it had insufficient internal controls for its accounting process and systems. To determine the extent of this issue, we reviewed all 38 grants within the scope of our audit. Of the grants we reviewed, this issue occurred only on grants managed by the Department's Division of Aquatic Resources (DAR). This issue occurred on all eight DAR-managed grants that were closed during our audit scope.

The DAR uses an unofficial accounting system, FileMaker, in addition to FAMIS to account for expenditures. The DAR uses FileMaker to track and allocate expenditures under WSFR grants before entering the expenditures into FAMIS. When the DAR reported costs in FAMIS, it failed to associate some of those costs with specific WSFR grant codes, instead coding them to a general fund account. FileMaker and FAMIS do not interface, and the expenditures recorded in FileMaker are not reconciled to FAMIS to ensure accuracy across systems. The DAR's process of using an unofficial accounting system to allocate expenditures resulted in insufficient accounting system internal controls. Further, we do not have sufficient assurance that the data in FileMaker is accurate because the FileMaker records are not audited or evaluated as part of the State's single audit.

Without sufficient internal controls for its accounting process and systems, the DAR cannot provide assurance that all grant claims for expenditures are accurate, allowable, or properly allocated. Further, we are unable to determine whether costs claimed on Federal Financial Reports and reported in the State's official accounting system are claimed on other Federal grants. Department officials provided documentation that they believe shows grants were not overcharged by the differences noted in Figure 3. We reviewed this information and did not determine the grants to be overcharged. As a result, we are not questioning the costs that were missing specific WSFR grant codes in FAMIS. However, the provided documentation used data from an unofficial accounting system and did not provide us with assurance that the amounts were not used as matching funds on other grants. The continued use of this process prevents the

Department from complying with Federal grant regulations and could result in expenses being counted multiple times as matching funds on unrelated Federal grants.

Recommendation
We recommend that the FWS: 4. Require the Department to implement a process with sufficient internal controls to provide for a reconciliation of all grant claims to actual expenditures recorded in FAMIS, the official Statewide accounting system.

Late Financial and Performance Reporting

Federal regulations at 2 C.F.R. § 200.343(a) require the non-Federal entity to submit all financial and performance reports no later than 90 calendar days after the end of the reporting period. The FWS may approve 90-day extensions for reporting due dates if the grantee submits a request. Federal regulations at 2 C.F.R. § 200.344(a) changed the due date to 120 calendar days after the end of the reporting period, effective November 12, 2020.

Federal regulations at 2 C.F.R. § 200.329(b) require the non-Federal entity to submit performance reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. WSFR grants typically require annual performance reports to demonstrate program activity.

Federal regulations at 2 C.F.R. § 200.339 require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of a Federal award. The Federal awarding agency or pass-through entity may impose additional conditions as described in 2 C.F.R. § 200.208, "Specific conditions."

We reviewed 38 WSFR grants that were open during the audit period and found that the Department submitted 7 financial reports and 4 performance reports after the required due dates. Additionally, although the FWS granted extensions for two of the seven untimely financial reports, the Department still submitted them later than the extended reporting deadline. See Figure 4 for details on the late financial reports.

Figure 4: Late Federal Financial Reports

Grant No.	Due Date	Extension Granted	Extended Due Date	Date Submitted	Days Late
F13AF01290	03/31/2019	No	N/A	06/24/2019	85
F16AF00587	09/28/2017	Yes	12/27/2019	12/30/2019	3
F17AF00452	01/29/2020	No	N/A	01/30/2020	1
F17AF01265	09/28/2020	No	N/A	01/29/2021	123
F18AF00432	12/29/2019	No	N/A	05/11/2020	134
F19AF00470	07/29/2021	No	N/A	12/22/2021	146
F19AF00471	01/28/2021	Yes	04/28/2021	07/30/2021	93

Similarly, for one of the four late performance reports, the FWS approved the Department's request for an extension, but the Department still submitted the performance report later than the extended reporting deadline. See Figure 5 for details on the late final performance reports.

Figure 5: Late Final Performance Reports

Grant No.	Due Date	Extension Granted	Extended Due Date	Date Submitted	Days Late
F13AF01290	03/31/2019	No	N/A	04/23/2019	23
F17AF00452	01/29/2020	No	N/A	01/31/2020	2
F17AF01265	09/28/2020	No	N/A	09/29/2020	1
F19AF00276	09/28/2020	Yes	03/29/2021	04/01/2021	3

The Department said in a request for grant extensions that it was unable to comply with mandated reporting deadlines due to personnel changes and other work activities.

Failing to comply with reporting deadlines in the grant terms and conditions and with Federal regulations could result in a loss of future WSFR funding for the Department. Further, without timely reports, the FWS has limited ability to monitor grant expenditures and determine if the Department is meeting grant objectives timely.

Recommendation

We recommend that the FWS:

5. Require the Department to develop a mechanism to hold Department employees accountable for timely submitting Federal financial and performance reports.

Indirect Cost Calculation and Reporting

Federal regulations at 2 C.F.R § 200.403(d) state that costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both.

Federal regulations at 2 C.F.R. 200.303(a) state that non-Federal entities must establish and maintain effective internal control over the Federal award that provide reasonable assurance that the non-Federal entity is managing the award in compliance with applicable regulations and the terms and conditions of the award. These internal controls should comply with guidance in *Standards for Internal Control in the Federal Government* (Green Book) issued by the U.S. Government Accountability Office or the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organization of the Treadway Commission.

All departments or agencies planning to claim indirect costs under Federal awards are required to prepare an indirect cost rate proposal and obtain a negotiated indirect cost rate agreement (NICRA) from their cognizant Federal agency.[6] Indirect costs are charged to Federal grants by applying a negotiated rate to a specific direct cost base.

The grant agreements state that the Department was not authorized to charge indirect costs under the awards until the Department had received a NICRA and provided a copy to the FWS. The grant agreements also state that the Department must comply with the approved NICRA.

During the audit period, the Department claimed indirect costs on five grants. We reviewed SF–425s submitted by the Department and found that the Department reported inaccurate indirect cost amounts on all five of those SF–425s. Although the Department obtained NICRAs for fiscal years 2019 and 2020, it did not use the approved rates to calculate and charge indirect costs to grants. Instead, the Department reported some expenditures that were charged directly to grants as indirect costs on the SF–425s. In addition, the Department did not provide sufficient support for why the amounts were reported as indirect costs on the SF–425s.

The Department informed us that it mistakenly reported amounts as indirect costs on the five SF–425s we reviewed. These amounts were direct expenditures, and the Department confirmed it did not use the approved NICRA rate to charge indirect costs to grants.

The Department did not provide us with a formal policy regarding indirect costs, but it did provide us with writeups of the procedures it used during the audit period. Those procedures do not describe the use of the approved NICRA to allocate indirect costs to grants. Therefore, we have determined that the Department has a control deficiency regarding indirect cost calculation and reporting.

Without sufficient internal controls, we have no assurance that indirect costs calculated and reported by the Department are accurate.

[6] According to 2 C.F.R § 200.1, the cognizant agency is "the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed . . . on behalf of all Federal agencies."

Recommendation
We recommend that the FWS: 6. Require the Department to implement policies and procedures that ensure the Department is calculating and reporting indirect costs using the approved indirect cost rates.

Subaward Reporting

Appendix A to 2 C.F.R. § 170 requires the Department, as the prime grant recipient, to file a subaward report for any subaward over $25,000 in the public database, https://fsrs.gov, which is then posted to the USAspending.gov website as part of Federal Funding Accountability and Transparency Act (FFATA) requirements.[7]

The Department informed us that even though it awarded one subaward totaling $470,000 during the audit period, it did not report this subaward during the grant period per FFATA requirements. (see Figure 6).

Figure 6: Subawards Not Publicly Reported

Grant No.	Subrecipient	Subaward Title	Subaward Amount
F19AF00341	University of Hawaii Office of Research Services	Collaborative Administration of FADs	$470,000

The Department did not provide us with any formal subaward procedures for Department employees that include a requirement to report subawards in accordance with the FFATA. Furthermore, Department employees told us they did not know of any process to report subawards in accordance with the FFATA.

Not reporting subawards as required by Federal regulations creates a lack of transparency to the public on how Federal funds are spent.

Recommendation
We recommend that the FWS: 7. Require the Department to develop and implement procedures to ensure compliance with Federal regulations related to subaward reporting.

[7] Effective August 13, 2020, 2 C.F.R. § 170.220 increased the amount to $30,000 (85 Fed. Reg. 49,526).

Subaward Determination

According to 2 C.F.R. § 200.331, a non-Federal entity may concurrently receive Federal awards as a recipient, a subrecipient (a recipient of a subaward), and a contractor, depending on the substance of its agreements with Federal awarding agencies and pass-through entities. Therefore, the Department must make case-by-case determinations whether each agreement it makes for the disbursement of Federal funds casts the receiver in the role of subrecipient or contractor. Each designation entails different requirements for award decisions, performance monitoring, and reporting.

Federal regulations at 2 C.F.R. § 200.331(a)(5) state that characteristics that support the classification as a subrecipient include when the non-Federal entity, in accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity. Furthermore, 2 C.F.R. § 200.331(b)(3) states that a contractor is an entity that normally operates in a competitive environment.

For subawards, Federal regulations at 2 C.F.R. § 200.332(b) also require that the Department, as the pass-through entity, "evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for the purposes of determining the appropriate subrecipient monitoring." This evaluation may consider factors such as (1) the subrecipient's prior experience with the same or similar subawards, (2) the results of previous audits of the subrecipient, (3) whether the subrecipient has new personnel or new or substantially changed systems, and (4) the extent and results of the Federal awarding agency monitoring. Subawards are also subject to specific reporting requirements. As previously stated, prime recipients receiving a Federal grant greater than or equal to $25,000 must file an FFATA subaward report.[8]

A project manager within each division of the Department determines whether agreements should be classified as contracts or subawards. As part of our audit procedures, we reviewed eight agreements. The divisions classified seven of these agreements as contracts and one as a subaward. We determined that the Department classified four WSFR agreements as contracts that should have been classified as subawards.

Of these agreements, three were with the Research Corporation of the University of Hawaii (RCUH), and one was with the non-profit Kupu organization.[9] Figure 7 summarizes the agreements we determined to be subawards.

[8] Effective August 13, 2020, 2 C.F.R. § 170.220 increased the amount to $30,000 (85 Fed. Reg. 49,526).

[9] Kupu is a Honolulu-based 501(c)(3) non-profit organization that provides hands-on training in conservation, sustainability, and environmental education for young adults.

Figure 7: Agreements the OIG Determined To Be Subawards

Grant Nos.	Title	Division
F18AF00427/F19AF00336	RCUH – Estuary Habitats Investigation	Aquatic Resources
F18AF00427/F19AF00336	RCUH – Marine Fishing Survey	Aquatic Resources
F18AF00427/F19AF00336	RCUH – Marine Resources Assessment	Aquatic Resources
F19AF00470/F19AF00471	Kupu – Youth Conservation Corps	Forestry and Wildlife

In each case, we observed the following attributes, which, according to 2 C.F.R. § 200.331, are more indicative of subrecipient relationships:

- The subrecipient uses Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods and services for the benefit of the Department (the pass-through entity).

- A subaward typically contains work that is highly specialized from nonprofit 501(c)(3) conservation organizations or public institutions of higher learning. A contract is more typical when the contractor operates in a competitive environment and provides goods or services similar to those of many different vendors and for the benefit of the pass-through entity.

First, the Department should have classified all four agreements as subawards because it used the agreements to transfer funds to the subrecipient for wildlife-related research projects and initiatives, not to procure services like a typical contract. For example, a purpose of Grant No. F18AF00427 was "to conduct marine fish and habitat surveys to determine the impact of fishing pressure and management actions on finfish and their associated habitats." The activities outlined in the agreement with the RCUH for the marine resources assessment similarly states in its scope of work that the RCUH will "conduct marine fish and habitat surveys to determine the impact of fishing pressure and management actions on finfish and their associated habitat." Therefore, the Department created a subrecipient relationship with the RCUH by retaining it to carry out this part of the grant purpose. The Department should have classified the agreement as a subaward accordingly.

In addition, we identified that the Department's agreement with Kupu was more characteristic of a subaward than a contract because, in addition to carrying out part of the grant purpose, the Department required a minimum of a 50 percent cash match and invited applicants to provide programmatic in-kind support. In its application, Kupu stated it had secured funding from Federal and private organizations—including separate grant funds—and would contribute 50 percent or more to the total cost of the project. A typical contractor would not provide matching funds or in-kind contributions. Because Kupu provided matching funds, we deemed this agreement a subaward.

Staff from the DAR and the Division of Forestry and Wildlife told us that the determinations related to the agreements we reviewed were made based on grant management training.

According to the Division staff, there are no formal procedures nor documentation of the determination process.

Because the Department did not properly classify some agreements as subawards, it failed to comply with Federal requirements for subrecipient risk assessments, monitoring, and public reporting. Not classifying agreements appropriately as a contract or subaward prevents the Department from appropriately applying applicable subaward rules and regulations, such as risk assessments and monitoring.

Recommendation
We recommend that the FWS: 8. Work with the Department to develop and implement guidance for determining whether WSFR funds pass through as subawards or contracts.

Recommendations Summary

We provided a draft of this report to the FWS for review. The FWS concurred with all eight recommendations. We consider Recommendations 1 through 8 resolved but not implemented. Below, we summarize the FWS' and the Department's responses to our recommendations, as well as our comments on their responses. See Appendix 4 for the full text of the FWS' and the Department's responses; Appendix 5 lists the status of each recommendation.

We recommend that the FWS:

1. Work with the Department to resolve the Federal share of questioned costs related to unsupported leave payouts totaling $53,262.

   Department Response: The Department did not concur with Recommendation 1, and stated it believed the leave payout of $23,986.87 for Grant No. F19AF00276 was allowable because the costs of unused leave were recognized in the period when the leave was taken (in accordance with the cash-basis method of accounting). The Department also stated that it believes its treatment of the vacation payouts was correct for the remaining $29,274.77, but that the "vacation payout was not allocated when it was paid."

   The Department also stated that the cash basis of accounting under 2 C.F.R. § 200.431(b)(i) requires costs of leave to be recognized in the period that the leave is taken and paid for and that payments for unused leave when an employee retires or terminates employment are allowable in the year of payment.

   Although it did not concur with our finding and recommendation, the Department stated it would work with the FWS to resolve the leave payout calculation and refine the leave payout process to properly charge the correct grants.

   FWS Response: The FWS concurred with our finding and recommendation.

   OIG Comment: Based on the FWS' response, we consider Recommendation 1 resolved but not implemented.

   We disagree with the Department's claim that the employee leave payout of $23,986.87 was allowable due to the timing of the payment. Because the Department uses cash accounting, the cost of leave is to be recognized in the period that leave is taken and paid for. However, this leave payout is unallowable because the leave payout cost charged to the grant does not align with the amount of the leave payout earned on the grant. Some of the value of the leave charged to the grant was earned from work on other grants, and the Department failed to properly allocate those costs to those grants.

   The Department also charged leave payouts of $29,274.77 to WSFR grants rather than allocating the amounts to the grant and non-grant funding sources. While the Department did not concur with our finding and recommendation, we were encouraged to see the

Department has ultimately agreed to correct the issue, stating it would refine its leave payout process to properly charge the correct grants.

2. Require the Department to implement policies and procedures to ensure that leave payouts are allocated based on activity charged to specific grants, as required by Federal regulations.

   Department Response: The Department did not concur with Recommendation 2 and stated that its treatment of leave payouts was correct; however, the Department acknowledged the salaries were allocated to grant and non-grant funding sources through the fiscal year and that the leave payout was not allocated when it was paid to the Division of Forestry and Wildlife employees. The Department stated it will work with the FWS to resolve the leave payout calculation and refine the leave payout process to properly charge the correct grants.

   FWS Response: The FWS concurred with our finding and recommendation.

   OIG Comment: Based on the FWS' response, we consider Recommendation 2 resolved but not implemented. Although the Department stated it did not concur, its described actions should implement this recommendation.

3. Require the Department to establish policies and procedures that ensure the Department minimizes the time between the drawdown date and related expenditures.

   Department Response: The Department concurred with Recommendation 3 but noted that it believes the calculated total of advance drawdowns should be $201,789 rather than $235,554. According to the Department, the calculation difference is based on three drawdowns that total $33,765.

   The Department stated that the drawdown date of May 6, 2019, included allowable expenditures of $12,723 incurred before the drawdown date; that the drawdown date of November 13, 2019, included allowable expenditures of $12,216 incurred before the drawdown date; and that the drawdown date of May 12, 2020, included allowable expenditures of $8,826 incurred before the drawdown date.

   FWS Response: The FWS concurred with our finding and recommendation.

   OIG Comment: Based on the FWS' response, we consider Recommendation 3 resolved but not implemented. Based on the supporting documentation the Department provided, we could not determine allowable expenditures incurred prior to the draw date, so we found that the total advance drawdown amount was $235,554. However, because we determined that the grants were not overcharged as a whole, we are not questioning any costs related to this finding. Therefore, the differing amounts of advanced drawdowns does not affect the outcome of our finding.

4. Require the Department to implement a process with sufficient internal controls to provide for a reconciliation of all grant claims to actual expenditures recorded in FAMIS, the official Statewide accounting system.

   Department Response: The Department did not concur with Recommendation 4 and stated that the Department's DAR is the only division that uses an unofficial, commercially available, off-the-shelf accounting system to allocate the FAMIS payroll costs of DAR employees to the various programs the employees work on, including WSFR grants. The Department stated that although the unofficial, commercially available, off-the-shelf accounting system is a separate system and does not interface with FAMIS, it believes the total expenditures recorded in FAMIS and recorded in the off-the-shelf accounting system are reconciled and properly allocated to the various WSFR grants and non-Federal programs.

   The Department stated individual timesheets are entered into the unofficial, commercially available, off-the-shelf accounting system, and it compiles and summarizes the total payroll costs and breaks down costs by activity code for individual Federal grants and non-Federal programs. The Department also stated it provided reports that gave the breakdown of FAMIS general fund payroll costs allocated to the various Federal grants and non-Federal programs and a reconciliation of how the allocated grant funds are used for each of the grants with questioned costs.

   Additionally, the Department stated that it has since transitioned to the new State of Hawaii payroll system called the Hawaii Information Portal. The new digital time and leave system was implemented to create greater accuracy and efficiency in its payroll process. According to the Department, this system will allow for quick, easy access to records, data, and analytics and will provide for a reconciliation of all grant claims to actual expenditures recorded in FAMIS.

   FWS Response: The FWS concurred with our finding and recommendation.

   OIG Comment: Based on the FWS' response, we consider Recommendation 4 resolved but not implemented. Given that the unofficial, commercially available, off-the-shelf accounting system and FAMIS do not interface and there is no process to reconcile data between the systems, there is no assurance that all grant claims for expenditures in the unofficial accounting system are accurate, allowable, and properly allocated. The Department should implement a process with sufficient internal controls to trace all grant claims to actual expenditures recorded in FAMIS. Data that identify grant costs in the official accounting system as WSFR grant costs make it clear which Federal grant a cost is associated with, thereby creating a control that helps prevent those costs from being claimed as matching on other Federal awards.

5. Require the Department to develop a mechanism to hold Department employees accountable for timely submitting Federal financial and performance reports.

Department Response: The Department concurred with Recommendation 5 and stated it will refine its procedures to ensure that financial and performance reports are submitted timely.

FWS Response: The FWS concurred with our finding and recommendation.

OIG Comment: Based on the FWS' response, we consider Recommendation 5 resolved but not implemented.

6. Require the Department to implement policies and procedures that ensure the Department is calculating and reporting indirect costs using the approved indirect cost rates.

   Department Response: The Department concurred with Recommendation 6 and stated it implemented new procedures in State fiscal year 2021 when the supervision of the accountants was transferred to the Department's Administrative Services Office. A draft procedure is in place and continually being refined as the Administrative Services Office comes to fully understand how the divisions and programs claim Federal expenditures.

   FWS Response: The FWS concurred with our finding and recommendation.

   OIG Comment: Based on the FWS' response, we consider Recommendation 6 resolved but not implemented. The recommendation will be considered implemented when the Department provides documentation showing it has developed procedures associated with indirect cost calculations and implemented policies and procedures on using approved indirect cost rates.

7. Require the Department to develop and implement procedures to ensure compliance with Federal regulations related to subaward reporting.

   Department Response: The Department concurred with our finding and recommendation. It stated that it will implement procedures that ensure compliance with Federal regulations related to subaward reporting.

   FWS Response: The FWS concurred with our finding and recommendation.

   OIG Comment: Based on the FWS' response, we consider Recommendation 7 resolved but not implemented. The recommendation will be considered implemented when the Department provides documentation showing implementation of policies and procedures that ensure compliance with Federal regulations related to subaward reporting.

8. Work with the Department to develop and implement guidance for determining whether WSFR funds pass through as subawards or contracts.

   Department Response: The Department did not concur with Recommendation 8 and stated that "the three contracts between the Department and the [RCUH] do not award funds to RCUH to carry out a public purpose of the grant."

The Department cited the master agreement between the State of Hawaii and the RCUH, dated April 17, 1995, and the first amendment dated June 1999, stating that the three contracts enter into a project agreement for administrative services between the Department and the RCUH. Section 5a of the master agreement states, "With the prior approval of the State, hire or contract staff that is required for the project. The project staff shall work under the control and supervision (administrative and technical) of the State." Section 4 of the master agreement outlines the responsibilities of the State (Department). The Department quoted two items from Section 4 of the master agreement to make the case that the Department, and not the RCUH, is responsible for the following:

> 4f. Supervise the project with responsibility for completion of the scope, workplan, and timing of the project, as described in the relevant award, contract, grant, etc.
>
> 4g. State (Department) shall be ultimately responsible and accountable for the management and conduct of all projects covered by this Master Agreement, including but not limited to compliance with all applicable State and [F]ederal (if applicable) program and legal requirements and for any penalty, including without limitation any penalty imposed under 103D–106, HRS [Hawaii Revised Statute].

The Department stated, "the contract between the Department and Kupu also does not award funds to Kupu to carry out a public purpose of the grant," as the scope of services in the contract says to "assist with services in the realm of conservation and natural resource management." Participants in the Youth Conservation Corps Program managed by Kupu are interns who shadow a State employee and are assigned tasks to learn and receive hands-on training on how the State employee performs these tasks. The interns are not responsible for any deliverables in the grant, but the learning experience may be helpful in the interns' developmental stages.

FWS Response: The FWS concurred with our finding and recommendation.

OIG Comment: Based on the FWS' response, we consider Recommendation 8 resolved but not implemented. We note that for the agreements identified, we found that the services provided were not typical of contracts for services offered to the general public on a competitive basis and are therefore subawards.

The agreements with the RCUH created a subrecipient relationship when the RCUH was used to carry out the purpose of the grants. The agreement with Kupu required a cash match and in-kind support not offered by a typical contractor. Regardless of whether the Department or RCUH (or Kupu) has responsibility for supervising the project, the agreement is providing funds to accomplish grant objectives. Because Kupu provided matching funds and in-kind support, we deemed this agreement a subaward.

Appendix 1: Scope and Methodology

Scope

We audited the Hawaii Department of Land and Natural Resources' (Department's) use of grants awarded by the U.S. Fish and Wildlife Service (FWS) under the Wildlife and Sport Fish Restoration Program (WSFR). We reviewed 38 grants that were open during the State fiscal years that ended June 30, 2019, and June 30, 2020. We also reviewed license revenue during the same period. The audit included expenditures of $36 million and related transactions. In addition, we reviewed historical records for the acquisition, condition, management, and disposal of real property and equipment purchased with either license revenue or WSFR grant funds.

Because of the COVID–19 pandemic, we could not complete our audit onsite. We gathered data remotely and communicated with Department personnel via email and telephone. We could not perform interviews or site visits in person; therefore, we relied upon video conferences and pictorial evidence provided by Department personnel when possible.

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We assessed whether internal control was significant to the audit objectives. We determined that the State's control activities and the following related principles were significant to the audit objectives.

- Management should design control activities to achieve objectives and respond to risks.
- Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
- Management should implement control activities through policies.

We tested the operation and reliability of internal control over activities related to our audit objective. Our tests and procedures included:

- Examining the evidence that supports selected expenditures that the Department charged to the grants.
- Reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, in-kind contributions, and program income.

- Interviewing Department employees.
- Inspecting equipment and other property.
- Determining whether the Department used hunting and fishing license revenue for the administration of fish and wildlife program activities.
- Determining whether the State passed required legislation assenting to the provisions of the Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act.
- Evaluating State policies and procedures for assessing risk and monitoring subawards.
- Reviewing sites throughout the State (see Appendix 2 for a list of sites reviewed).

We found deficiencies in internal control resulting in our findings of:

- Unsupported leave payouts of $71,016 ($53,262 Federal share).
- Improper advance drawdowns.
- Insufficient financial management controls.
- Late financial and performance reporting.
- Improper indirect cost calculation and reporting.
- Inadequate subaward reporting.
- Inadequate subaward determination.

Based on the results of our initial assessments, we assigned a level of risk and selected a judgmental sample of transactions for testing. We used auditor judgment and considered risk levels relative to other audit work performed to determine the degree of testing performed in each area. Our sample selections were not generated using statistical sampling, and therefore we did not project the results of our tests to the total population of transactions.

This audit supplements, but does not replace, the audits required by the Single Audit Act Amendments of 1996. Single audit reports address controls over Statewide financial reporting, with emphasis on major programs. Our report focuses on the administration of the Hawaii fish and wildlife agency and that agency's management of WSFR resources and license revenue.

The Department provided computer-generated data from its official accounting system and from informal management information and reporting systems. We tested the data by sampling expenditures and verifying them against WSFR reports and source documents such as purchase orders, invoices, and payroll documentation. While we assessed the accuracy of the transactions tested, we did not assess the reliability of the accounting system as a whole.

Prior Audit Coverage

OIG Audit Reports

We reviewed our last two audits of costs claimed by the Department on WSFR grants.[10] We followed up on five recommendations from these reports and considered them resolved and implemented. For resolved and implemented recommendations, we verified the State has taken the appropriate corrective actions to resolve these recommendations.

State Audit Reports

We reviewed the single audit reports for State fiscal years 2019 and 2020 to identify control deficiencies or other reportable conditions that affect WSFR. In those reports, the Schedule of Expenditures of Federal Awards indicated $15.33 million (combined) in Federal expenditures related to WSFR, but it did not include any findings directly related to WSFR, which was deemed a major program for Statewide audit purposes.

We also reviewed a 2019 report from the Hawaii State auditor that issued an unmodified opinion of the Department's financial statements. We considered this report when making our audit risk determination.

[10] *U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Hawaii, Department of Land and Natural Resources From July 1, 2013, Through June 30, 2015* (Report No. 2016–EXT–042), dated November 2017.

Audit on U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Hawaii, Department of Land and Natural Resources From July 1, 2008, Through June 30, 2010 (Report No. R–GR–FWS–0009–2011), dated December 2011.

Appendix 2: Sites Reviewed

Because of the COVID–19 pandemic, we were unable to visit audit sites in person. We performed interviews and remote site visits using video conferencing at the following locations.

Headquarters	Administrative Service Office
Fisheries Offices	Anuenue Fisheries Research Center
Boating Access Facilities	Kahana Bay Boat Ramp Keehi Small Boat Harbor Wahiawa Boat Ramp
Wildlife Management Areas	Kekaha Game Management Area Kau Forest Reserve Kanaha Pond Kula Forest Reserve
Hunter Education Facilities	Hunter Education Program Office [redacted] Classroom Facility
Subrecipients	Research Corporation University of Hawaii
Others	Kuaokala Hunting Ground Lua Reservoir Wahiawa Reservoir (Lake Wilson)

Appendix 3: Monetary Impact

We reviewed 38 grants that were open during the State fiscal years that ended June 30, 2019, and June 30, 2020. The audit included expenditures of $36 million and related transactions. We questioned $71,016 ($53,262 Federal share) as unsupported.

Monetary Impact: Questioned Costs (Federal Share)

Grant No.	Grant Title	Cost Category	Unsupported ($)
F16AF00587	Nongame Management Program FY 2017	Leave Payout	5,400
F18AF00432	Game Management Program FY 2019	Leave Payout	19,721
F19AF00276	Hunter Education Program FY 2020	Leave Payout	23,987
F19AF00471	Nongame Management Program FY 2020	Leave Payout	4,154
Total			**$53,262**

Appendix 4: Responses to Draft Report

The U.S. Fish and Wildlife Service's response to our draft report follows on page 26. The Hawaii Department of Land and Natural Resources' response to our draft report follows on page 29.

United States Department of the Interior

FISH AND WILDLIFE SERVICE
911 N.E. 11th Avenue
Portland, Oregon 97232-4181

In Reply Refer To:
FWS/R1/WSFR

Memorandum

To: Bryan Brazil
Regional Manager, Western Region

From: David Teuscher
Regional Manager
Wildlife and Sport Fish Restoration
Portland, Oregon

Digitally signed by DAVID TEUSCHER
Date: 2023.01.30 10:32:37 -08'00'

Subject: Comments on the Draft Audit Report on the U.S. Fish and Wildlife Service Federal Assistance Grants Issued to the Hawaii Department of Land and Natural Resources, from July 1, 2018, through June 30, 2020 Report No. 2020-WR-070

Introduction

This letter contains the U.S. Fish and Wildlife Service (Service) determinations regarding the subject report. Direct any questions regarding the Service's comments to Kelly Sliger, Grants Fiscal Officer for the Columbia–Pacific Northwest and Pacific Islands Regions Wildlife and Sport Fish Restoration Program at [redacted].

Questioned Costs - $71,016 ($53,262 Federal Share)

Unsupported Leave Payouts

Recommendations

The Service concurs with the auditor's two recommendations. The Service will work with the Hawaii Department of Land and Natural Resources (Department) to resolve the Federal share of questioned costs related to unsupported leave payouts totaling $53,262. The Department will either payback the Federal share of $53,262 or provide documentation supporting the leave payout was properly allocated. The Service will also require the Department to update its policies and procedures to ensure that leave payouts are allocated based on activity charged to specific grants. The Service will identify target dates and the official(s) responsible for implementing these recommendations in the Corrective Action Plan (CAP).

Control Deficiencies

Improper Advance Drawdowns

Recommendation
The Service concurs with the auditor's recommendation. The Service will require the Department to establish policies and procedures that ensure the Department minimizes the time between the drawdown date and related expenditures. The Service will identify target dates and the official(s) responsible for implementing these recommendations in the CAP.

Insufficient Financial Management Controls

Recommendation
The Service concurs with the auditor's recommendation. The Service will work with the Department to implement a process with sufficient internal controls to provide for a reconciliation of all grant claims to actual expenditures recorded in FAMIS, the official Statewide accounting system. The Service will identify target dates and the official(s) responsible for implementing these recommendations in the CAP.

Late Financial and Performance Reporting

Recommendation
The Service concurs with the auditor's recommendation. The Service will work with the Department to develop a mechanism to hold Department employees accountable for timely submitting Federal financial and performance reports. The Service will identify target dates and the official(s) responsible for implementing these recommendations in the CAP.

Indirect Cost Calculation and Reporting

Recommendation
The Service concurs with the auditor's recommendation. The Service will work with the Department to implement policies and procedures that ensure the Department is calculating and reporting indirect costs using the approved indirect cost rates. The Service will identify target dates and the official(s) responsible for implementing these recommendations in the CAP.

Subaward Reporting

Recommendation
The Service concurs with the auditor's recommendation. The Service will work with the Department to develop and implement policies and procedures to ensure compliance with Federal regulations related to subaward reporting. The Service will identify target dates and the official(s) responsible for implementing these recommendations in the CAP.

Subaward Determination

Recommendation

The Service concurs with the auditor’s recommendation. The Service will work with the Department to develop and implement guidance for determining whether WSFR funds pass through as subawards or contracts. The Service will identify target dates and the official(s) responsible for implementing these recommendations in the CAP.

Attachment(s)

cc:
Ord Bargerstock HQ-WSFR
Shuwen Cheung HQ- WSFR
Melanie Sorenson - OIG

Questioned Costs - $71,016 ($53,262 Federal Share)
Unsupported Leave Payouts - Questioned Costs - $71,016 ($53,262 Federal share)

The Department of Land and Natural Resources (Department) does not concur, with exception.

Federal regulations at 2 CFR 200.431 Compensation - state that the costs of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if the following criteria are met:

(1) They are provided under established written leave policies.
(2) The costs are equitably allocated to all related activities, including Federal awards.
(3) The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the non-Federal entity or specified grouping of employees.

Furthermore, 2 CFR 200.431 (b)(i) state that when a non-Federal entity uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment.

Based on the aforementioned Federal regulations, the Department does not concur with the above NPFR. The Department uses the cash basis of accounting. We believe that our treatment of the vacation payout of $23,986.87, for employee [redacted] was correct. His leave payout was recognized in the period that the leave is taken and paid for. Payment for unused leave when an employee retires or terminates employment are allowable in the year of payment. He was 100% working on the Wildlife Restoration and Basic Hunter Education Program and therefore does not have to be allocated.

In relation to the leave payouts of $29,274.77, made to various DOFAW employees, the Department believes our treatment of the vacation payouts was correct based on 2 CFR 200.431 (b)(i). However, although the DOFAW employees' salaries were allocated to different means of funding during the fiscal year, the vacation payout was not allocated when it was paid.

The Department will work with WSFR in resolving the leave payout calculation. Consequently, the Department will refine the leave payout process to properly charge the correct grants.

Control Deficiencies
Improper Advance Drawdowns

The Department concurs, with the following exception and comments.

A detailed breakdown of the advanced payroll costs referenced in Figure 2 for the line items with combined payroll periods was provided and explained as follows:

- The drawdown date of 5/6/19 includes allowable expenditures of $12,723 incurred before the drawdown date.
- The drawdown date of 11/13/19 includes allowable expenditures of $12,216 incurred before the drawdown date.
- The drawdown date of 5/12/20 includes allowable expenditures of $8,826 incurred before the drawdown date.

Documentation to support the above were provided to the Audit Team by way of an email sent on November 17, 2021. The adjusted total advanced payroll costs should be $201,790.

While the Department concurs that there were advanced drawdowns of $201,790 (the adjusted amount) for payroll costs during the grant period, the total amount of payroll drawdowns for the grant was equal to the total actual payroll expenditures for the grant. Before the conclusion of the grant period, the Department performs a reconciliation between actual payroll expenditures and drawdowns to ensure that drawdowns for payroll costs are equal to the actual payroll expenditures for the grant period.

The Department's existing policies and procedures for drawing down federal funds for allowable program expenditures is done on a reimbursement basis. The Department will ensure that drawdowns made in advance have prior approvals and properly documented, and to minimize time between the transfer of drawdown funds and the disbursement of the related payroll expenses. Additionally, drawdown funds are deposited into non-interest-bearing accounts and therefore the Department did not get any financial gain on the advanced funds. Please note that in this situation, the DLNR program staff that negotiated for the approval of the advance drawdown left the department. Written documentation may have been on his emails which are no longer accessible at this time.

Insufficient Financial Management Controls

The Department does not concur.

The questioned costs of $190,764 are due to the Department of Land and Natural Resources (Department) using Filemaker (a management system tool) to allocate payroll expenditures posted to State general funds to various WSFR grants.

The Department's Division of Aquatic Resources (DAR) is the only division that uses Filemaker to allocate the FAMIS payroll costs of DAR employees to the various programs the employees work on, including WSFR grants. Although the Filemaker is a separate system and does not interface with FAMIS, the total expenditures recorded in FAMIS and recorded in Filemaker are reconciled and allocated to the various WSFR grants and non-federal programs. DAR employees whose salaries are paid with State General Fund and charged to activity code 205 in FAMIS are allocated in Filemaker.

DAR employees complete monthly timesheets charging the actual hours worked on different projects identified by the various activity codes in Filemaker (Filemaker activity codes are used to designate specific federal grants and other non-federal programs). Timesheets are reviewed and certified by the employee's supervisor, who is knowledgeable of the work involved in the projects under his/her jurisdiction

Individual timesheets are entered into the Filemaker system, and Filemaker compiles and summarizes the total payroll costs and breaks down costs by activity code for individual federal grants and non-federal programs. The Department has provided reports that gives the breakdown of FAMIS general fund payroll costs allocated to the various federal grants and non-federal programs and a reconciliation of how the allocated grant funds are used for each of the grants with questioned costs. In each case the allocated grant funds exceed the amount of questioned costs. There may be some discrepancies between the total FAMIS expenditures and the total Filemaker expenditures allocated, due to the timing of entries being posted in each system. Any variances are researched and documented and charged accordingly.

The Department has since transitioned to the new State of Hawaii payroll system called Hawaii Information Portal (HIP). The new digital time and leave system was implemented to create greater accuracy and efficiency in its payroll process. This allows for quick easy access to records, data and analytics. This will provide for a reconciliation of all grant claims to actual expenditures recorded in FAMIS.

Late Financial and Performance Reporting

The Department concurs.

The Department will refine its procedures to ensure that financial and performance reports are submitted timely.

Indirect Cost Calculation and Reporting

The Department concurs.

The Department inaccurately reported the direct costs associated with the federal grants as indirect costs on the Federal Financial Report (Form SF 425). Additionally, the Department did not use the approved Negotiated Indirect Cost Rate Agreement (NICRA). Although the expenditures were not properly reported, these expenditures are allowable federal expenditures based on specific grant guidelines and comply with the federal cost principles.

The Department has since implemented a new procedure to properly calculate, claim, and report indirect costs. The new procedures were implemented in FY21 when the supervision of the accountants was transferred to the Administrative Services Office (ASO). New guidelines were provided to the division staff and/or program people and the accountants directly working on the federal grants. A draft procedure is in place and continually being worked on as ASO fully understand how the divisions and/or programs claim federal expenditures.

The Department will work with FWS to ensure that the Department is properly calculating and reporting indirect costs.

Subaward Reporting

The Department concurs.

The Department will implement procedures to ensure compliance with Federal regulations related to subaward reporting.

Subaward Determination

The Department does not concur.

The three contracts between the Department and the Research Corporation of the University of Hawaii (RCUH) do not award funds to RCUH to carry out a public purpose of the grant.

The three contracts enter into a Project Agreement for Administrative Services between the Department and RCUH (Exhibits 1, 2 & 3) pursuant to the Master Agreement between the State of Hawaii and RCUH dated April 17, 1995 and the first amendment to the Master Agreement between the State of Hawaii and RCUH dated June 1999 (Exhibit 4). The Scope of Services for all three project agreements state that RCUH shall provide administrative services as described in Section 5 of the Master Agreement to support the project being conducted by the Department. Section 5 of the Master Agreement states that RCUH shall provide administrative services, as an agent, for the State's projects and describes the services to be provided. Section 5a states that "*With the prior approval of the State, hire or contract staff that is required for the project. The project staff shall work under the control and supervision (administrative and technical) of the State*".

Section 4 of the Master Agreement are the Responsibilities of the State (Department). The following two items from Section 4 of the Master Agreement show that the Department, and not RCUH, are responsible for the following:

4f - Supervise the project with responsibility for completion of the scope, workplan and timing of the project, as described in the relevant award, contract, grant, etc.

4g - State (Department) shall be ultimately responsible and accountable for the management and conduct of all projects covered by this Master Agreement, including but not limited to compliance with all applicable State and federal (if applicable) program and legal requirements and for any penalty, including without limitation any penalty imposed under 103D-106, HRS.

The contract between the Department and Kupu also does not award funds to Kupu to carry out a public purpose of the grant.

The scope of services in the contract says to "*assist with services in the realm of conservation and natural resource management*". Participants in the Youth Conservation

Corps Program (YCC) managed by Kupu are interns who shadow a State employee and are assigned tasks to learn and receive hands-on training on how the State employee performs these tasks. The interns are not responsible for any deliverables in the grant, but the learning experience may be helpful in the interns' developmental stages.

The proposed goals, as stated in Section III of the Master Agreement between Kupu and Partner (DLNR) with respect to Partner's worksites are as follows:

a. Increase the professional development and resiliency of program participants;
b. Promote work and learning about environmental issues, sustainability, while inculcating professional skills and stewardship;
c. Engage, mentor and support young adult participants in the development of the next generation of environmental leaders, educators, conservation stewards, and natural and cultural resource professions;
d. Increase and streamline communication between Partner and Kupu to support the execution of individual Statement of Work addendums for each Project;
e. Expand participant outreach and community engagement through joint marketing efforts and the utilization of newsletters, social media and other online resources to share information and promote Kupu and Partner opportunities;
f. Deliver environmental and sustainability programs to the next generation of stewards; and
g. Contribute to workforce development by developing the next generation of natural and cultural resource professionals in a controlled environment with professional mentors.

Appendix 5: Status of Recommendations

Recommendation	Status	Action Required
1–8	Resolved but not implemented: U.S. Fish and Wildlife Service (FWS) regional officials concurred with these recommendations and will work with staff from the Hawaii Department of Land and Natural Resources to develop and implement a corrective action plan (CAP).	Complete a CAP that includes information on actions taken or planned to address the recommendations, target dates and titles of the officials responsible for implementation, and verification that FWS headquarters officials reviewed and approved the actions the State has taken or planned.

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

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