

# Audit of NOAA Pacific Coastal Salmon Recovery Fund Grants to the Washington State Recreation and Conservation Office

FINAL REPORT NO. OIG-19-006-A

DECEMBER 20, 2018



U.S. Department of Commerce  
Office of Inspector General  
Office of Audit and Evaluation



December 20, 2018

Kaleen Cottingham  
Director  
Washington State Recreation and Conservation Office  
P.O. Box 40917  
Olympia, WA 98504-0917

Dear Ms. Cottingham:

Enclosed is the final audit report concerning Washington State Recreation and Conservation Office (RCO) grant awards NA10NMF4380435 and NA11NMF4380267. We evaluated and considered your October 4, 2018, response to the draft audit report in preparation for this final report. Your entire response appears in the report as appendix E. A public version of this final report will be posted on the OIG's website pursuant to sections 4 and 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., §§ 4 & 8M).

This letter is notice of your opportunity and responsibility to review the report and to develop a complete response that addresses each audit finding and recommendation. If you believe that the report is in error in any respect, or if you disagree with any of the findings and recommendations, it is important that you explain the error or your reasons for disagreement and submit to NOAA evidence that supports your position. You should also explain how each documentary submission supports the position you are taking; otherwise, NOAA may be unable to evaluate the information.

Your complete response will be considered by NOAA in arriving at a decision on what action to take with respect to the findings and recommendations in the audit report. Enclosure I explains administrative dispute procedures.

Your comments to this report must be submitted no later than 30 days from the date of this letter. There will be no extensions to this deadline. If you do not submit a response within the requested time, you will have no other opportunity to submit comments, arguments, or documentation before NOAA makes a decision on the audit report.

Please send your response (including any documentary evidence) to:

Arlene Porter, Director  
Grants Management Division  
NOAA  
Silver Spring Metro Center Building 2 (SSMC2)  
9th Floor  
1325 East-West Highway  
Silver Spring, MD 20910

Please send a copy of your response to:

David Sheppard, Audit Director  
U.S. Department of Commerce Office of Inspector General  
Seattle Regional Office  
915 Second Avenue  
Suite 3062  
Seattle, WA 98174

If you have any questions about the final report or the audit process, please call David Sheppard at (206) 220-7970.

Sincerely,



Mark H. Zabarsky  
Principal Assistant Inspector General for Audit and Evaluation

Enclosures

cc: Arlene Porter, Director of Grants Management Division, NOAA  
Jeffrey Thomas, Director, NOAA Acquisition and Grants Office  
Scott Rumsey, Deputy Regional Administrator, NOAA Fisheries' West Coast Region  
Sheryl Robinson, Program Officer, NOAA Fisheries' West Coast Region  
Robert Markle, PCSRF Program Coordinator, NOAA Fisheries' West Coast Region  
Mack Cato, Director, Office of Audit and Information Management, NOAA  
Rhonda Lawrence, Audit Liaison, NOAA

## NOTICE TO AUDITEES

### *Financial Assistance Audits*

1. Audit requirements applicable to a particular financial assistance award may be established by law, regulation, policy, or the terms of the recipient's financial assistance agreement with the U.S. Department of Commerce.
2. The results of any audit will be reported to the National Oceanic Atmospheric Administration and to the auditee, unless the Inspector General of the Department determines that it is in the government's interest to withhold release of the audit report.
3. The results of an audit may lead to adverse consequences for the auditee, including but not limited to the following actions (which are subject to applicable laws and regulations):
  - suspension and/or termination of current awards;
  - referral of identified problems to other federal funding agencies and entities as deemed necessary for remedial action;
  - denial of eligibility for future awards;
  - canceling the authorization for advance payment and substituting reimbursement by check;
  - establishment of special conditions in current or future awards;
  - disallowance of costs, which could result in a reduction in the amount of federal payments, the withholding of payments, the offset of amounts due the government against amounts due the auditee, or the establishment of a debt and appropriate debt collection follow-up (including referrals to collection agencies).

Because of these and other possible consequences, an auditee should take seriously its responsibility to respond to audit findings and recommendations with explanations and evidence whenever audit results are disputed.

4. To ensure that audit reports are accurate and reliable, an auditee may have the following opportunities to point out errors (of fact or law) that the auditee believes were made in the audit, to explain other disagreements with audit findings and recommendations, to present evidence that supports the auditee's positions, and to dispute final determinations.
  - *During the audit*, the auditee may bring to the attention of the auditors at any time evidence that the auditee believes affects the auditors' work.
  - *At the completion of the audit on site*, as a matter of courtesy, the auditee is given the opportunity to have an exit conference to discuss preliminary audit findings and

recommendations and to present a clear statement of the auditee's position on the significant preliminary findings, including possible cost disallowances.

- *Upon issuance of the draft audit report*, the auditee has the opportunity to comment and submit evidence during the 30-day period after the transmittal of the report. (There are no extensions to this deadline.)
- *Upon issuance of the final audit report*, the auditee is given the opportunity to comment and to present evidence during the 30-day period after the transmittal of the report. (There are no extensions to this deadline.)
- *Upon issuance of the Department's decision* (the "Audit Resolution Determination") on the audit report's findings and recommendations, the auditee has the right to appeal for reconsideration within 30 calendar days after receipt of the determination letter. (There are no extensions to this deadline.)

The determination letter will explain the specific appeal procedures to be followed.

- *After an appeal is filed*, or after the opportunity for an appeal has expired, the Department will not accept any further submissions of evidence concerning an auditee's dispute of the Department's decisions on the resolution of the financial assistance audit. If the appeal decision upholds the finding that the auditee owes money or property to the Department as decided in the Audit Resolution Determination, the Department will take appropriate collection action but will not thereafter reconsider the merits of the debt.

*There are no other administrative appeals available in the Department.*



December 20, 2018

**MEMORANDUM FOR:** Arlene Porter  
Director  
Grants Management Division  
National Oceanic and Atmospheric Administration

A handwritten signature in black ink that reads "Mark H. Zabarsky".

**FROM:** Mark H. Zabarsky  
Principal Assistant Inspector General for Audit and Evaluation

**SUBJECT:** Final Report No. OIG-19-006-A, *Audit of NOAA Pacific Coastal Salmon Recovery Fund Grants to the Washington State Recreation and Conservation Office*  
Award Nos. NAI0NMF4380435 and NAI1NMF4380267

Attached is a copy of the subject audit for your action in accordance with Department Administrative Order (DAO) 213-5, "Audit and Evaluation Resolution and Follow-Up." A copy of the report has been sent to the Auditee, which has 30 days from the date of the transmittal to submit comments and supporting documentation to you. A copy of our transmittal letter is also attached.

The objectives of our audit were to determine whether the Washington State Recreation and Conservation Office (RCO) (1) claimed allowable, allocable, and reasonable costs, (2) complied with grant terms and conditions, administrative requirements, cost principles, and audit requirements, and (3) met performance requirements of the grants.

We have notified RCO that we intend to post a public version of the final report on the OIG website pursuant to sections 4 and 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., §§ 4 & 8M).

Under DAO 213-5, you have 75 calendar days from the date of this memorandum to reach a decision on the actions that your agency proposes to take on each audit finding and recommendation and to submit an agency resolution proposal to this office. The format for the proposal is Exhibit 7 of the DAO. As applicable, your written proposal must include the rationale and/or legal basis for reinstating any questioned costs in the report and should reference any supporting documentation relied on. Under the DAO, the Office of Inspector General must concur with your proposal before it may be issued as a final determination and implemented. The DAO prescribes procedures for handling any disagreements this office may have with the agency resolution process.

Any inquiry regarding this report should be directed to David Sheppard, Audit Director, Seattle Regional Office, at (206) 220-7970. All correspondence should refer to the audit report number given above.

Attachment

cc: Jeffrey Thomas, Director, Acquisition and Grants Office, NOAA  
Scott Rumsey, Deputy Regional Administrator, NOAA Fisheries' West Coast Region  
Sheryl Robinson, Program Officer, NOAA Fisheries' West Coast Region  
Robert Markle, PCSRF Program Coordinator, NOAA Fisheries' West Coast Region  
Mack Cato, Director, Office of Audit and Information Management, NOAA  
Rhonda Lawrence, Audit Liaison, NOAA



# Report in Brief

December 20, 2018

## Background

Pacific Coast salmon are the biological foundation of river ecosystems, an important source of income, and a high-protein food, making them central to the daily life of those in coastal communities in the western United States.

As of May 2016, 28 salmon species are on the brink of extinction and protected under the Endangered Species Act. In fiscal year (FY) 2000, Congress established the Pacific Coastal Salmon Recovery Fund (PCSRF) to reverse the decline of West Coast salmon populations.

PCSRF is a competitive grants program through which the National Oceanic and Atmospheric Administration (NOAA) National Marine Fisheries Service supports activities to protect salmon populations in California, Oregon, Washington, Idaho, Nevada, and Alaska. NOAA awards PCSRF grants annually. The Washington State Recreation and Conservation Office (RCO) is a recipient.

## Why We Did This Review

The objectives of our audit of grant numbers NA10NMF4380435 and NA11NMF4380267 were to determine whether RCO (1) claimed allowable, allocable, and reasonable costs; (2) complied with grant terms and conditions, administrative requirements, cost principles and audit requirements; and (3) met performance requirements of the grants.

## NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

### Audit of NOAA Pacific Coastal Salmon Recovery Fund Grants to the Washington State Recreation and Conservation Office

OIG-19-006-A

#### WHAT WE FOUND

We found that RCO claimed costs of \$2,491,000 that were not allowable, not allocable, or unsupported. RCO complied with most grant terms and conditions, administrative requirements, cost principles, and audit requirements that we reviewed. However, it did not follow requirements to protect federal interests when grant funds were used to acquire or improve real property, nor did it follow federal record retention requirements. We determined RCO met program performance requirements by working with award recipients to ensure the projects align with PCSRF program objectives and priorities, RCO receives progress reports from subrecipients and conducts site visits as deemed necessary. RCO also utilizes a central database system, known as PRISM, to accumulate details on projects including project agreements, pictures, financial data and other documentation that assists RCO in monitoring the status of projects. In addition, RCO's projects involving grant administration, conservation planning, and policy analysis complied with the objectives of the PCSRF program.

#### WHAT WE RECOMMEND

We recommend that the Director of NOAA Grants Management Division do the following:

1. Make a determination on the amount recommended by OIG for recovery, \$1,936,999, which is the difference between total federal funds disbursed and the federal share of costs accepted per audit.
2. Instruct RCO to discontinue transferring expenses between PCSRF awards for the purpose of depleting older award funds.
3. Instruct RCO to follow proper budget procedures to ensure it only claims cost categories approved by the grants officer.
4. Instruct RCO and its subrecipients to request prior approval from the NOAA's grants officer to subgrant or sub-contract with a federal agency.
5. Ensure that RCO includes and adheres to federal document retention requirements in its subrecipient agreements.
6. Require RCO to implement internal controls to ensure costs charged to a particular award are incurred during the period of performance.
7. Instruct RCO to follow their controls when reviewing invoices and approving costs.
8. Ensure that RCO implements sufficient controls to identify eligible match expenses for its PCSRF grants.
9. Ensure that RCO calculates indirect costs in a manner that complies with applicable indirect cost policies and regulations.
10. Reiterate to RCO its responsibility to ensure subrecipients provide documentation showing compliance with real property requirements of the grant.
11. Instruct RCO to submit to NOAA documentation showing subrecipients' perfected statements of the federal interest in real property acquired and improved with 2010 and 2011 PCSRF grants.

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*Cover: Herbert C. Hoover Building main entrance at 14th Street Northwest in Washington, DC. Completed in 1932, the building is named after the former Secretary of Commerce and 31st President of the United States.*

# Introduction

Pacific Coast salmon are the biological foundation of river ecosystems, an important source of income, and a high-protein food, making them central to the daily life of those in coastal communities in the western United States. However, the future of Pacific salmon is uncertain. As of May 2016, 28 salmon species are on the brink of extinction and protected under the Endangered Species Act.<sup>1</sup>

In fiscal year (FY) 2000, Congress established the Pacific Coastal Salmon Recovery Fund<sup>2</sup> (PCSRF) to reverse the decline of West Coast salmon populations. PCSRF is a competitive grants program through which the National Oceanic and Atmospheric Administration (NOAA) National Marine Fisheries Service (NMFS) supports activities to protect, conserve, and restore salmon populations and their habitats in California, Oregon, Washington, Idaho, Nevada, and Alaska.

As of October 2016, NOAA has awarded states, tribal commissions, and federally-recognized tribes of the Columbia River and Pacific Coast nearly \$1.3 billion in PCSRF grants and leveraged more than \$1.6 billion in matching contributions to implement more than 12,800 salmon recovery projects. According to NOAA, in addition to protecting endangered species, the PCSRF program benefits the economy. For every \$1 million invested in salmon restoration, about 17 jobs are created, and \$2.3 million is gained in economic output.<sup>3</sup>

NOAA awards PCSRF grants annually and recipients have 5 years to use the funds. The Washington State Recreation and Conservation Office (RCO) allocates at least 13 percent of the PCSRF grant on administrative expenses and its own projects. It allocates the remaining funds to eligible recipients, also called subrecipients, in the form of sub-awards. Subrecipients use the funds to implement projects that will protect and restore salmon and their habitat in Washington state. RCO reimburses subrecipients for project costs incurred based on billings they submit. Table I summarizes the grants included in our audit.

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<sup>1</sup> Pub. L. No. 93-205, 87 Stat. 884 (1973) establishes the Endangered Species Act, which provides for the conservation of threatened and endangered species of fish, wildlife, and plants.

<sup>2</sup> Pub. L. No. 106-113 App. A (1999).

<sup>3</sup> U.S. Department of Commerce National Oceanic and Atmospheric Administration National Marine Fisheries Service, 2017. *Pacific Coastal Salmon Recovery Fund FY 2016 Report to Congress*. Silver Spring, MD: NOAA Fisheries, 7.

**Table I. Summary of Grants Included in This Report**

<b>Award Number</b>	<b>Award Period</b>	<b>Federal Award Share (75 percent)</b>	<b>Recipient Share (25 percent)</b>	<b>Total</b>
NA10NMF4380435	July 1, 2010 – June 30, 2015	\$27,500,000	\$9,075,000	\$36,575,000
NA11NMF4380267	July 1, 2011 – June 30, 2016	\$28,000,000	\$9,333,334	\$37,333,334

Source: OIG analysis of approved financial assistance awards

Appendix A explains the objectives, scope, and methodology of our audit. Appendix B contains background information about RCO and Congressional appropriations for the PCSRF program.

# Objectives, Findings, and Recommendations

This report provides the results of our audit of two PCSRF grants NOAA awarded to RCO. The objectives of our audit of grant numbers NAI0NMF4380435 and NAI1NMF4380267 were to determine whether RCO (1) claimed allowable, allocable, and reasonable costs; (2) complied with grant terms and conditions, administrative requirements, cost principles and audit requirements; and (3) met performance requirements of the grants. Appendix C summarizes the source and application of funds for the two grants.

We found that RCO claimed costs of \$2,491,000 that were not allowable, not allocable, or unsupported. RCO complied with most grant terms and conditions, administrative requirements, cost principles, and audit requirements that we reviewed. However, it did not follow requirements to protect federal interests when grant funds were used to acquire or improve real property, nor did it follow federal record retention requirements.

We determined RCO met program performance requirements by working with award recipients to ensure the projects align with PCSRF program objectives and priorities, RCO receives progress reports from subrecipients and conducts site visits as deemed necessary. RCO also utilizes a central database system, known as PRISM, to accumulate details on projects including project agreements, pictures, financial data and other documentation that assists RCO in monitoring the status of projects. In addition, RCO's projects involving grant administration, conservation planning, and policy analysis complied with the objectives of the PCSRF program.

## I. RCO Claimed Costs that Are Not Allowable, Not Allocable, or Unsupported

### A. *Audit found questioned costs of \$2,491,000*

The Office of Management and Budget (OMB) establishes principles for determining allowable costs for federal awards. We reviewed RCO's financial accounting policies and performed tests to determine whether claimed costs conform to federal cost principles as well as terms and conditions of the PCSRF grants. We found the following:

- RCO routinely transferred award expenses between PCSRF grants to deplete prior grants' funds.
- RCO did not properly account for indirect costs.
- Existing procedures did not detect costs that were unallowable, outside the award period, and an overpayment to a contractor.
- RCO and a subrecipient did not have supporting records showing how claimed costs benefited the PCSRF program. Consequently, RCO and a subrecipient claimed costs that were unsupported.

As a result, we questioned project costs claimed by RCO and some of its subrecipients totaling \$2,491,000 and recommend NOAA recover \$1,936,999, the difference between total federal funds disbursed and the federal share of costs accepted per audit (see table 2 in this finding, as well as table D-1 in appendix D).

**Table 2. Summary of Financial Results of Audit**

<b>Federal Funds Disbursed<sup>a</sup></b>		<b>\$55,500,000</b>
Total project costs claimed	73,908,334	
Less questioned costs <sup>b</sup>	2,491,000	
Accepted costs	71,417,334	
Federal share <sup>c</sup>		53,563,001
Recommended by OIG for recovery		1,936,999

Source: OIG analysis of RCO and subrecipient records and the approved financial assistance awards

<sup>a</sup> For awards NAI0NMF4380435 and NAI1NMF4380267, NOAA awarded federal funding of \$27.5 million and \$28 million, respectively.

<sup>b</sup> Of the \$2,491,000 in questioned costs, \$27,309 is unsupported.

<sup>c</sup> Seventy-five percent of accepted costs are the federal share.

I. Unallowable transfers between PCSRF grant awards led to \$1,359,210 in questioned costs

RCO receives PCSRF grants annually with award periods spanning 5 years; therefore, multiple grant awards are active in any given year. When a grant is nearing the end of its period of performance,<sup>4</sup> we found that RCO occasionally transferred project expenses, originally paid for from a more recent grant, to the expiring grant to deplete remaining funds. We found four instances where expenses allocated to certain projects were transferred from different PCSRF grant awards to award NAI0NMF4380435, totaling \$1,359,055 (see table D-1 in appendix D). No expenses from these four projects were charged to grant award NAI0NMF4380435 prior to the transfers. Per OMB Circular A-87, “any cost allocable to a particular award may not be charged to other Federal awards.”<sup>5</sup> Therefore, costs allocated to one award and shifted to another award are not allowable and allocable. The NOAA grants officer was not aware of these transfers and did not approve of the practice when we spoke with the officer.

<sup>4</sup> The period of time a grantee is expected to complete the grant activities and to incur and expend grant funds.

<sup>5</sup> Office of Management and Budget, May 10, 2004. *Cost Principles for State, Local and Indian Tribal Governments*, OMB Circular A-87 Revised, Washington, DC: OMB, Attachment A, section C.3.c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. OMB Circular A-87 was effective at the beginning of the 2010 and 2011 grants and until OMB implemented *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments [Uniform Guidance]* in 2 C.F.R. Chapter I, Chapter II, Part 200, et al. *Uniform Guidance* applies to awards or funding increments provided after December 26, 2014, and supersedes requirements in OMB circulars, such as OMB Circular A-87.

Additionally, on three occasions, transfers between grant awards led RCO's cumulative reimbursements from NOAA to exceed cumulative expenses for individual grant awards,<sup>6</sup> incurring \$155 in interest due to the federal government. Interest begins accruing from the day federal grant funds are credited to RCO to the day RCO pays out the grant funds,<sup>7</sup> and we calculated \$155 in interest earned during the periods when reimbursements exceeded expenses.<sup>8</sup> The excess reimbursements were resolved by subsequent RCO expenditures.

2. Indirect costs of \$825,000 were claimed but unauthorized

NOAA reimbursed RCO \$825,000 for indirect costs<sup>9</sup> in grant award NAI0NMF4380435. However, RCO included this amount in the approved direct cost categories without the knowledge and authorization of NOAA. While RCO obtained approved indirect cost plans for the award periods of both grant awards as required, it failed to include any indirect costs in its approved budget for grant award NAI0NMF4380435.<sup>10</sup> Failure to do so meant that RCO was not authorized to claim indirect costs and obtain reimbursement from NOAA for these costs.

RCO must submit a budget proposal including all cost categories that may incur expenses during the performance of a federal grant award.<sup>11</sup> RCO is not authorized to transfer amounts budgeted for direct costs to indirect costs unless provided written prior approval from the NOAA grants officer.<sup>12</sup>

3. Subrecipient payments totaling \$259,474 to a federal agency were not allowable

Grant recipients, as well as subrecipients, may not sub-grant or sub-contract any part of an approved project to a federal agency without prior written approval from the

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<sup>6</sup> 31 C.F.R. § 205.33(a). A Federal Program Agency must limit a funds transfer to a state to the minimum amounts needed by the state and must time the disbursement to be in accord with the actual, immediate cash requirements of the state in carrying out a federal assistance program or project. The timing and amount of funds transfers must be as close as administratively feasible to a state's actual cash outlay for direct program costs.

<sup>7</sup> 31 C.F.R. § 205.15(a). State interest liability may accrue if Federal funds are received by a State prior to the day the State pays out the funds for Federal assistance program purposes. State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for federal assistance program purposes.

<sup>8</sup> The state's interest liability is calculated as the average daily balance of cash in the program account multiplied by the annualized rate equal to the average equivalent yields of 13-week Treasury bills auctioned during a state's fiscal year. July 1, 2013, 2014, and 2015 Cash Management Improvement Act Agreements between the state of Washington and the Secretary of the Treasury, U.S. Department of the Treasury, Section 8.6, State Interest Liabilities.

<sup>9</sup> Indirect costs are amounts incurred for a common or joint purpose that benefit more than one cost objective such as a grant, contract, or function.

<sup>10</sup> The U.S. Department of the Interior reviews and approves RCO's indirect cost rate proposals. RCO's allocation base consists of pass-through funds.

<sup>11</sup> U.S. Department of Commerce Office of the Secretary, March 2008. *Department of Commerce Financial Assistance Standard Terms and Conditions*. Washington, DC: DOC OS, 3.

<sup>12</sup> *Ibid.*

grants officer.<sup>13</sup> The Washington State Department of Ecology, a subrecipient of RCO, paid NOAA's Northwest Fisheries Science Center \$259,474 for contracted work performed on two projects: (1) a fish mitigation and survival study and (2) Skagit River juvenile Chinook sampling. PCSRF funds from grant award NAI0NMF4380435 were used to reimburse Department of Ecology for these costs; however, there was no prior approval from NOAA's grants officer.

4. Our audit found \$27,309 in unsupported costs

Award terms and conditions require that RCO and its subrecipients follow the same cost principles and grant requirements. For example, subrecipients should retain records for 3 years after RCO submits to NOAA its final financial report covering the 5-year performance of the PCSRF grant<sup>14</sup> and accounting records must be supported by source documentation.<sup>15</sup> RCO filed its final financial report for the award in September 2015, therefore RCO and subrecipients should have retained records until at least September 2018. Therefore, for program expenses incurred at the beginning of the award period, the record retention period could exceed 8 years.

RCO did not retain documentation for the required amount of time supporting a journal voucher entry for a \$10,478 transfer of expenses to grant award NAI0NMF4380435 that was related to upgrading RCO's grant software system—PRISM. Additionally, the Washington State Department of Ecology did not retain documentation for the required amount of time supporting 12 other expenses, most of which were related to lab analyses, totaling \$16,831. RCO also charged these expenses to grant award NAI0NMF4380435.

RCO followed Washington state's record retention requirements and destroyed the documents after a 6-year retention period,<sup>16</sup> which is also included in the guidelines RCO provided to its subrecipients, including the Department of Ecology. RCO was not aware of the difference between Washington state's record retention requirements and those required by the NOAA grant awards, and that the federal requirements take precedence over state record retention requirements. We therefore question costs totaling \$27,309 as unsupported based on a lack of documentation.

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<sup>13</sup> Ibid., 18.

<sup>14</sup> 15 C.F.R. § 24.42(b) & (c). When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period is 3 years and starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. As of December 26, 2014, this requirement is in 2 C.F.R. § 200.333, *Retention requirements for records*.

<sup>15</sup> 15 C.F.R. § 24.20(b)(6). Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. As of December 26, 2014, this requirement is in 2 C.F.R. § 200.302, *Financial Management*.

<sup>16</sup> RCO's document retention policy is for a 6-year period starting at the close of the project. RCO and Department of Ecology retained documents for 6 years, destroying them once they met the retention period.

5. Expenses totaling \$17,982 were incurred outside the period of performance and should not have been claimed against grant award NAI0NMF4380435

RCO incorrectly transferred contract expenses for four transactions totaling \$17,982 to grant award NAI0NMF4380435. These expenses were incurred prior to the start date of the grant—July 1, 2010. Grant recipients are only allowed to charge costs that occurred during the funding period of an award.<sup>17</sup> As previously discussed in finding I.A.1, RCO routinely transfers grant related expenses between different PCSRF awards, mainly to deplete older grant funds; but in this case, RCO overlooked that the charges were prior to the start of the award.

6. Overpayment of \$2,025 to a contractor was not allowable

Claimed costs must be necessary, reasonable, and conform to limitations set forth in the conditions of the award.<sup>18</sup> We found that RCO used funds from grant award NAI1NMF4380267 and overpaid an invoice to a member of its Salmon Recovery Funding Board Monitoring Panel by \$2,025. RCO did not follow their procedures for reviewing invoices and had not identified the error nor received reimbursement from the contractor. However, subsequent to our fieldwork, the contractor reimbursed RCO for the overpayment.

### Recommendations

We recommend that the Director of NOAA Grants Management Division (GMD) do the following:

1. Make a determination on the amount recommended by OIG for recovery, \$1,936,999, which is the difference between total federal funds disbursed and the federal share of costs accepted per audit.
2. Instruct RCO to discontinue transferring expenses between PCSRF awards for the purpose of depleting older award funds.
3. Instruct RCO to follow proper budget procedures to ensure it only claims cost categories approved by the grants officer.
4. Instruct RCO and its subrecipients to request prior approval from the NOAA's grants officer to subgrant or sub-contract with a federal agency.
5. Ensure that RCO includes and adheres to federal document retention requirements in its subrecipient agreements.
6. Require RCO to implement internal controls to ensure costs charged to a particular award are incurred during the period of performance.

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<sup>17</sup> 15 C.F.R. § 24.23(a). Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted. As of December 26, 2014, this requirement is in 2 C.F.R. § 200.309, *Period of performance*.

<sup>18</sup> OMB Circular A-87, Attachment A, section C.1.a and d. As of December 26, 2014, this requirement is in 2 C.F.R. § 200.403, *Factors affecting allowability of costs*.

7. Instruct RCO to follow their controls when reviewing invoices and approving costs.

*B. Unallowable federal grant funds were included in the match to NOAA*

NOAA requires RCO to provide a 25 percent match for PCSRF grants. Matching requirements can be met using allowable costs incurred by the grantee and subgrantees,<sup>19</sup> but in general should not include costs incurred by another federal grant.<sup>20</sup> While RCO typically has sufficient state funds to meet match requirements for PCSRF grants, there are times when RCO includes funds from subrecipient projects in its match to NOAA. We found that RCO determined it was short of state funds for grant award NAI INMF4380267 and resolved it by adding 10 subrecipient projects as match for that award. Of those 10 projects, two included federal funds totaling \$402,202 that RCO reported as match to NOAA. Although federal funds were included in the match, RCO also reported an additional \$625,501 in allowable excess match; therefore, RCO was able to replace ineligible federal funds with eligible non-federal match. Therefore, while this constitutes a breakdown of internal controls, RCO was ultimately able to meet its required match.

*Recommendation*

We recommend that the Director of NOAA GMD do the following:

8. Ensure that RCO implements sufficient controls to identify eligible match expenses for its PCSRF grants.

*C. Indirect cost base included unallocable expenses*

Indirect costs are calculated by multiplying incurred and applicable direct costs for a specific grant award by the approved indirect cost rate.<sup>21</sup> OMB Circular A-87 states that the base used to allocate indirect costs should result in each award receiving an equitable share of costs in relation to the benefits received from the costs.<sup>22</sup> However, we found RCO calculated indirect costs for grant award NAI INMF4380267 using direct costs from that grant award as well as other PCSRF grant awards. Instead of allocating indirect costs to the individual grant awards based on each award's direct costs, RCO incorrectly allocated indirect costs from all grant awards to one grant award.

<sup>19</sup> 15 C.F.R. § 24.24(a)(1). Matching requirement may be satisfied by allowable costs incurred by the grantee, subgrantee, or a cost-type contractor under the assistance agreement. As of December 26, 2014, this requirement is in 2 C.F.R. § 200.306, *Cost sharing or matching*.

<sup>20</sup> 15 C.F.R. § 24.24(b). Except as provided by federal statute, a cost sharing or matching requirement may not be met by costs borne by another federal grant. As of December 26, 2014, this requirement is in 2 C.F.R. § 200.306, *Cost sharing or matching*.

<sup>21</sup> OMB Circular A-87, Part 225, Appendix E, B.2, Definitions. As of December 26, 2014, this requirement is in 2 C.F.R. § 200, Appendix VII, B.7, *States and Local Government and Indian Tribe Indirect Cost Proposals*.

<sup>22</sup> OMB Circular A-87, Part 225, Appendix E, B.4, Definitions. As of December 26, 2014, this requirement is in 2 C.F.R. § 200, Appendix VII, B.1, *States and Local Government and Indian Tribe Indirect Cost Proposals*.

While RCO did not use the correct methodology to calculate the indirect costs, it did not overstate its indirect costs when reporting them to NOAA or claim more than it had earned. Ultimately, RCO still correctly claimed \$840,000 in indirect costs for the grant award NAI INMF4380267. Because RCO uses indirect costs to recover administrative costs, they are limited to the \$840,000 claimed due to the program's three percent limit on administrative costs.<sup>23</sup> We performed our own calculation and determined that if RCO had followed the correct methodology for computing indirect costs, it would have still claimed \$840,000. Therefore, we do not question any indirect costs for grant award NAI INMF4380267.

### Recommendation

We recommend that the Director of NOAA GMD do the following:

9. Ensure that RCO calculates indirect costs in a manner that complies with applicable indirect cost policies and regulations.

## II. RCO Did Not Ensure Subrecipients Protected Federal Interest When Using Salmon Recovery Funds to Acquire and Improve Real Property

During the audit, we tested 11 transactions totaling \$2,450,461 that used PCSRF funds to acquire or improve real property.<sup>24</sup> *Department of Commerce Financial Assistance Standard Terms and Conditions* require recipients to execute a security interest or other statement of the federal interest in real property acquired or improved with federal funds and provide the NOAA grants officer with a written statement from a licensed attorney certifying the federal interest is protected. Neither RCO nor its subrecipients followed these provisions or made other arrangements acceptable to the Department.<sup>25</sup>

We spoke to RCO staff about use of grant funds to acquire or improve real property on salmon recovery projects. We determined that RCO was aware that, if federal funds are used to purchase or improve property, the federal government has an interest in that property. However, RCO did not ensure that its subrecipients complied with federal property management requirements. As a result, grant recipients and subrecipients may modify, transfer, or sell real property acquired or improved with federal funds without the government's permission and approval, potentially resulting in financial harm to the government.

### Recommendations

We recommend that the Director of NOAA GMD do the following:

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<sup>23</sup> Pub. L. No. 106-113 App. A (1999).

<sup>24</sup> Projects we consider to be improvements to real property included construction of a well, a new fish ladder, and three new bridges.

<sup>25</sup> DOC OS. *Department of Commerce Financial Assistance Standard Terms and Conditions*, 18. Although the Department revised its financial assistance standard terms and conditions twice during the grant award periods included in our audit, both revisions include the requirement concerning real property acquired with federal funds.

10. Reiterate to RCO its responsibility to ensure subrecipients provide documentation showing compliance with real property requirements of the grant.
11. Instruct RCO to submit to NOAA documentation showing subrecipients' perfected statements of the federal interest in real property acquired and improved with 2010 and 2011 PCSRF grants.

# Summary of Auditee Response and OIG Comments

In responding to our draft report, RCO did not agree with the questioned costs in findings I.A.1, I.A.2, and I.A.3, as well as the conclusion in finding II. Overall, RCO did not provide any new documentation or evidence to counter the findings in the draft report. Our comments below address RCO's responses to these particular findings. RCO provided explanations and corrective actions taken in response to findings I.A.4, I.A.5, I.A.6, I.B, and I.C. We have included RCO's complete response as Appendix E to this report.

- Finding I.A.1: RCO did not agree with the questioned costs of \$1,359,210. RCO acknowledged that costs had transferred between different PCSRF grant awards. RCO also stated that it has modified its practice and stopped transferring expenses between awards at the end of the grant period. Although RCO stated they have modified its practice, it contends that these cost transfers were still allowable under each of the grant award. However, this is contrary to OMB policy. OMB Circular A-87 states, "any cost allocable to a particular award may not be charged to other awards." Therefore, finding I.A.1 stands.
- Finding I.A.2: RCO did not agree with the questioned costs of \$825,000. RCO acknowledged that it provided NOAA an incorrect budget outlined in the 2010 grant award because of the way they charged allowable administrative costs. RCO stated that they modified their process and began to implement the change to their budget but it was too late to make changes affecting the 2010 grant award. RCO's response, however, does not address the issues related to the unallowable costs we identified. Specifically: RCO did not address that: (1) indirect costs were not included in its approved budget for the grant award; and (2) it had not obtained written approval from the NOAA grants officer prior to claiming indirect costs. Therefore, finding I.A.2 stands.
- Finding I.A.3: RCO did not agree with the questioned costs of \$259,474 and stated that this payment was a portion of a subgrant they awarded to Washington State Department of Ecology. The Department of Ecology (an RCO subrecipient to the audited awards) paid \$259,474 to NOAA's Northwest Fisheries Science Center (NWFSC) for monitoring a watershed project involving restoration of the salmon population. RCO stated that the allowability of this cost has been resolved based on a February 6, 2015 email from senior leadership at the NOAA Portland Branch.<sup>26</sup> In its response, RCO provided excerpts from that email, asserting it was acceptable for the payments from the Department of Ecology to NWFSC. However, we received a copy of the entire email referred to by RCO. The email explicitly stated "(t)his email is not intended in any way as pre-approval for that agreement," but that "(i)n order for NWFSC to provide the services, NWFSC will need to enter into an agreement with the State, and the agreement will be subject to the normal clearance process for agreements." Furthermore, the expenditures included in our questioned costs were incurred in 2011, prior to the 2015 NOAA email. *Department*

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<sup>26</sup> RCO stated that in the email, the opinion of an attorney for DOC is shared.

*of Commerce Financial Assistance Standard Terms and Conditions* requires prior written approval from the NOAA grants officer before any recipient or subrecipient subgrants or subcontracts to any agency of the Department or another federal agency.<sup>27</sup> RCO has not provided evidence that the normal clearance process was followed and that the grants officer approved providing funding to NWFSC. Therefore, we stand by our finding.

- Finding II: RCO stated that it utilizes a standardized Deed of Right (DOR) to protect the interest of the government for all properties acquired with state and federal funds in RCO administered programs. RCO asserted that the DOR protects federal interest in property because this document was acceptable in another federal program administered by them. Regardless of RCO's assertion, the *Department of Commerce Financial Assistance Standard Terms and Conditions* requires recipients to execute a security interest or other statement of the federal interest in real property acquired or improved with federal funds in a form or substance acceptable to the Department.<sup>28</sup> We found no evidence that NOAA approved the DOR. Additionally, although RCO's DOR explicitly recognized the state's interest in real property, the DOR did not explicitly recognize the federal government's interest.

Furthermore, the recipient is also required to provide the NOAA grants officer with a written statement from a licensed attorney certifying the federal interest is protected and a copy of the instrument documenting the recording of federal interest. RCO did not provide the NOAA grants officer with the required written certification statement or copies of documents showing federal interest was secured. Therefore, we stand by our finding.

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<sup>27</sup> DOC OS. *Department of Commerce Financial Assistance Standard Terms and Conditions*, 18.

<sup>28</sup> *Ibid.*

# Appendix A: Objectives, Scope, and Methodology

In April 2017, we initiated an audit of the Pacific Coastal Salmon Recovery Fund grant numbers NAI0NMF4380435 and NAI1NMF4380267 award to the Washington State Recreation and Conservation Office (RCO) in Olympia, Washington. The objectives of our audit were to determine whether RCO (1) claimed allowable, allocable, and reasonable costs; (2) complied with grant terms and conditions, administrative requirements, cost principles, and audit requirements; and (3) met performance requirements of the grants. To accomplish our objectives, we performed the following:

- Reviewed the following documents to understand requirements related to financial assistance awards and the PCSRF program:
  - Public Law 106-113
  - *OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments*
  - *OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*<sup>29</sup>
  - *Department of Commerce Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*<sup>30</sup>
  - *Department of Commerce Grants and Cooperative Agreements Manual*
  - *Department of Commerce Financial Assistance Standard Terms and Conditions*
  - Federal Funding Opportunity for the PCSRF
- Reviewed transactions recorded in RCO's financial accounting system (AFRS) as well as timesheets and invoices to test for compliance with grant terms and conditions.
- Interviewed RCO staff to understand financial accounting procedures and oversight of the costs claimed by subrecipients.
- Obtained an understanding of RCO's contract process and examined a judgmental selection of contracts.
- Obtained an understanding of subrecipient monitoring activities and examined a judgmental selection of 68 salmon recovery subrecipient expense transactions reimbursed by RCO. Expenses were selected based on OIG identified risk factors including high dollar amount, unusual vendor name, and transaction dates outside the period of performance.

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<sup>29</sup> On December 26, 2013, OMB published streamlined guidance on *Administrative Requirements, Cost Principles and Audit Requirements* for federal awards. This final guidance supersedes and streamlines requirements from several OMB Circulars, including A-87. This guidance applies to all federal awards or funding increments on or after December 26, 2014.

<sup>30</sup> These regulations have been revised and replaced by those at 2 C.F.R. Part 1327.

- Analyzed indirect cost expenses and how they were calculated.
- Obtained an understanding of RCO's matching process and examined match costs claimed against the grants.
- Interviewed the grants officer in the NOAA Grants Management Division and PCSRF program staff at NMFS Northwest Region to understand award recipient responsibilities and allowability of costs.
- Accessed the NOAA Grants Online System to obtain and review award applications, federal financial reports, semi-annual and annual performance reports, and other records in the grant award files.

During our audit, we reviewed RCO's compliance with laws and regulations relevant to our audit objectives. While we identified and reported on internal control deficiencies, no specific instance of fraud, illegal acts, significant violations, or abuse were detected during our audit.

We did not solely rely on computer-processed data to perform this audit. Although we could not independently verify the reliability of all the information we collected, we compared the information with other available supporting documents to determine data consistency and reasonableness and performed data completeness and accuracy reviews. Based on these efforts, we believe the information we obtained is sufficiently reliable for this report.

We conducted audit fieldwork from May 2017 to March 2018 at RCO's office in Olympia, Washington, and at OIG offices in Seattle and Washington, DC, under the authorities of the Inspector General Act of 1978, as amended (5 U.S.C. App.), and Department Organization Order 10-13, dated April 26, 2013.

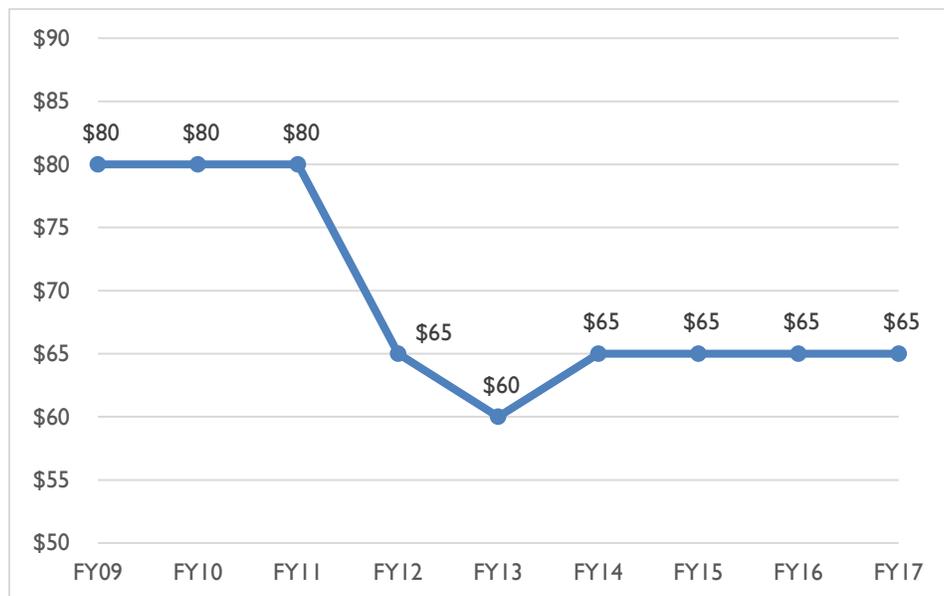
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Appendix B: Background

RCO was created in 1964 to manage grant programs that, among other things, fund projects to improve and protect salmon populations and restore their habitats. They provide grants to local organizations. Eighty percent of grant money is spent in the county where the project is located, which also helps local families and businesses.

From fiscal years (FYs) 2009 through 2017, annual appropriations for the PCSRF program ranged from \$60 million to \$80 million (see figure B-1). During that same period, yearly PCSRF grants to RCO varied from \$18.5 million to \$28 million.

**Figure B-1. PCSRF Appropriations for FYs 2009–2017 (in millions)**



Source: OIG analysis of Office of Management and Budget, FYs 2011–2017 appendices, *Budget of the U.S. Government*

## Appendix C: Summaries of Source and Application of Funds

	NA10NMF4380435 July 1, 2010 - June 30, 2015		NA11NMF4380267 July 1, 2011 - June 30, 2016	
	Approved Award Budget	Claimed By RCO	Approved Award Budget	Claimed By RCO
<b>Source of Funds</b>				
Federal Share	\$27,500,000	\$27,500,000	\$28,000,000	\$28,000,000
Recipient Share	9,075,000	11,128,881	9,333,334	9,958,835
<b>Total</b>	<b>\$36,575,000</b>	<b>\$38,628,881</b>	<b>\$37,333,334</b>	<b>\$ 37,958,835</b>
<b>Application of Funds</b>				
Personnel	\$515,624	\$77,974	\$ -	\$32,088
Fringe Benefits	139,219	27,173	-	10,874
Supplies	137,500	28	-	28,613
Travel	18,563	-	-	24,489
Contractual	26,689,094	26,569,825	27,160,000	27,063,937
Indirect Charges	-	825,000	840,000	840,000
RCO Match: State Funds	-	10,728,881	-	7,691,441
RCO Match: Subrecipient Funds	-	400,000	-	2,267,394
<b>Total</b>	<b>\$27,500,000</b>	<b>\$38,628,881</b>	<b>\$28,000,000</b>	<b>\$37,958,836</b>

Source: OIG analysis of RCO approved award budgets and claimed costs

## Appendix D: Schedules of Questioned Costs

**Table D-1. Summary of Recipient and Subrecipient Questioned Costs by Award**

	NA10NMF4380435		NA11NMF4380267		Totals	
	<u>Questioned</u>	<u>Unsupported<sup>a</sup></u>	<u>Questioned</u>	<u>Unsupported<sup>a</sup></u>	<u>Questioned</u>	<u>Unsupported<sup>a</sup></u>
RCO	\$2,212,660	\$10,478	\$2,035	\$ -	\$2,214,695	\$10,478
Subrecipients:						
WA State Department of Ecology	276,305	16,831	-	-	276,305	16,831
Total Subrecipients	276,305	16,831	-	-	276,305	16,831
<b>Total</b>	<b>\$2,488,965</b>	<b>\$27,309</b>	<b>\$2,035</b>	<b>\$ -</b>	<b>\$2,491,000</b>	<b>\$27,309</b>

Source: OIG analysis of RCO and subrecipient records and the approved financial assistance awards

<sup>a</sup> Unsupported costs are those costs that the recipient or subrecipient could not adequately support at the time of audit; unsupported costs are also included in the total of questioned costs.

**Table D-2. Detailed Schedule of Cost Transfers**

Transfer From	Transfer To	Project Number	Amount Transferred
NA13NMF4380251	NA10NMF4380435	13-1052	\$ 506,643
NA13NMF4380251	NA10NMF4380435	13-1336	318,547
NA11NMF4380267	NA10NMF4380435	09-1429	300,000
NA12NMF4380230	NA10NMF4380435	12-1644	233,865
<b>Total</b>			<b>\$1,359,055</b>

Source: OIG analysis of subrecipient records and the approved financial assistance awards

# Appendix E: Agency Response

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P.O. Box 40917  
Olympia, WA 98504-0917  
1111 Washington St. S.E.  
Olympia, WA 98501



STATE OF WASHINGTON  
RECREATION AND CONSERVATION OFFICE

(360) 902-3000  
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E-mail: [info@rco.wa.gov](mailto:info@rco.wa.gov)  
Web site: [www.rco.wa.gov](http://www.rco.wa.gov)

October 4, 2018

David Sheppard, Audit Director  
U.S. Department of Commerce Office of Inspector General  
Seattle Regional Office  
915 Second Avenue, Suite 3062  
Seattle, WA 98174

Subject: Response to the Audit of NOAA Pacific Coastal Salmon Recovery Fund Grants to the Washington State Recreation and Conservation Office (RCO) Draft Report

Dear Mr. Sheppard:

Thank you for the draft audit report conducted by your office. I appreciate your team's thoughtful and thorough review of my agency in general and the selected Pacific Coastal Salmon Recovery Fund (PCSRF) grant awards in particular. At RCO, we believe in continual improvement and see the audit process as an opportunity to make our processes better.

This letter will address each audit finding and our response. We do not have any disagreement with the facts presented in the report, but we do not agree with the conclusions requiring repayment for several of the findings. Some long-standing processes may have come under question and are being modified per audit findings, but expenditures were eligible and all benefited salmon recovery in Washington State.

#### Audit findings with questioned costs

##### **1. Unallowable transfers between PCSRF grant awards led to \$1,359,210 in questioned costs**

We do not agree with the questioned costs. While costs were transferred between different PCSRF grant awards, all of the costs were allowable in both grant awards in question and were used for impactful salmon recovery projects with the goal of stopping the decline of salmon and bringing important species back from the brink of extinction. This is critical work right now as Washington has multiple species listed as threatened or endangered through the federal Endangered Species Act. The state is also struggling with the decline of the endangered Southern Resident killer whale populations who rely on a diet of salmon. Further, the United States Secretary of Commerce declared nine salmon fisheries along the west coast as fisheries disasters due to declining salmon populations. All of these have a major impact on our state and tribal economies.

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October 4, 2018  
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Both grant awards were given for the same program with the equivalent eligibility requirements and recovery goals, and the period of the expenditures were allowable in both grant awards. We changed the decision as to what grant award the funds were allocated based upon important project specific reasons such as delayed federal permits or contractor schedules. While one grant cost increased, another grant cost decreased in the exact amount and at the same time. All activities and expenditures were reportable and allowable per the PCSRF federal funding opportunity, budget and program. RCO thought it appropriate to move between grant years in order to spend down the oldest funds. In addition, no charges were made to fund ineligible costs.

This process had been reviewed by the Washington State Auditor previously and informally discussed with the National Oceanic and Atmospheric Administration (NOAA) regional program office.

As a result of your review, even though we feel our approach was allowable and perhaps a best management practice to expend the oldest funds first, we have modified our practice and stopped transferring expenditures between grant awards at the end of the grant period. RCO is concerned that repayment of these otherwise eligible expenditures will reduce future salmon recovery efforts, as the state has been and continues to work hard to get resources on the ground to recover salmon at a critical time for species survival. Now is the time for the state and NOAA to double down on salmon recovery, and not reduce the level of effort.

## **2. Indirect costs of \$825,000 were claimed but unauthorized**

We do not agree with the questioned costs. We do agree an incorrect budget was outlined in our grant award. This was due to a change in the way our agency charged the 3% allowable PCSRF administrative costs. In 2012 we went through a state single audit (of federal expenditures) where the approach we were using to charge the allowable 3% PCSRF administrative cost was identified as incorrect. Previously we had charged direct salary, benefit, travel and goods and service to the 3% PCSRF admin.

After analysis, we determined that we could use the federally approved indirect rate, up to the allowable 3% PCSRF rate. We modified our process and began to implement the change to the budget in the federal agreements. It turned out, however, to be too late in the process for the 2010 PCSRF grant award. Working with the NOAA federal grants officer we were granted a close out extension for the 2010 PCSRF grant award and were attempting to update the budget. We were unable to make changes to the grant award after the end of the original grant period, even with the extension granted. As evidence of our intent, we were able to change the 2011 PCSRF grant award budget, which was still active, and add indirect costs.

RCO is concerned that repayment of eligible expenditures will reduce future salmon recovery efforts because any payment would come out of our current state appropriation for salmon recovery. Repayment could have a major impact on Washington State's ability to recover salmon. Further the state appropriations for salmon recovery are currently being used to match current NOAA PCSRF grant awards.

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October 4, 2018  
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**3. Subrecipient payments totaling \$259,474 to a federal agency were not allowable**

We do not agree with the questioned costs. This payment was a portion of a subgrant that RCO awarded to WA State Department of Ecology (Ecology) for an intensively monitored watershed project to determine if restoration activities have a positive impact to salmon populations. In that agreement, Ecology paid Northwest Fisheries Science Center NWFSC \$259,474.

This issue has been discussed for years with NOAA and it has been resolved. There is an e-mail dated, February 6, 2015 from senior leadership at the Portland branch of NOAA. In the email the opinion of an attorney for the US Department of Commerce is shared.

*Quoting from the email "Based on the information you provided, the Northwest Fisheries Science Center (NWFSC) may accept funds from the State of Washington as payment for the proposed services pursuant to proper legal authority, even though the State will pay NWFSC using funds provided by NOAA as financial assistance from the Pacific Coastal Salmon Recovery Fund. We understand that NWFSC is not involved in assistance awards for this NOAA program, NWFSC has unique expertise regarding the required services, and the services to be provided by NWFSC are a small portion of the assistance project being carried out by the State."*

The NWFSC has unique expertise regarding the required services. The services to be provided by NWFSC represented a small portion of the assistance project being carried out by the State. RCO does not think repayment is necessary given the permission from NOAA, the unique nature of the scope completed by NWFSC, and it is eligible under the federal award. Currently there is a sub contract between Ecology and NWFSC outlining duties and deliverables. We feel these adequately address the concerns raised.

**4. The audit found \$27,309 in unsupported costs**

This finding relates to the difference between state and federal document retention policies. RCO and Ecology did dispose of documents supporting the questioned costs. While we followed the Washington State retention schedule of 6-years, unfortunately, it was not adequate to meet the longer federal requirement.

RCO's portion of the costs totaled \$10,478 and was used for the maintenance and development of our PRISM database which stores and manages salmon recovery project data. Ecology's portion of the costs totaled \$16,831 and was used to pay for intensively monitored watershed work. Both sets of costs were allowable under the PCSRF grant award.

We understand that federal requirements take precedence over state requirements and are working to update the retention instructions to sub-recipients for documents related to federal grant awards. Additionally, in 2015 we developed an electronic billing system in our PRISM database that assists us in the storage and retention of documents. This will not be a problem in the future.

David Sheppard, Audit Director  
October 4, 2018  
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**5. Expenses totaling \$17,982 were incurred outside the period of performance and should not have been claimed against grant award NA10NMF4380435**

RCO did transfer costs related to Jones & Stokes (RCO #09-1755) for a hatchery reform project. Hatchery reform is ongoing work. PCSRF funds are added to the contracts annually, as federal awards are granted. The hatchery management reviews have developed management approaches to allow tribal, state, and federal partners to effectively manage hatcheries to meet conservation and harvest goals consistent within their respective legal responsibilities. In this case the costs were mistakenly transferred from the period prior to the start of NA10NMF4380435.

RCO will put more emphasis around monitoring dates for any costs in federal grants, focusing on any contracts that have more than one year of federal grant award.

**6. Overpayment of \$2,025 to a contractor was not allowable**

RCO did process a duplicate payment to a contractor Ecolution, RCO #:14-1988 for monitoring panel participation. This overpayment occurred near the end (November and December 2015) of the agreement. The contractor assumed they had not been paid for the cost and rebilled RCO. We have recovered the cost in full, and we will remit these funds to NOAA.

**Audit findings without questioned costs**

**7. Unallowable federal grants were included in the match to NOAA**

NOAA requires RCO to provide a 33 percent match for PCSRF grants. Matching requirements are primarily met by state funded projects and on occasion by sub-recipient provided match. In this instance a portion of the match provided by sub-recipients included other federal awards. This was an oversight on RCO's part. None-the-less RCO had enough state overmatch to meet NOAA requirements, so it did not negatively impact the state match provided.

RCO has systems in place to ensure match to PCSRF awards comes from sources other than federal grant awards. If a project has federal match, as noted in our database, it will not be included in our state match reported to PCSRF.

**8. Indirect cost base included unallocable expenses**

RCO's Indirect costs are calculated by multiplying the federally approved rate by the federally approved base. While calculating indirect costs for PCSRF, RCO combined (or pooled) the indirect costs from all active PCSRF grant awards and charged the indirect cost to only one PCSRF grant award. This methodology was noted as incorrect by the auditors.

RCO's practice of calculating its indirect costs has changed. Currently indirect costs are charged to each grant award, up to the allowable 3%.

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**9. RCO did not ensure subrecipients protected federal interest when using salmon recovery funds to acquire and improve real property.**

We do not agree with this finding. RCO, as a grant making agency, utilizes a Deed of Right (DOR) to protect the interest of the government on all properties acquired with state and federal funds in all the grant programs that RCO administers. This DOR was approved by the Washington State Attorney General's office, and has been used by the agency for over 50 years. It has been in place since the inception of the salmon recovery program in 1999. The DOR is a legal document recorded with the county auditor for each property acquired. A restriction on conversion of use has been a condition of all RCO grants and is included in the project contract since the inception of RCO in 1966.

The DOR is a standardized template that includes a legal description of the property, the reason the property is being protected, a map depicting the property boundaries, and reference to the project agreement or contract and the fund source, including identifying PCSRF federal funds. Given this document is acceptable in another federal program administered by RCO, and absent a template provided by NOAA, it is RCO's assertion that this DOR protects the federal interest in the property, since the fund source is clearly identified.

RCO has extensive compliance policies and regulations in place to resolve any issues that arise after a project is deemed complete. Post project completion inspections are required on our projects. In addition, RCO's DOR is an accepted document to protect the federal interest in property for the National Park Service (NPS).

Thank you for consideration of our response. If you have questions please contact me or Mark Jarasitis, our Chief Financial Officer, at 360.902.3006 or [mark.jarasitis@rco.wa.gov](mailto:mark.jarasitis@rco.wa.gov).

Sincerely,



Kaleen Cottingham  
Director

011200000288