



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

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

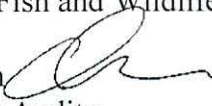
Grants Awarded to the Commonwealth of the Northern Mariana Islands,
Department of Lands and Natural Resources, From October 1, 2012,
Through September 30, 2014



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

AUG 10 2016

To: Daniel M. Ashe
Director, U.S. Fish and Wildlife Service

From: Charles Haman 
Director, Grant Audits

Subject: Final Audit Report – U.S. Fish and Wildlife Service Wildlife and Sport Fish
Restoration Program Grants Awarded to the Commonwealth of the Northern
Mariana Islands, Department of Lands and Natural Resources, From October 1,
2012, Through September 30, 2014
Report No. 2015-EXT-044

This report presents the results of our audit of costs claimed by the Commonwealth of the Northern Mariana Islands (Commonwealth), Department of Lands and Natural Resources (Department), under grants awarded by the U.S. Fish and Wildlife Service (FWS). FWS provided the grants to the Commonwealth under the Wildlife and Sport Fish Restoration Program (Program). The audit included claims totaling \$2.9 million on 15 grants that were open during the Commonwealth fiscal years that ended September 30, 2013, and September 30, 2014 (see Appendix 1). The audit also covered the Department's compliance with applicable laws, regulations, and FWS guidelines, including those related to the collection and use of hunting and fishing license revenues and the reporting of program income.

We found that the Department complied, in general, with applicable grant accounting and regulatory requirements. We questioned costs totaling \$42,580 due to unsupported and unallowable grant expenditures claimed. We also found that the Department had not (1) adequately managed its equipment through the completion of annual inventories, or (2) provided sufficient supporting documentation for its open account purchases.

We provided a draft report to FWS for a response. 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 3.

Please provide us with a corrective action plan based on our recommendations by November 8, 2016. The response should provide information on actions taken or planned to address the recommendations, as well as target dates and title(s) of the official(s) responsible for implementation. Formal responses can be submitted electronically. Please address your response to me and submit a signed PDF copy to WSFR_Audits@doioig.gov. If you are unable to submit your response electronically, please send your response to me at:

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The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit reports issued, actions taken to implement our recommendations, and recommendations that have not been implemented.

If you have any questions regarding this report, please contact Tim Horsma, Program Audit Coordinator, at 916-978-5668, or me at 303-236-9243.

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

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Introduction

Background

The Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act (Acts)¹ established the Wildlife and Sport Fish Restoration Program (Program). Under the Program, the U.S. Fish and Wildlife Service (FWS) provides grants to States² to restore, conserve, manage, and enhance their sport fish and wildlife resources. The Acts and Federal regulations contain provisions and principles on eligible costs and allow FWS to reimburse States up to 75 percent of the eligible costs incurred under the grants. For certain U.S. Government entities, including the Commonwealth of the Northern Mariana Islands (Commonwealth), the Acts allow for full reimbursement of eligible costs incurred under the grants. The Acts also require that hunting and fishing license revenues be used only for the administration of the States' fish and game agencies. Finally, Federal regulations and FWS guidance require States to account for any income they earn using grant funds.

Objectives

We conducted this audit to determine if the Commonwealth of the Northern Mariana Islands, Department of Land and Natural Resources (Department)—

- claimed the costs incurred under the Program grants in accordance with the Acts and related regulations, FWS guidelines, and grant agreements;
- used the Commonwealth's fishing license revenues solely for fish program activities; and
- reported and used program income in accordance with Federal regulations.

Scope

Audit work included claims totaling approximately \$2.9 million on the 15 grants that were open during Commonwealth fiscal years (CFY) 2013 and 2014 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at the Department's Division of Fish and Wildlife (Division) offices, Rota and Saipan; visited four public boat ramps; the Smiling Cove and West Harbor (Rota) Marinas; and the Fisheries Research facility (see Appendix 2). We performed this audit to supplement, not replace, the audits required by the Single Audit Act Amendments of 1996 and by Office of Management and Budget Circular A-133.

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

² The Acts define the term "State" to include the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

Methodology

We conducted this 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.

Our tests and procedures included—

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

We also identified the internal controls over transactions recorded in the labor- and license-fee accounting systems and tested their operation and reliability. Based on the results of initial assessments, we assigned a level of risk to these systems and selected a judgmental sample of transactions for testing. We did not project the results of the tests to the total population of recorded transactions or evaluate the economy, efficiency, or effectiveness of the Commonwealth's operations.

We relied on computer-generated data for other direct costs and personnel costs to the extent that we used these data to select Program costs for testing. Based on our test results, we either accepted the data or performed additional testing. For other direct costs, we took samples of costs and verified them against source documents such as purchase orders, invoices, receiving reports, and payment documentation. For personnel costs, we selected Commonwealth employees who charged time to Program grants and verified their hours against timesheets and other supporting data.

Prior Audit Coverage

On October 10, 2010, we issued “Audit on U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the Commonwealth of the Northern Mariana Islands, Department of Lands and Natural Resources, From October 1, 2007 through September 30, 2009” (No. R-GR-FWS-0007-2010). We followed up on the four recommendations, related to

excess indirect costs, unallowable direct costs, and inadequate equipment management in the report and found that the U.S. Department of the Interior, Office of the Assistant Secretary for Policy, Management and Budget (PMB) considered all four recommendations resolved but not implemented.

In this report, we make recommendations repeated from the 2010 report that have not been resolved. We discuss these recommendations in more detail in the “Findings and Recommendations” subsection. Documentation on the implementation of repeat recommendations should be sent to PMB under the resolution process for that audit report.

We also reviewed the Commonwealth’s single audit reports for CFYs 2012 and 2013 and several other audits that covered Commonwealth entities that received Program funds.

Results of Audit

Audit Summary

We found that the Department complied, in general, with applicable grant agreement provisions and requirements of the Acts, regulations, and FWS guidance. We identified, however, the following conditions that resulted in our findings, including questioned costs totaling \$42,580.

- A. Questioned Costs.** We questioned costs totaling \$42,580 because the Department claimed grant expenses that exceeded expenses recorded in the accounting system, and the Department applied an incorrect indirect cost rate to the grants.
- B. Inadequate Equipment Management.** The Department did not ensure that annual property inventories were completed for CFYs 2013 and 2014.
- C. Insufficient Supporting Documentation—Small Purchases.** The Department did not provide sufficient supporting documentation for its open account purchases.

Findings and Recommendations

A. Questioned Costs—\$42,580

I. Excess Reimbursements—\$38,759

The Commonwealth's Office of Finance and Accounting employees are responsible for preparing the grant Federal financial reports (SF-425) for the Department. The SF-425s are then submitted to FWS Region 1 for review and approval. We found that the Commonwealth reported drawdowns of reimbursement that exceeded the amounts supported in its financial accounting system on four grants (see Figure 1).

Regulation 43 C.F.R. § 12.60 states that grantees must maintain adequate fiscal and accounting controls to ensure that financial reports are accurate, and that accounting records contain sufficient information relating to grant expenditures. Furthermore, 43 C.F.R. § 12.81(b) (4) requires grantees to submit a final SF-425 upon expiration or termination of the grant.

Based on a discussion with a Commonwealth Office of Finance and Accounting official, these conditions occurred because of various accounting adjustments or cost transfers after the SF-425s were submitted to FWS. The Department drew down \$38,759 more than the actual costs shown in its accounting records. We therefore question \$38,759 as unsupported drawdowns of Program grant funds (see Figure 1).

FBMS Grant Number	Grant Title	Expenditures Reported	Drawdown Amount Received	Questioned costs
FI2AF01090	Boating Access	\$120,409	\$121,270	\$861
FI2AF01096	Fisheries Research	461,604	485,388	23,784
FI2AF01093	Wildlife Restoration	479,250	484,232	4,982
FI3AF01096	FW Coordination	164,672	173,804	9,132
Total		\$1,225,935	\$1,264,694	\$38,759

Figure 1. Overdrawn funds on four grants.

Recommendation
I. We recommend that FWS resolve the questioned costs of \$38,759.

Department Response

Department officials stated that they will work with FWS Region 1 to promptly and appropriately address this concern. To avoid reoccurrence of this finding, the Department, the Division, and Commonwealth Finance and Accounting will stop any accounting adjustments or cost transfers after the SF-425s are submitted to FWS.

FWS Response

FWS concurred with the finding and recommendation and will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the Department's and FWS' responses, we consider the recommendation resolved but not implemented (see Appendix 3).

2. Incorrect Rate Used to Calculate Indirect Costs—\$3,821

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 from their cognizant Federal agency. Indirect costs are charged to Federal grants by applying the negotiated rate to a specific, direct cost base.

The Department charged an indirect cost rate of 3 percent for SFYs 2013 and 2014 without prior approval from the U.S. Department of the Interior's Interior Business Center. In addition, when the Department subsequently received, in June and November of 2014, its negotiated rates of 2.86 percent for both years, it did not adjust grant claims accordingly. We consider \$3,821 in indirect costs as unallowable (see Figure 2).

FBMS Grant Number	Indirect Costs Claimed	Indirect Costs Approved	Questioned Costs
F12AF01090	\$3,507	\$3,343	\$164
F12AF01091	5,707	5,441	266
F12AF01092	449	428	21
F12AF01093	13,445	12,818	627
F12AF01094	2,557	2,438	119
F13AF01094	5,729	5,462	267
F13AF01095	1,446	1,379	67
F13AF01097	12,321	11,746	575
F13AF01098	2,419	2,306	113
F14AF00023	1,097	1,046	51
F12AF01095	4,642	4,425	217
F13AF01096	4,774	4,551	223
F13AF01194	1,080	1,030	50
F12AF01096	13,959	13,308	651
F13AF01195	8,784	8,374	410
Total	\$81,916	\$78,095	\$3,821

Figure 2. List of grants with incorrect Indirect Cost rate used.

Regulation 2 C.F.R. § 225, Appendix E, Subsection D.1.a requires all departments or agencies of a governmental unit planning to claim indirect costs under Federal awards to prepare an indirect cost rate proposal and obtain a negotiated rate. Furthermore, 2 C.F.R. § 225, Appendix E, Subsection E.1 states that indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency.

The Department did not ensure that the interim indirect cost rate was approved, and that the correct indirect cost rate, once received, was applied and costs recalculated. As a result, we question costs of \$3,821.

We reported similar conditions in our prior audit report, Recommendations A.1.1 and A.1.2); therefore, we are repeating the applicable recommendation from that report and have made a new recommendation. The implementation of the repeat

findings will be tracked under the tracking process for the prior audit, and FWS should submit any related documentation to PMB.

Recommendations

Repeat Recommendation

We recommend that FWS require the Department to:

Implement policies to ensure that indirect cost proposals are prepared and submitted timely so that indirect costs are based on an approved rate.

New Recommendation:

2. We recommend that FWS resolve the questioned costs of \$3,821.

Department Response

Department officials stated they will work with FWS to resolve the issue and require the Division to review indirect costs charged to grants to ensure that all charges are correctly applied.

FWS Response

FWS concurred with the auditor's recommendations and will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the Department's and FWS' responses, we consider the recommendation resolved but not implemented (see Appendix 3).

B. Inadequate Equipment Inventory Records

Federal regulations require a State or territory to follow its own policies and procedures to use, manage, and control its property. During our review, we found that property records for assets acquired with Program grant funds or hunting and fishing license revenues did not always list the minimum required information. Specifically, we found that equipment locations were not always accurate or defined, and line item descriptions for some of the items would be for multiple items making it difficult to identify specific items when assigning property tags and accounting for costs. In addition, we found Program-funded equipment listed under other Divisions within the Department. As a result, we cannot ensure that

equipment purchased with Program funds are being used for the benefit of the Program.

Regulation 43 C.F.R. § 12.72(b) requires each State or territory to use, manage, and dispose of equipment acquired under a grant by the State or territory in accordance with its laws and procedures. Commonwealth Directive 11-002 states that, at a minimum, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of the property, percentage of Federal participation of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

According to a Division official, when Directive 11-002 was implemented, the equipment listed on the inventory records from the Office of Procurement and Supply was listed by purchase order information, which may have been for one or a group of items as one line item and, therefore, difficult to decipher.

We reported a similar condition in our prior audit report’s Recommendation B; therefore, we are repeating the applicable recommendation from that report and have made a new recommendation. The implementation of the repeat findings will be tracked under the tracking process for the prior audit, and FWS should submit any related documentation to PMB.

Recommendations
<p>Repeat Recommendation:</p> <p>We recommend that FWS require the Department to conduct an annual physical inventory of equipment purchased with Program funds.</p> <p>New Recommendation</p> <p>3. We recommend that FWS require the Department to follow Commonwealth policies and procedures for its asset management database to reflect that each item purchased is recorded and assigned a custodian and a specific location.</p>

Department Response

The Department will issue another policy directive to the Division mandating that the Division conduct an annual physical inventory of equipment purchased with program funds and report the inventories to the Department.

FWS Response

FWS concurred with the finding and recommendation and will work with the Department to ensure an annual physical inventory of equipment purchased with program funds is completed, and it will require the Department to follow policies and procedures for its asset management database.

OIG Comments

Based on the Department's and FWS' responses, we consider the recommendation resolved but not implemented (see Appendix 3).

C. Insufficient Supporting Documentation—Small Purchases

The Commonwealth's Office of Finance authorizes its government entities to use preapproved, limited value purchase orders to purchase services and supplies at vendor locations throughout the Commonwealth. For CFYs 2013 and 2014, out of 1,483 Division non-payroll transactions, 61.8 percent or 917 transactions were based on this open account system. In addition, fuel and lubrication open account purchase orders account for over \$60,000 charged to the Program for CFYs 2013 and 2014.

We found insufficient supporting documentation for the Division's open account purchases. For example, when reviewing invoices provided for fuel purchases, we found invoices that showed only summary information, omitting pertinent detailed information that would substantiate the total cost reflected on the invoice and whether services performed actually benefited Program activities.

Regulations (2 C.F.R. § 225, Appendix A, Subsection C.1., a, b and j,) specify that allowable costs must be necessary and reasonable, allocable, and adequately documented. Regulation (2 C.F.R. § 225, Appendix A, Subsection C.3. a,) also states that to be allowable under Federal awards, a cost is allocable to a particular cost objective if the goods or services involved are chargeable in accordance with relative benefits received.

We determined that the Commonwealth does not have small purchase procedures that require adequate supporting documentation on vendor invoices. Adequate supporting documentation would include sufficient detail to ensure services and supplies requested were received, and that they benefit Program grants.

Due to inadequate supporting documentation, especially with the fuel and lubrication open accounts, we have no assurance that the Division is getting the commodities requested and that charges to grants were appropriate. We did not quantify questioned costs, but find that the Division's current practices in regards to open account documentation represent a control weakness, and pose the risk of misusing available funds.

Recommendation

4. We recommend that FWS require the Commonwealth to establish and implement small purchase procedures that ensure adequate documentation for vendor invoices. Such documentation should provide assurance that services and supplies requested were received and that they benefit Program grants.

Division Response

The Director of Fish and Wildlife will establish a policy for small purchases and a procedure for documentation, accounting and internal control to provide accountability.

FWS Response

FWS concurred with the finding and recommendation and will work with the Department to develop and implement a corrective action plan.

OIG Comments

Based on the Department's and FWS' responses, we consider the recommendation resolved but not implemented (see Appendix 3).

Appendix I

Commonwealth of the Northern Mariana Islands
Department of Lands and Natural Resources
Grants Open During the Audit Period
October 1, 2012, Through September 30, 2014

Grant Number	Grant Amount	Claimed Costs	Unsupport- ed Costs	Other Unallow- able Costs	Total Question- ed Costs
FI2AF01090	\$188,853	\$122,369	\$861	\$164	\$1,025
FI2AF01091	315,162	212,839		266	266
FI2AF01092	64,000	15,417		21	21
FI2AF01093	567,361	461,604	23,784	627	24,411
FI2AF01094	99,993	87,787		119	119
FI2AF01095	200,000	161,006		217	217
FI2AF01096	504,250	479,250	4,982	651	5,633
FI3AF01094	295,846	196,985		267	267
FI3AF01095	229,936	73,898		67	67
FI3AF01096	200,000	164,672	9,132	223	9,355
FI3AF01097	487,452	422,992		575	575
FI3AF01098	91,567	83,061		113	113
FI3AF01194	117,225	111,041		50	50
FI3AF01195	599,214	301,612		410	410
FI4AF00023	64,000	37,667		51	51
Total	\$4,024,859	\$2,932,200	\$38,759	\$3,821	\$42,580

Appendix 2

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

Headquarters

Saipan

Division of Fish and Wildlife Offices

Rota

Saipan

Public Boat Ramps

DFW Beach

Fishing Base

Sugar Dock

Tanapag Beach

Marinas

Smiling Cove Marina

West Harbor Marina (Rota)

Fisheries

Research Center

Appendix 3

Commonwealth of the Northern Mariana Islands Department of Lands and Natural Resources

Status of Audit Recommendations

Recommendations	Status	Action Required
I, 2, 3, 4,	<p>We consider the recommendations resolved but not implemented.</p> <p>FWS regional officials concurred with these recommendations and will work with the Commonwealth to resolve all findings and recommendations.</p>	<p>Complete a corrective action plan that includes information on actions taken or planned to address the recommendations, target dates and title(s) of the official(s) responsible for implementation, and verification that FWS Headquarters officials reviewed and approved the actions taken or planned by the Commonwealth.</p> <p>We will refer the recommendations not resolved or implemented at the end of 90 days (November 8, 2016) to the Assistant Secretary for Policy, Management and Budget for resolution and tracking of implementation.</p>

Report Fraud, Waste, and Mismanagement



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