



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

**MANAGEMENT OF NATIONAL
HERITAGE AREA PROGRAM FUNDS
UNDER COOPERATIVE AGREEMENT
No. H504I10008**



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

MAY 19 2015

Memorandum

To: Jonathan B. Jarvis
Director, National Park Service

From: Mary L. Kendall *Mary L. Kendall*
Deputy Inspector General

Subject: Final Audit Report – Management of National Heritage Area Program Funds
Under Cooperative Agreement No. H5041110008
Report No. ER-IN-NPS-0006-2013

This report transmits the results of our audit of the management of National Heritage Area Program (Program) funds awarded to the State of Mississippi's Department of Marine Resources (DMR) from the National Park Service (NPS) under cooperative agreement number H5041110008. During a prior audit,¹ we noted possible irregularities with Program-funded subawards that DMR provided to various nonprofit organizations to support the activities of the Mississippi Gulf Coast National Heritage Area (MGCNHA). As a result, we audited Program funds awarded to DMR to determine whether DMR complied with Federal laws, regulations, and the terms of the cooperative agreement regarding its management of funds provided to subrecipients.

We determined that poor NPS oversight provided an opportunity for former DMR and MGCNHA managers to dispense Program funds to hand-picked subrecipients. Specifically, NPS did not (1) have policies and procedures focusing on oversight, (2) enforce single audit requirements, or (3) publicly report Program awards and subawards. In the most egregious example, DMR diverted \$100,000 in Program funds to the Land Trust for the Mississippi Coastal Plain (LTMCP) for a prohibited land acquisition that financially benefited the former DMR executive director and his son. As a result of this and several other mismanaged subawards, we questioned \$126,840, the entire amount awarded under the cooperative agreement.²

We commend NPS for quickly addressing and resolving the questioned costs associated with our audit. NPS withheld \$288,000 in Program funds from DMR for fiscal year (FY) 2013, which represents the full amount MGCNHA would have otherwise received. In addition, NPS withheld all FY 2014 funding from DMR, pending MGCNHA's implementation of adequate bylaws and internal controls.

¹ "Management of the Coastal Impact Assistance Program, State of Mississippi." Report No. ER-IN-MOA-0013-2011.

² As shown in Attachment 1, we identified \$177,425 in ineligible and unsupported expenditures. This figure exceeds the total amount awarded under the cooperative agreement due to DMR's poor recordkeeping. Documentation provided by DMR attributed more Federal costs to the cooperative agreement than NPS actually provided. Since our audit scope included the \$126,840 cooperative agreement, we only question costs up to that amount.

Background

Since 1984, Congress has established 49 national heritage areas throughout the United States. To receive this designation, an area must contain distinct natural, cultural, historic, and scenic resources that tell a significant story about our Nation. NPS administers the Program under the authority of the Historic Sites Act, the National Preservation Act of 1966, and the statutes that created each area. In this role, NPS provides technical and financial assistance to the areas but leaves decision-making authority to citizens and entities that represent each area, such as Federal commissions, nonprofit organizations, or State agencies. These entities work with NPS to develop management plans for each area that are subject to approval by the Secretary of the U.S. Department of the Interior.

In 2004, Congress passed the Mississippi Gulf Coast National Heritage Area Act,³ which designated Mississippi's six southernmost counties as MGCNHA. The Act named DMR as MGCNHA's coordinating entity, prohibited the purchase of real property, and required that non-Federal funds pay at least 50 percent of any activity under the Act. Through cooperative agreements, NPS has annually provided DMR between \$164,000 and \$302,000 for MGCNHA.

On November 5, 2013, a Federal grand jury indicted the former DMR executive director, his son, and the former MGCNHA director on charges of conspiracy and theft concerning programs receiving Federal funds for their role in the LTMCP land acquisition. According to the indictment, these individuals transferred funds from DMR to LTMCP to purchase real property in which the former DMR executive director and his son had a financial and ownership interest. In addition, the grand jury determined there was probable cause to believe that the former DMR executive director and the former MGCNHA director "cause[d] a false invoice to be submitted to [MGCNHA]," which was used to pay for and justify the land acquisition.

In February 2014, the former DMR executive director's son pleaded guilty to one count of conspiracy related to the land sale and one count of Federal program theft for another crime unrelated to our audit. He was subsequently sentenced to 18 months in prison with 3 years of supervised release and ordered to pay \$390,000 in restitution. In March 2014, the former DMR executive director pleaded guilty to the same charges; he was later sentenced to 5 years in prison and ordered to pay more than \$695,000 in fines and restitution. Finally, in August 2014, the former MGCNHA director pleaded guilty in a State case to two counts of felony embezzlement and was sentenced to 2 years in prison and 4 years of probation and ordered to pay more than \$15,500 in fines and restitution. Due to the former MGCNHA director's guilty plea in the State matter, the U.S. Attorney's Office dismissed all Federal charges.

³ Pub. L. No. 108-447, Div. J, Title VII (16 U.S.C. § 461 note).

Findings

Poor NPS Oversight Contributed to DMR's Mismanagement of MGCNHA Funds

NPS Oversight

We identified three controls that NPS could have used to mitigate the risk of theft and help deter criminal activity. Specifically, NPS did not (a) have policies and procedures related to oversight of Program awards, (b) enforce single audit requirements, and (c) publicly report NPS awards or ensure that DMR reported its subawards.

First, we found that NPS regional staff did not have policies and procedures to check for violations of Federal and State procurement requirements, such as prohibited purchases of real property, conflicts of interest, or the use of Federal funds to meet the required non-Federal share of award costs. In addition, NPS did not ensure that MGCNHA had developed or implemented basic internal controls, such as bylaws governing its operations.

Within weeks of us briefing NPS of our concern that it did not have policies and procedures requiring its staff to perform a minimum level of specific oversight activities, NPS regional officials took action. The NPS oversight official for MGCNHA and 11 other national heritage areas in NPS' Southeast Region made three site visits to MGCNHA between July 2012 and June 2013 and directed the MGCNHA's board of directors to write bylaws and establish internal controls. In January 2014, DMR transmitted a draft copy of the bylaws to NPS for review. According to NPS, implementation of these controls is pending.

Second, we found that NPS did not ensure DMR obtained an annual single audit of Federal funds it received, as required by the cooperative agreement. The NPS oversight official informed us that the statewide single audit included DMR, obviating the need for an agency-specific audit. The official also stated that NPS never intended to require a separate single audit for DMR as long as it was included in the statewide audit. According to Article IX, section D.2 of the cooperative agreement, however, if the coordinating entity—DMR—expends \$500,000 or more in Federal assistance during any year, a single or program-specific audit must be conducted. Even though DMR has consistently exceeded the \$500,000 threshold and has been subject to the statewide single audit, its director of administrative services informed us that he did not believe the auditors ever performed work at DMR due to the relatively small amount of Federal funding it receives compared to other State agencies.

A certified public accounting firm that DMR hired in 2013 to assess its operations, internal controls, and structure echoed our concerns regarding single audits. The firm assessed DMR's grant management and compliance program—in addition to four of its other five components—as high risk for noncompliance with applicable laws and regulations. As a result, the firm recommended that DMR assess the need to obtain its own annual single audits.

NPS could have mitigated the risk of the inappropriate use of Program funds and ensured that the funds actually enhanced the heritage resources of the Mississippi Gulf Coast if it had

enforced the single audit requirement already incorporated in its cooperative agreement with DMR.

Third, we found that NPS did not enforce reporting requirements under the Federal Funding Accountability and Transparency Act of 2006,⁴ which established USA Spending.gov, a website designed to provide the general public with free, centralized access to information on Federal spending, including grants, cooperative agreements, and subawards, of \$25,000 or more. Congress charged the U.S. Office of Management and Budget (OMB) with implementing the Act's provisions, and OMB phased in reporting requirements by mandating that Federal agencies report their direct awards beginning November 30, 2007.⁵ OMB subsequently required recipients of Federal assistance funds to report their subawards beginning October 1, 2010.⁶

We noted, however, that NPS and its recipients have only recently begun to report this information. In fact, cooperative agreement number H5041110008 and the subaward to LTMCP—the only subaward required to be reported under the cooperative agreement—still do not appear on the website. In the meantime, OMB continues to stress the importance of consistently reporting accurate award and subaward data. In a June 12, 2013 memorandum to all Federal agency chief financial officers, the OMB deputy controller noted that reliable data allow Federal officials to make informed decisions about Government programs; assist officials responsible for oversight; and help prevent fraud, waste, and mismanagement.

Mismanagement of MGCNHA Funds

In the absence of adequate oversight from NPS, DMR officials spent Program funds to benefit themselves, their family members, and select business associates. We determined that DMR and its subrecipients demonstrated disregard for and insufficient knowledge of Federal requirements. Specifically, DMR—

- gave a subaward to LTMCP to acquire property in spite of a legal prohibition on purchasing real property using Program funds;
- engaged in potential conflicts of interest with two subrecipients;
- paid for goods and services outside the time period authorized by the cooperative agreement;
- did not ensure that its subrecipients maintained adequate documentation to support their expenditures of Program funds;
- donated funds to four subrecipients in violation of the prohibition on donations in the Code of Federal Regulations (C.F.R.); and
- failed to formalize subawards and ensure that subrecipients understood their responsibilities regarding the management of Program funds.

⁴ Pub. L. No. 109-282 (31 U.S.C. § 6101 note).

⁵ OMB Memorandum, "OMB Guidance on Data Submission under the Federal Funding Accountability and Transparency Act" (November 9, 2007).

⁶ OMB Memorandum, "Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting" (August 27, 2010).

We found that on June 10, 2011, the former DMR executive director approved a \$210,000 subaward to LTMCP to “provide greenspace development and restoration of trails and blueways” in Jackson County, MS. Shortly thereafter, LTMCP invoiced DMR for the entire amount; DMR paid the invoice using \$100,000 from its cooperative agreement with NPS and \$110,000 from the U.S. Department of Commerce. LTMCP then used the subaward to purchase a lot in a residential neighborhood in Ocean Springs, MS, that belonged to the former DMR executive director’s son. This land purchase violated Federal regulations and LTMCP policy:

- The MGCNHA Act prohibits DMR from acquiring real property with Program funds (Pub. L. No. 108-447, Div. J, Title VII, § 706(c)).
- DMR used \$110,000 from the Department of Commerce to partially fund LTMCP’s subaward. According to 43 C.F.R. § 12.64(b)(1), Federal assistance recipients may not pay their required matching share of costs using Federal funding.
- LTMCP’s “Initial Project Selection and Checklists” states that a potential LTMCP land acquisition is subject to rejection if the transaction could pose ethical or public image problems. Extensive media coverage related to this land purchase and a Federal indictment of former DMR officials have clearly posed ethical and public image issues for both DMR and LTMCP.

We also determined that DMR officials’ mismanagement of Program funds revealed two potential conflicts of interest. First, the former DMR executive director’s approval of the \$210,000 subaward directly benefited an immediate family member—his son—who owned the land purchased with those funds. Second, the former MGCNHA director awarded \$10,000 (\$2,500 NPS share) under the Program to the Gulf Coast Heritage Trails Partnership, even though she served on the board of directors of that organization. On Federal assurance form SF-424B, however, the former MGCNHA director certified that DMR would establish safeguards to prevent conflicts of interest and the appearance of such conflicts. Furthermore, the Mississippi Code of 1972 §§ 25-4-101 and 25-4-105 states that public servants shall not engage in conduct that appears to violate the public trust and shall not use their official positions to obtain pecuniary benefits for themselves or their relatives. Due to these potential conflicts of interest, we question \$220,000 (\$102,500 NPS share) in ineligible costs from the subawards to LTMCP and the Gulf Coast Heritage Trails Partnership.

In addition, we found that DMR subrecipients did not provide adequate documentation to support expenditures of Program funds. For example, the Hancock Community Development Foundation did not respond to our requests for information concerning its use of Program funds. Other subrecipients did not track their use of Program funds to specific purchases, making it impossible for us to determine whether they used the funds for allowable purposes. We questioned \$136,700 (\$74,514 NPS share) as unsupported costs (see Figure 1).

Subrecipient	Subaward Amount	Questioned Costs (NPS Share)
1699 Historical Society	\$3,500	\$0*
1699 Historical Society	3,000	3,000**

Subrecipient	Subaward Amount	Questioned Costs (NPS Share)
1699 Historical Society	1,500	1,500**
City of Pascagoula	25,000	12,500
City of Pascagoula	\$5,000	\$1,964
Gulf Coast Heritage Trails Partnership	5,000	2,500
Gulf Coast Heritage Trails Partnership	5,000	0*
Hancock Community Development Foundation	5,000	2,500
Hancock Community Development Foundation	5,000	5,000†
Hancock Community Development Foundation	1,000	0*
Jackson County Historical & Genealogical Society	10,000	5,000
Jackson County Historical & Genealogical Society	2,500	2,500**
Jackson County Historical & Genealogical Society	1,800	900
Jackson County Historical & Genealogical Society	1,000	500
Land Trust for the Mississippi Coastal Plain	10,000	5,000
Land Trust for the Mississippi Coastal Plain	10,000	5,000
Land Trust for the Mississippi Coastal Plain	5,000	2,500
Land Trust for the Mississippi Coastal Plain	2,500	1,250
Land Trust for the Mississippi Coastal Plain	1,000	500
Land Trust for the Mississippi Coastal Plain	400	400†
Mississippi Hospitality & Restaurant Association, Gulf Coast Chapter	5,500	5,500†
Ohr-O'Keefe Museum of Art	10,000	5,000
Ohr-O'Keefe Museum of Art	5,000	2,500
Ohr-O'Keefe Museum of Art	3,000	1,500
Walter Anderson Museum of Art	5,000	5,000†
Walter Anderson Museum of Art	5,000	2,500
Total	\$136,700	\$74,514

Figure 1. Unsupported costs incurred by DMR's subrecipients.

* DMR records indicate that non-Federal funds paid the full amount of these subawards.

** Neither DMR nor subrecipient records indicate the Federal and non-Federal share of costs for these subawards. In the interest of conservatism, we attribute all of these questioned costs to NPS.

† DMR records indicate that Federal funds paid the full amount of these subawards.

Furthermore, Federal regulations in 43 C.F.R. § 12.63(a) also prohibit using a Federal award to pay for goods and services obligated before the award’s effective date unless the recipient receives prior Federal approval. We found that DMR inappropriately obligated \$80,250 by issuing purchase orders for 13 subawards prior to February 24, 2011, the date the cooperative agreement took effect. These costs had been obligated 1 to 19 months earlier and represented 22 percent of DMR’s total subaward costs. Because the cooperative agreement did not authorize payments for preexisting obligations, we question \$80,250 (\$42,875 NPS share) as ineligible costs (see Figure 2).

Subrecipient	Purchase Order Date	Days Before 2/24/2011	Award Amount	Questioned Costs (NPS Share)
City of Pascagoula	12/13/2010	73	\$25,000	\$12,500
City of Pascagoula	12/13/2010	73	5,000	2,500
Gulf Coast Heritage Trails Partnership	2/7/2011	17	5,000	2,500
Jackson County Historical & Genealogical Society	11/3/2010	113	1,000	500
Land Trust for the Mississippi Coastal Plain	12/13/2010	73	10,000	5,000
Land Trust for the Mississippi Coastal Plain	12/13/2010	73	10,000	5,000
Land Trust for the Mississippi Coastal Plain	1/13/2011	42	1,000	500
Maritime & Seafood Industry Museum	11/3/2010	113	4,000	2,000
Mississippi Hospitality & Restaurant Association	8/7/2009	566	5,500	5,500*
Ohr-O’Keefe Museum of Art	1/11/2011	44	5,000	2,500
Ohr-O’Keefe Museum of Art	1/31/2011	24	3,000	1,500
Ohr-O’Keefe Museum of Art	2/16/2011	8	750	375
Walter Anderson Museum of Art	2/7/2011	17	5,000	2,500
Total			\$80,250	\$42,875

Figure 2. Out-of-period costs for payments to subrecipients prior to February 24, 2011, the effective date of cooperative agreement number H5041110008.

* DMR records indicate that Federal funds paid the full amount of this subaward.

In addition, DMR provided subawards to four subrecipients for sponsorships that were akin to donations. Specifically, a representative of the Jackson County Historical and Genealogical Society informed us that the former MGCNHA director offered the society \$5,000, even though the society had not solicited the funds. The representative inquired about funding stipulations, such as requirements to apply for and report on the use of the funds. According to the representative, the former MGCNHA director placed no restrictions on the funds and only

requested a thank you note in return. These transactions are not allowable costs under 2 C.F.R. § 225, Appendix B, § 12 (now published at 2 C.F.R. § 200.434(a)), which makes the cost of contributions or donations unallowable. As a result, we question \$43,500 (\$24,500 NPS share) in ineligible sponsorship costs (see Figure 3).

Subrecipient	Subaward Amount	Questioned Costs (NPS Share)
Gulf Coast Heritage Trails Partnership	\$5,000	\$2,500
Gulf Coast Heritage Trails Partnership	5,000	0*
Mississippi Hospitality & Restaurant Association, Gulf Coast Chapter	5,500	5,500**
Ohr-O’Keefe Museum of Art	10,000	5,000
Ohr-O’Keefe Museum of Art	5,000	2,500
Ohr-O’Keefe Museum of Art	3,000	1,500
Walter Anderson Museum of Art	5,000	5,000**
Walter Anderson Museum of Art	5,000	2,500
Total	\$43,500	\$24,500

Figure 3. Donations provided by DMR to its subrecipients.

* DMR records indicate that non-Federal funds paid the full amount of this subaward.

** DMR records indicate that Federal funds paid the full amount of these subawards.

Lastly, our audit revealed that DMR did not formalize subawards funded through the Program. Even though DMR’s performance report for the cooperative agreement claimed that it issued 34 subawards, DMR officials could only provide us with a written copy of one subaward—the LTMCP agreement for the improper land acquisition. DMR policy number G-002(R1), however, requires a grant administrator to draft subawards in accordance with all Federal and State regulations, determine if the subaward should be submitted for legal review, provide the subaward to the appropriate oversight official for review, and complete a subaward concurrence sheet for submittal to DMR’s purchasing division. Furthermore, 43 C.F.R. § 12.77 requires award recipients to ensure that subawards contain numerous clauses, including the requirement to retain records for audit purposes. Without documented subawards, NPS cannot ensure that DMR and its subrecipients share a common understanding of the subawards’ objectives or that subrecipients are aware of all applicable Federal and Program requirements.

Conclusion and Recommendations

In the absence of proper oversight, DMR violated various Federal laws and regulations and the terms of its cooperative agreement with NPS regarding management of funds provided to subrecipients. As a result of the mismanaged cooperative agreement, we question \$126,840—the entire amount that NPS awarded to DMR. While we recognize that even the most effective internal controls cannot eliminate all opportunities for fraud, NPS could have mitigated the risk

if it had implemented policies and procedures focusing on oversight, enforced single audit requirements, and publicly reported Program awards and subawards.

We recommend that NPS:

1. Develop and enforce control policies to (a) prevent purchases of real property using Program funds, (b) detect and prevent awardee and subrecipient conflicts of interest, and (c) determine whether the source of funds used by awardees to match Federal costs are appropriate.

NPS Response

NPS partially concurred with this recommendation. The National Heritage Area Program Office in Washington, DC, will work with all NPS regions to produce and distribute guidance clarifying the prohibition on acquiring real property or interests in real property with Program funds.

Regarding conflicts of interest, NPS has required DMR to provide it with DMR's code of ethical conduct, DMR's policy on conflicts of interest, and documentation that all MGCNHA staff members have complied with these policies. NPS regional officials also met with DMR staff and MGCNHA board members to discuss measures to avoid conflicts of interest and required that MGCNHA bylaws and operational plans address this topic.

NPS also asserted that DMR did not use other Federal funds to meet its matching share of costs under the cooperative agreement. Nevertheless, NPS distributed guidelines and provided training to recipients on appropriate sources of matching funds.

OIG Reply

We consider this recommendation unresolved. The intent of this recommendation is to ensure that NPS develops policies for its own staff who oversee national heritage area cooperative agreements, since weak oversight contributed to our findings. For example, NPS could actively ensure that Program funds are not used to acquire real property by requiring staff to inquire about this topic during site visits and to review performance reports for real property activity.⁷

Furthermore, NPS could require staff members to ask about recipients' involvement in organizations that do business with national heritage areas to help determine whether conflicts of interest exist. NPS could also develop procedures for resolving conflicts of interest, including giving specific NPS officials the power to approve recusals and grant waivers.

⁷ DMR's performance report for cooperative agreement number H5041110008 stated that national heritage area funds were spent to acquire real property, but NPS did not inquire about this purchase until we raised the issue.

Finally, information provided by DMR demonstrates that other Federal funds were used as DMR's matching share of costs for the real property purchase. DMR's "New Sub-Grant Concurrence Worksheet" for subaward number S-11-LT-GSBWR-A1 indicates that \$110,000 from funding code 601 was used to purchase the property, in addition to \$100,000 from NPS. According to DMR's list of funding codes, 601 represents "EDRP," the Emergency Disaster Recovery Program funded by the U.S. Department of Commerce. To avoid similar problems with matching share costs in the future, NPS officials could review purchase orders, payment documentation, and subaward agreements for select expenditures.

We will refer this recommendation to the Assistant Secretary for Policy, Management and Budget for tracking implementation.

2. Require DMR to complete annual single audits in accordance with cooperative agreement number H5041110008.

NPS Response

NPS concurred with this recommendation. NPS officials believed that the statewide single audit met DMR's single audit responsibility and that a separate, agency-specific audit was not required. Based on the OIG findings, however, NPS knows that the statewide single audit was insufficient and has developed a corrective action plan with DMR specifying the need for a program-level single audit.

OIG Reply

We consider this recommendation implemented and closed.

3. Enforce reporting of Federal assistance awards and ensure awardees report subrecipient awards to USAspending.gov in accordance with the Federal Funding Accountability and Transparency Act of 2006 and OMB requirements.

NPS Response

NPS concurred with this recommendation. Since entering into the cooperative agreement with DMR, NPS has migrated to the Purchase Request Information System (PRISM). Under this system, an award cannot be released until all information required by USAspending.gov is entered into the Federal assistance module of PRISM. Data from the module are uploaded to USAspending.gov. Furthermore, the NPS regional official with oversight responsibilities for the cooperative agreement will review USAspending.gov twice per year to ensure that recipients and subrecipients comply with reporting requirements. NPS will also include a standard clause in all NHA cooperative agreements requiring subaward reporting on USAspending.gov.

OIG Reply

We consider this recommendation resolved but not implemented. We will refer it to the Assistant Secretary for Policy, Management and Budget for tracking implementation.

Scope and Methodology

Our audit scope included costs claimed by DMR under cooperative agreement H5041110008 (see Attachment 1). We reviewed transactions charged to the cooperative agreement from its effective date of February 24, 2011, to September 30, 2011. Our review tested applicable internal controls and assessed DMR's and its subrecipients' compliance with Federal legislation and regulations.

Two factors limited our audit work. First, we did not rely on data from the State's accounting system because—

- our audit of Coastal Impact Assistance Program grants awarded to the State of Mississippi disclosed approximately \$30 million in questioned costs and funds to be put to better use due to DMR officials' mismanagement of Federal funds;
- the former interim executive director of DMR publicly announced in February 2013 that DMR could not account for approximately \$1.7 million in State funds;
- the chairman of the body that oversees DMR, the Commission on Marine Resources, stated in May 2013 that “nobody really knows how much money the agency [DMR] really has”; and
- the former DMR executive director, his son, and the former MGCNHA director were indicted for conspiracy and theft of Federal funds related to their involvement in LTMCP's real property acquisition.

Second, due to an ongoing Federal investigation, we could not interview the former executive directors of DMR or MGCNHA or the executive director of LTMCP, all of whom played key roles in transactions relevant to this audit. Therefore, we relied on invoices, purchase orders, performance reports, and additional documents provided by NPS, DMR, and subrecipients to identify costs, payments, and other transactional information.

To accomplish the audit, we interviewed officials from NPS' National Heritage Area Program Office in Washington, DC; NPS' southeast regional office in Atlanta, GA; DMR in Biloxi, MS; and 10 subrecipients of Program funds (see Attachment 2).

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.

In its response to our draft report (see Attachment 3), NPS concurred or partially concurred with all three of our recommendations. Based on NPS' response, we modified our final report as appropriate. We consider one recommendation unresolved, one resolved but not implemented, and one closed (see Attachment 4). We will send the two unimplemented recommendations to the Office of Policy, Management and Budget to track their resolution and implementation.

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

If you have any questions regarding this report, please call me at 202-208-5745.

Attachments (4)

cc: National Coordinator for Heritage Areas, National Park Service
Regional Director, Southeast Region, National Park Service
Audit Liaison, National Park Service

Monetary Impact
Cooperative Agreement Number H5041110008

Sub-recipient*	Purpose	Subaward Amount	Questioned Costs (NPS Share)		
			Ineligible	Unsupported	Total
1699 HS	D'Iberville Landing Event	\$3,500	\$0	\$0	\$0
1699 HS	D'Iberville Landing Event	3,000	0	3,000	3,000
1699 HS	D'Iberville Landing Event	1,500	0	1,500	1,500
CR**	River Cleanup	2,500	0	0	0
COP	Lighthouse Restoration	25,000	12,500	0	12,500
COP	Pascagoula River Blueways	5,000	2,500	0	2,500
COW**	Historic Holiday Boat Parade	500	0	0	0
GCHTP	Annual Sponsorship	5,000	2,500	0	2,500
GCHTP†	Annual Sponsorship	5,000	0	0	0
GCSO	Advertisement	500	0	0	0
HCDF	Bike Trail Development	5,000	0	2,500	2,500
HCDF	Mardi Pardi Trails Event	5,000	0	5,000	5,000
HCDF†	Greenway Development	1,000	0	0	0
JCHGS	Recover Civil War Cannon	10,000	0	5,000	5,000
JCHGS	Krebs House Restoration	2,500	0	2,500	2,500
JCHGS	Krebs Cemetery Tour	1,800	0	900	900
JCHGS†	Krebs Cemetery Tour	1,000	500	0	500
LTMCP††	Land Acquisition	210,000	100,000	0	100,000
LTMCP	Old Brick House Restoration	10,000	5,000	0	5,000
LTMCP	Historic Property Restoration	10,000	5,000	0	5,000
LTMCP	Plein Air Art Fundraiser	5,000	0	2,500	2,500
LTMCP	Lucedale Greenway Sponsorship	2,500	0	1,250	1,250
LTMCP	Battle on the Bayou Kayak Race	1,000	500	0	500
LTMCP	Heritage Stones Purchase	400	0	400	400
MHRA	Chefs of the Coast Sponsorship	5,500	5,500	0	5,500
MSIM	Print Seafood Cookbooks	4,000	2,000	0	2,000
OOKMA	Annual Sponsorship	\$10,000	\$5,000	\$0	\$5,000

Sub-recipient*	Purpose	Subaward Amount	Questioned Costs (NPS Share)		
			Ineligible	Unsupported	Total
OOKMA	Community Outreach	5,000	2,500	0	2,500
OOKMA	Community Outreach	3,000	1,500	0	1,500
OOKMA	Heritage Area Reception	750	375	0	375
SCSD**	Outside Classroom	10,000	0	0	0
USM**	Archeological Dig	4,498	0	0	0
WAMA	Annual Gala Sponsorship	5,000	5,000	0	5,000
WAMA	Sponsorship	5,000	2,500	0	2,500
Totals		\$369,448	\$152,875	\$24,550	\$177,425^{†††}

*** Legend:**

1699 HS	1699 Historical Society
CR	Coastal Rivers
COP	City of Pascagoula
COW	Christmas on the Water, Inc.
GCHTP	Gulf Coast Heritage Trails Partnership
GCSO	Gulf Coast Symphony Orchestra
HCDF	Hancock Community Development Foundation
JCHGS	Jackson County Historical and Genealogical Society
LTMCP	Land Trust for the Mississippi Coastal Plain
MHRA	Mississippi Hospitality & Restaurant Association, Gulf Coast Chapter
MSIM	Maritime & Seafood Industry Museum
OOKMA	Ohr-O'Keefe Museum of Art
SCSD	Stone County School District
USM	University of Southern Mississippi
WAMA	Walter Anderson Museum of Art

** We did not select these four subawards for our audit sample and therefore did not review costs incurred under them.

† We found no evidence that Federal funds were expended under these three subawards, but DMR included them in an annual performance report on the Program submitted to NPS.

†† Even though NPS' share of questioned costs for LTMCP's \$210,00 land acquisition amount to \$100,000, the full Federal share of ineligible questioned costs totals \$210,000, since DMR used \$110,000 in assistance from the U.S. Department of Commerce to meet the State's share of the land costs.

††† We identified \$177,425 in ineligible and unsupported expenditures. This figure exceeds the total amount awarded under the cooperative agreement due to DMR's poor recordkeeping. Documentation provided by DMR attributed more Federal costs to the cooperative agreement than NPS provided. Since our audit scope included the \$126,840 cooperative agreement, we only question costs up to that amount.

Offices Contacted

National Park Service

- National Heritage Areas Program Office, Washington, DC
- Southeast Regional Office, Partnerships Division, Atlanta, GA

Mississippi Department of Marine Resources

- Administrative Services Office, Biloxi, MS
- Coastal Management and Planning Office, Biloxi, MS

DMR Subrecipients

- 1699 Historical Society, Ocean Springs, MS
- City of Pascagoula, Community and Economic Development Department, Pascagoula, MS
- Gulf Coast Heritage Trails Partnership, Biloxi, MS
- Gulf Coast Symphony Orchestra, Gulfport, MS
- Hancock Community Development Foundation, Bay St. Louis, MS
- Jackson County Historical and Genealogical Society, Pascagoula, MS
- Maritime & Seafood Industry Museum, Biloxi, MS
- Mississippi Hospitality & Restaurant Association, Gulf Coast Chapter, Gulfport, MS
- Ohr-O'Keefe Museum of Art, Biloxi, MS
- Walter Anderson Museum of Art, Ocean Springs, MS

The National Park Service response follows on page 17.



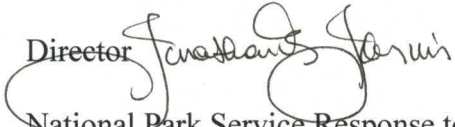
United States Department of the Interior

NATIONAL PARK SERVICE
1849 C Street, N.W.
Washington, D.C. 20240

FEB 2 2015

Memorandum

To: Assistant Inspector General for Audits, Inspections, and Evaluations

From: Director 

Subject: National Park Service Response to: Office of Inspector General Draft Audit Report entitled: "*Management of National Heritage Area Program Funds Under Cooperative Agreement No. H5041110008*" (Report No. ER-IN-NPS-0006-2013)

The National Park Service (NPS) has reviewed the Office of Inspector General (OIG) Draft Audit Report entitled: "Management of National Heritage Area Program Funds Under Cooperative Agreement No. H5041110008" (Report No. ER-IN-NPS-0006-2013). We are pleased that the OIG has incorporated the majority of our suggestions and appreciate the valuable information in the report which can also provide the NPS National Heritage Area Program with a baseline in assessing the effectiveness and efficiency of providing NPS guidance in managing the terms of cooperative agreement funds to subrecipients.

Attached are the NPS' detailed responses to the OIG specific recommendations, including steps the NPS will take or has taken to address the recommendations.

If you should have any questions, or need additional information, contact K. Lynn Berry, Program Manager, National Heritage Area, Southeast Region, at 404-507-5694.

Attachment

National Park Service Responses to: Office of Inspector General Draft Report entitled: Management of National Heritage Area Program Funds Under Cooperative Agreement No. H5041110008 (Report No. ER-IN-NPS-0006-2013)

1. Develop and enforce control policies to (a) prevent purchases of real property using Program funds, (b) detect and prevent awardee and subrecipient conflicts of interest, and (c) determine whether the source of funds used by awardees to match Federal costs are appropriate.

NPS Response: Partially Concur

For management of National Heritage Area cooperative agreements, we utilize the appropriate CFR regulations, DOI Policies (e.g. DIG 2013-06 Financial Assistance Cost Review Guidance), and the NPS Financial Assistance Program templates and guidance. Additionally, the regional office responsible for oversight of the subject agreement has drafted, distributed, and provided training on a guidance document specific to the NHA Program. While the guidance document has not been adopted nationally as "final" for the whole NPS NHA program, they were provided to southeast region NHAs and it was communicated to them that the guidelines were adopted as regional procedures.

These guidelines contain controls for the submission, review, timing and content of program requirements, rules about the appropriate use of federal funding (including the prohibition on land acquisition, as well appropriate sources and expenditure of matching funds.) Finally, training has been provided to NHAs on a variety of administrative and financial stewardship issues, including appropriate sources of match.

Collectively, these documents and training opportunities provide detailed policies, procedures, and other requirements, making both recipients and oversight officials aware of their responsibilities for federally funded NHA activities governed by the cooperative agreement with NPS. However, we agree that the development and enforcement of additional control policies and monitoring is needed to mitigate the risks of fraud, abuse, and mismanagement of federal funding; as such, we partially concur with this recommendation. Specific actions for each of the subparts of the recommendation are described below.

Part (a) prevent purchases of real property using Program funds

Actions taken:

The legislation that designated the Mississippi Gulf Coast National Heritage Area (MGCNHA) specifically prohibits the acquisition of real property or any interest in real property, as is true with the overwhelming majority of NHA enabling acts. NHA program officials believe this to be a universally understood restriction, and it is commonly discussed within the NHA community, especially as we are frequently required to respond to certain property rights advocates who express a misinformed concern about federal control of land within NHA boundaries. MGCNHA officials told NPS regional officials they understood that local coordinating entities could not spend federal funds on land acquisition, but believed that funds granted out to sub-recipients were not similarly encumbered. In correspondence

with the MGCNHA Director, clarification was provided by NPS that the prohibition on using federal funds for land acquisition also extended to sub-grants, not just direct expenditures by the recipient. (See email correspondence, Attachment 1A and 1B)

- NPS regional officials distributed guidelines which address the use of federal funding, including the restriction on purchases of real property (See, for example p. 6-16 of the NHA Draft Program Guidelines, Attachment 2)
- As noted in the report, regional officials took immediate action to increase NPS oversight of the MGCNHA cooperative agreement once mismanagement was uncovered by the OIG audit.
- Copies of the relevant regulations and NHA program guidelines were, once again, distributed to NHA/DMR staff and numerous subgrantees with whom we met during a July 2012 site visit. An administrative procedure overview was provided for the staff, subgrantees and, on a subsequent site visit (November 2012), NHA advisory board members. All NHA expenditures for each year were pulled from the DMR financial system, as were available subgrant documents, and each was reviewed for potentially ineligible expenditures, including land acquisition. (Copies of the travel vouchers documenting the site visits were provided to OIG Jan. 30, 2014. DMR signed a form acknowledging the receipt of NHA Program Draft Guidelines, Attachment 3)
- NPS regional officials developed a Corrective Action Plan (CAP) with the DMR requiring they provide assurances, and indicate a time-frame/training plan for each NHA program staff member to receive training in one or more courses related to grants management processes & techniques within the next six months, and annually thereafter. (See Item 13, CAP, Attachment 4)

Actions planned:

- The NHA Program Washington Office (NHA WASO) will work with all the NPS regions with NHA cooperative agreement responsibilities to produce and distribute a guidance document clarifying the prohibition on acquiring real property or interests in real property, per the legislative requirements of most NHAs.
 - **Target Date: December 31, 2015**
 - **Responsible Official: Martha Raymond, National NHA Program Coordinator**
- NHA WASO will work with all regions with NHA cooperative agreement responsibilities to finalize the NPS Financial and Business Management Assessment process, in accordance with (Chapter 5 of the draft NHA Program guidelines, Attachment 2)
 - **Target Date: December 31, 2015**
 - **Responsible Official: Martha Raymond, National NHA Program Coordinator**

- NPS WASO Financial Assistance Branch (FA WASO) will develop NPS-wide post-award monitoring guidance and policies, in accordance with the NPS FA Improvement Plan. The guidance and policies will be distributed Service-wide, as well as be integrated into the Agreement Technical Representative Refresher training.
 - **Target Date: December 31, 2015**
 - **Responsible Official: Heidi Sage, WASO Financial Assistance Branch Chief**
- The NPS region with oversight of the subject cooperative agreement will review NHA reports and supporting documentation in accordance with Chapter 5, NHA Program Guidelines.
 - **Target Date: December 31, annually.**
 - **Responsible Official: K. Lynn Berry, Southeast Region NHA Program Coordinator**

Part (b) detect and prevent awardee and subrecipient conflicts of interest

Actions taken:

- Per 2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, Section 200.318, General Procurement standards, non-federal recipients are required to maintain written standards of conduct covering conflicts of interest as well as governs the performance of its employees engaged in the selection, award and administration of contracts and sub-awards, as well as organizational conflicts of interest.
- 2 CFR Part 200 has been incorporated by reference into NPS grant and cooperative agreement templates.
- NPS requires awardees to sign an assurance statement annually that conflicts of interest will be avoided. NPS regions with NHA cooperative agreement responsibilities annually review signed assurance statements. (Attachment 5)
- NPS developed a CAP which requires DMR to provide a copy of DMR's code of ethical conduct, including policy on conflict of interest, and submit documentation of compliance with that code by all NHA staff. (See CAP, Item 1, Attachment 4)
- NPS regional officials met with DMR staff and advisory board members to discuss measures to avoid conflicts of interest, and required the development of bylaws and an operational plan, inclusive of this topic. (Attachment 6)

Part (b) of this recommendation has been resolved.

Part (c) determine whether the source of funds used by awardees to match Federal costs are appropriate

Actions taken:

- The finding in this Report was that DMR inappropriately used other federal funding to match federal NHA program dollars on the land purchase. These funds were not reported to NPS as a part of the matching share. DMR has consistently used one State funding source to match the entirety of their NHA funding. It is the Mississippi Tidelands Trust. Therefore, we are unclear about the assumptions of the finding behind this recommendation. Nevertheless NPS developed a CAP with DMR which included a requirement to provide a detailed explanation and documentation of the source of matching funds for the MGCNHA, and it was found to be appropriate. (Attachment 7)
- NPS regional officials distributed guidelines and training which address appropriate sources and expenditure of matching funds (See Draft NHA Program Guidelines, Attachment 2; Fact Sheet on Match, Attachment 8; PPT Presentation used in training, Attachment 9)

Part (c) of this recommendation has been resolved.

2. Require DMR to complete annual single audits in accordance with cooperative agreement number H5041110008

NPS Response: Concur

It was our understanding that the MGCNHA's single audit responsibility was covered by the statewide single audit and that a separate DMR-specific audit was not required. However, based on the OIG audit findings, we are now aware that the State's single audit policies were not sufficient and we concur with this finding.

Actions taken:

- The DMR has been informed that a program-level single audit is now required. NPS developed a CAP with the DMR specifying this requirement (See CAP, Tier 2, Item 5, Attachment 4).
This recommendation is resolved.

3. Enforce reporting of Federal assistance awards and ensure awardees report subrecipient awards to USAspending.gov in accordance with the Federal Funding Accountability and Transparency Act of 2006 and OMB requirements.

NPS Response: Concur

Since this agreement was entered into, NPS has migrated to Purchase Request Information System (PRISM), via Financial and Business Management System (FBMS), for issuing and releasing all awards. As part of this new system, an award cannot be released until all information required by USAspending is input into the Federal Assistance Award Data System (FAADS)+ module of the PRISM system. FAADS+ data is then extracted by Department of Interior (DOI) and DOI uploads all of the required information into USAspending.gov. NPS reviews FAADS+ data that DOI extracts from FBMS monthly and amends any

errors identified within FBMS prior to the final extract. Until this recent conversion, funding recipients were not able to consistently utilize USAspending.gov to meet the transparency act requirements. It is now possible for the recipients to use USAspending.gov for reporting purposes on a consistent basis for 2012 awards and beyond. It is then the responsibility of the recipient to report any subcontracts against the uploaded award data.

Actions taken:

- NPS converted to Financial and Business Management System (FBMS) in 2012. FAADS+ reporting is now a NPS system requirement rather than only a policy requirement, which then feeds USAspending.gov via a DOI extract from FBMS, and enables recipients to meet their Transparency Act requirements.

Actions planned:

- The NPS regional official with oversight responsibilities for this cooperative agreement will review USAspending.gov twice per year to ensure recipients and subrecipients are in compliance.
 - **Target Date: December 31, annually**
 - **Responsible Official: K. Lynn Berry, Southeast Region NHA Program Coordinator**
- NPS officials with oversight responsibility will include a standard clause regarding required sub-award and sub-contract reporting in all NHA cooperative agreements (See Attachment 10)
 - **Target Date: September 30, 2015**
 - **Responsible official: Martha Raymond, National NHA Program Coordinator**

Status of Recommendations

In response to our draft report, the National Park Service concurred or partially concurred with all three of our recommendations and was working to implement or close them. The response included target dates for implementation and a responsible official for each recommendation. We consider one recommendation unresolved, one resolved but not implemented, and one closed.

Recommendations	Status	Action Required
1	Unresolved	We will refer this recommendation to the Assistant Secretary for Policy, Management and Budget for tracking implementation.
2	Closed	No further action is required.
3	Resolved but not implemented	We will refer this recommendation to the Assistant Secretary for Policy, Management and Budget for tracking implementation.

