



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 State of North Carolina Department of
Environmental Quality, Division of Marine Fisheries
From July 1, 2016, Through June 30, 2018



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INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

Memorandum

SEP 30 2019

To: Margaret Everson
Principal Deputy Director, Exercising the Authority of the Director
U.S. Fish and Wildlife Service

From: Nicki Miller *Nicki Miller*
Regional Manager, Eastern Region

Subject: Final Audit Report – U.S. Fish and Wildlife Service Wildlife and Sport Fish
Restoration Program Grants Awarded to the State of North Carolina Department
of Environmental Quality, Division of Marine Fisheries, From July 1, 2016,
Through June 30, 2018
Report No. 2019-ER-018

This report presents the results of our audit of costs claimed by the State of North Carolina Department of Environmental Quality, Division of Marine Fisheries, under grants awarded by the U.S. Fish and Wildlife Service (FWS). The FWS provided the grants to the State under the Wildlife and Sport Fish Restoration Program. The audit included claims totaling approximately \$8.4 million on 16 grants that were open during the State fiscal years that ended June 30, 2017, and June 30, 2018 (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 found, however, that the Department had not included the 3-percent limitation on the Statewide cost allocation plan in its indirect cost proposal, had no written policies and procedures related to drawdowns, and had not updated its policies and procedures related to equipment disposal.

We provided a draft report to the FWS for its response to our recommendations. The FWS concurred with the recommendations made in our draft report, and it will work with the North Carolina Department of Environmental Quality, Division of Marine Fisheries, to implement the recommendations (see Appendix 3).

Please provide us with a corrective action plan based on our recommendations by December 30, 2019. The plan 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 aie_reports@doioig.gov.

If you are unable to submit your response electronically, please send your response to me at:

U.S. Department of the Interior
Office of Inspector General
381 Elden Street, Suite 3000
Herndon, VA 20170

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 me at 202-208-5745, or you can email aie_reports@doioig.gov.

cc: Leopoldo Miranda, Regional Director, Region 4, 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 Act¹ established the Wildlife and Sport Fish Restoration Program. Under the Program, the U.S. Fish and Wildlife Service (FWS) provides grants to States to restore, conserve, manage, and enhance their wildlife and sport fish resources. The Acts and Federal regulations contain provisions and principles on eligible costs and allow the FWS to reimburse States up to 75 percent of the 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 North Carolina Department of Environmental Quality, Division of Marine Fisheries:

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

Scope

Audit work included claims totaling approximately \$8.4 million on the 16 grants open during the State fiscal years (SFYs) that ended June 30, 2017, and June 30, 2018 (see Appendix 1). We report only on those conditions that existed during this audit period. We performed our audit at the Marine Fisheries Division headquarters in Morehead City, NC, and visited the Financial Services Division office in Raleigh, three district offices, and one field office (see Appendix 2). We performed this audit to supplement—not replace—the audits required by the Single Audit Act.

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.

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

Our tests and procedures included:

- Examining the evidence that supports selected expenditures charged to the grants by the Department
- Reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, in-kind contributions, and program income
- Interviewing Department employees to ensure that personnel costs charged to the grants were supportable
- Conducting site visits to inspect equipment and other property
- Determining whether the Department used fishing license revenues solely for the administration of fish and wildlife program activities
- Determining whether the State 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 Department'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 Department employees who charged time to Program grants and verified their hours against timesheets and other supporting data.

Prior Audit Coverage

On March 27, 2014, we issued *U.S. Fish and Wildlife Service Sport Fish Restoration Program Grants Awarded to the State of North Carolina, Division of Marine Fisheries from July 1, 2010 through June 20, 2012* (R-GR-FWS-0013-2013). We followed up on all recommendations in the report and found that the U.S. Department of the Interior, Office of the Assistant Secretary for Policy, Management and Budget, considered the recommendations resolved and implemented. We also reviewed single audit reports for SFYs 2017 and 2018. None of these reports contained any findings that would directly affect the Program grants.

Results of Audit

Audit Summary

We found that the Department complied, in general, with applicable grant agreement provisions and requirements of the Acts, regulations, and FWS guidance. We identified, however, the following conditions that resulted in our findings:

- A. Indirect Cost – Exclusion of the 3-Percent Statewide Cost Allocation Plan (SWCAP) Limitation.** The Department did not include this calculation when preparing indirect cost proposals for the Division.
- B. Absent or Outdated Policies and Procedures.** The Department had no clear policies and procedures related to drawdowns and had outdated policies related to equipment disposals.

We also found that the North Carolina Wildlife Resources Commission, which completes the annual license certifications for the Division, may have overstated the number of licenses reported to the FWS because of how the Commission counted multiyear licenses.

Findings and Recommendations

We provided a draft report to the FWS and the Department for review. In its September 4, 2019 response, the FWS concurred with all four recommendations and indicated it will work with the Department to implement corrective actions. The Department also agreed with and has started to address the recommendations. Regarding recommendation 1—related to the 3-percent limitation calculations—the Department provided the calculations for the last 3 fiscal years and stated it will work with the third-party contractor to include the 3-percent limitation calculations in future cost proposals. Therefore, we considered recommendation 1 resolved and implemented, and recommendations 2, 3, and 4 resolved but not implemented (see Appendix 3).

A. Indirect Cost – Exclusion of the 3-Percent Statewide Cost Allocation Plan (SWCAP) Limitation

The Department hired a contractor to prepare the indirect cost rate proposals for the Department's divisions. We determined that the contractor did not include the 3-percent limitation on the SWCAP in its computations of the indirect cost rates for SFYs 2017 and 2018 as required under the Dingell-Johnson Sport Fish Restoration Act and the Code of Federal Regulations (50 C.F.R. § 80.53). The Act and Federal regulations both state that "administrative costs in the form of overhead or indirect costs for State central services outside of the State fish and wildlife agency are eligible for funding under the Acts [both the Dingell-Johnson and Pittman-Robertson Acts] and must follow an approved cost allocation plan. These expenses must not exceed 3 percent of the funds apportioned annually to the State under the Acts."

The contractor stated it did not perform the computations because "it has never been a close call," meaning that in the contractor's experience, these calculations had never exceeded or come

close to exceeding the 3-percent limitation. In addition, the contractor decided not to perform the computation without consulting the Department or the Division. Department and Division officials both stated they do not understand the 3-percent calculations, so they had no way of knowing the contractor had not completed them. The contractor only admitted it did not perform the calculations after we asked about it. Therefore, we could not test for accuracy.

The Department did not comply with the Dingell-Johnson Sport Fish Restoration Act or 50 C.F.R. § 80.53 because it did not ensure that it did not exceed the 3-percent limitation on Statewide indirect costs.

Recommendation

We recommend the FWS work with the Department to:

- I. Ensure that the 3-percent limitation on the SWCAP, as related to the agency's apportionment, is computed and included in all subsequent indirect cost proposals

B. Absent or Outdated Policies and Procedures

During our review of drawdowns and equipment disposals, we noted that the Department did not have policies and procedures for drawdowns and had inconsistent policies and procedures for equipment disposal.

The regulations covering drawdowns require that “all payments are subject to final determination of allowability based on audit or a Service review. The State fish and wildlife agency must repay any overpayment as directed by the Regional Director.” We found that the Department does not have policies and procedures that address coordination of drawdowns between the Financial Services Division, which is located in Raleigh, NC, and coordinates the drawdown of funds for grant activity, and the Marine Fisheries Division, which is located in Morehead City, NC, and handles grant activity.

As a result, the Department overdrew more than \$45,000 under grants that had already been closed. We found that the overdrews occurred because the two divisions, which are housed in cities more than 150 miles apart, do not coordinate or communicate about drawdowns for grant activities. Even though the Department repaid the overdrews using funds from three other grants open during our audit period, the absence of standard policies and procedures governing coordination between the two divisions leaves the Department at risk for future overdrews.

In addition, the grants checklist, which is a form the Department uses to set up new grants, stipulates that the FWS award letter must be obtained before establishing new cost centers for grants. As such, the Marine Fisheries Division held costs from the new grants in existing cost centers until new cost centers could be set up for the new grants. As a result, the Financial Services Division drew down funds for the new grants against the grants that had already been closed. To alleviate the possibility of future overdrews, a previous Financial Services Division controller agreed to let the Marine Fisheries Division set up new cost centers before receiving the

award letters from the FWS. The Department's current policy, however, requires the divisions to have the award letters before establishing new cost centers, so allowing the Marine Fisheries Division to set up new cost centers without having the FWS award letter does not comply with policy.

We also found during our review of the Department's equipment disposal practices, that according to the Department's November 2018 fixed assets policy, "before any piece of equipment or property can be sold or disposed of as surplus, proper written management approval must be obtained. The request is made on a Surplus Property Disposal Form (form DPF-23)."

When we requested disposal records from the Marine Fisheries Division, we received a Marine Fisheries Surplus Form the Division has used for 15 years. We asked about the Department's required form, and Division employees indicated they had never used Department's form. The Department could not provide us a copy of the DPF-23, so we could not compare the Department's form with the form used by the Marine Fisheries Division to determine whether the required elements were present or whether the Division complied with the requirements of the *Fixed Assets Manual*.

Recommendations

We recommend that the FWS work with the Department to:

2. Develop drawdown policies and procedures addressing coordination between the Financial Services Division in Raleigh and the Marine Fisheries Division in Morehead City to avoid overdraws
3. Update the existing grants checklist to allow for new cost centers to be established before receipt of the award letters from the FWS
4. Update the Department's *Fixed Assets Manual* to require use of a disposition form that satisfies the disposal requirements in the manual

Annual License Certification

In our draft report of our audit of grants awarded to the North Carolina Wildlife Resources Commission (*U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of North Carolina Wildlife Resources Commission From July 1, 2016, Through June 30, 2018* (Report No. 2019-ER-019)), we reported that the Commission may have overstated the number of licenses in its annual license certifications to the FWS for SFYs 2016 and 2017 because it did not have a process in place to remove some multiyear licenses from the count that did not return net revenue in close approximation to annual licenses. This is important to note because the Marine Fisheries Division also has multiyear licenses that are included in the certifications provided to the FWS. We found, however, that the Division

provides its annual license data to the Commission, which completes the certification for both agencies. Therefore, we did not include a recommendation in this report.

Appendix I

State of North Carolina
Department of Environmental Quality, Division of Marine Fisheries
Grants Open During the Audit Period
July 1, 2016, Through June 30, 2018

FBMS Grant Number	Grant Amount	Claimed Costs
F14AF01151	\$2,594,750	\$914,610
F15AF01368	486,000	466,807
F16AF00210	175,200	109,359
F16AF00220	1,289,800	903,780
F16AF00485	502,000	390,225
F16AF00894	1,625,979	1,516,734
F16AF01275	137,700	124,589
F16AF01316	527,160	508,085
F17AF00149	177,343	174,122
F17AF00471	502,000	415,221
F17AF01099	1,559,683	1,517,448
F17AF01218	169,772	180,698
F18AF00047	584,465	563,552
F18AF00200	644,900	382,932
F18AF00201	189,503	172,340
F18AF00410	502,000	63,580
Total	\$11,668,255	\$8,404,082

Appendix 2

State of North Carolina
Department of Environmental Quality, Division of Marine Fisheries
Sites Visited

Headquarters
Morehead City

District Offices
Northern District Office
Central District Office
Southern District Office

Field Office
Manteo Field Office

Appendix 3

**State of North Carolina,
Department of Environmental Quality, Division of Marine Fisheries,
Status of Audit Recommendations**

Recommendations	Status	Action Required
I	We consider the recommendation resolved and implemented.	No action required
2, 3, and 4	We consider the recommendations resolved but not implemented.	<p>Please complete a corrective action plan that includes information on actions taken or planned to address the recommendation, 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 State.</p> <p>We will refer the recommendations not implemented at the end of 90 days (after December 30, 2019) to the Assistant Secretary for Policy, Management and Budget to track implementation.</p>

Report Fraud, Waste, and Mismanagement



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



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