



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

Unfunded Liabilities for Wildlife and Sport Fish Restoration Program Grants

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



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Memorandum

To: Scott Knight
Manager, Division of Financial Assistance Support and Oversight
Wildlife and Sport Fish Restoration Program

From: Kathleen Sedney *Kathleen Sedney*
Assistant Inspector General for Audits, Inspections, and Evaluations

Subject: Final Management Advisory – *Unfunded Liabilities for Wildlife and Sport Fish Restoration Program Grants*
Report No. 2020–ER–058–A

This management advisory presents issues identified during our audit of the State of Maine Department of Marine Resources' (MDMR's) use of Wildlife and Sport Fish Restoration Program (WSFR) funds, in which we found that the MDMR used a portion of the funds to make payments toward the State's unfunded retirement and retiree healthcare liabilities.¹

The U.S. Fish and Wildlife Service (FWS) annually apportions approximately \$1.1 billion in grants to State fish and wildlife agencies under WSFR States use these grant funds to conserve, restore, and manage wildlife and sport fish resources.

During our 2021 audit,² we found that, between 2017 and 2019, the MDMR used a portion of all 12 of its WSFR grants to pay for the State's *unfunded liabilities*. That is, the MDMR used 30 percent of the WSFR grant payroll expenditures, intended for conservation purposes, to pay down unfunded retirement and healthcare costs for its retirees.

Unfunded liabilities refer to liabilities that are not covered by assets. A pension fund has unfunded liabilities when its projected debts exceed its current capital, projected income, and investment returns. In this case, an unfunded liability is the difference between the total projected amount due to current and future retirees and the amount of money the fund will have available to make those payments. Given the percentage of funding at issue, we are questioning as unallowable the unfunded liability costs the MDMR charged to WSFR grants. This, in turn prompted us to review other States' Annual Comprehensive Financial Reports (ACFRs) for disclosures of potential unfunded liabilities.

¹ In this report, we use the term *unfunded liabilities* to refer to unfunded pension plan and retiree healthcare costs; unfunded liabilities are also known as unfunded *actuarial accrued liabilities*. Further, based on applicable accounting standards, we considered analogous liabilities that describe retirement system liabilities that are greater than assets to be unfunded liabilities. We identify these liabilities subsequently as *net OPEB* [other postemployment benefits] and *net pension liabilities*. (Attachment 1 provides a glossary of the terms italicized in the body of this report.)

² Our final audit report, *U.S. Fish and Wildlife Service Grants Awarded to the State of Maine, Department of Marine Resources, From July 1, 2017, Through June 30, 2019, Under the Wildlife and Sport Fish Restoration Program* (Report No. 2020–ER–058), was issued on May 16, 2023.

The purpose of this management advisory is to provide information regarding the amount of WFSR grant monies used to pay down unfunded liability costs in Maine and to illustrate how this may also be occurring in other States. We found substantial differences between States in the amount of Federal grant funding used toward unfunded liabilities. These differences highlight the need for the Federal awarding agency to provide clear guidance identifying the extent to which using grant monies for unfunded liabilities is allowable.

In performing the work related to these deficiencies, we interviewed FWS and MDMR officials, reviewed applicable criteria, performed detailed testing of MDMR data, and summarized selected States' ACFR data. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions presented in this report.

Background

The practice of adding benefits to attract workers increased after World War II when State and local governments began expanding the workforce. Governments provided generous pension plans to offset the lower pay of public service jobs. When many employees who were hired after World War II reached retirement age in the 1970s, cities and States had to begin paying out these pensions but found that there had been inadequate contributions to the pension funds.³ In 1979, the U.S. Government Accountability Office (GAO) conducted a review to describe funding of State and local government pension plans. It found that public pensions were becoming a large financial burden on State governments and that the burden would increase in the future because many jurisdictions did not systematically fund retirement benefits accruing to their employees. The report stated:

State and local officials have often found it expedient to postpone pension reform, leaving it to future office-holders to raise taxes and increase government contributions to retirement trust funds. And the constituency of the greatly expanded body of State and local employees, including expanded collective bargaining, has brought pressure for enlarging fringe benefits without providing adequate funding, a concession that does not raise current costs significantly, but does raise unfunded liabilities.⁴

As these liabilities grew, States adopted different approaches to address them, including lowering the cost-of-living adjustments for retirees and increasing the years of service and retirement eligibility age for newly hired individuals. In Maine, while State employees contribute a mandatory percentage of their salaries and wages to the normal cost for pensions⁵ the State of Maine (as their employer) contributes to both the normal cost for pensions and unfunded

³ [REDACTED]

⁴ *Funding of State and Local Government Pension Plans: A National Problem*, GAO, issued August 30, 1979.

⁵ "Normal cost for pensions" refers to the actuarial present value of projected benefits that is allocated to a period. For example, here, the *normal costs* are the costs contributed to the pension fund by current employees for their future retirement and are separate from the unfunded liabilities contributions.

liabilities at a specific rate, expressed as a percentage of payroll.⁶ During interviews with Maine, we learned that the employer contributions for unfunded liabilities are calculated automatically during payroll processing. Maine then claims Federal reimbursement for the unfunded liability costs for the contributions made based on WSFR-funded salaries and wages. Many States use similar methods to determine the contributions for their unfunded liabilities.

In its 1979 report, the GAO concluded that the “Federal Government is heavily involved in State and local government pension plans through its grant programs,” and, at that time, the Federal Government reimbursed about \$1 billion in pension plan contributions yearly to State and local governments.⁷ These practices continue today. Under WSFR’s current cost-matching rules, when a State employee’s work is in the service of a WSFR grant, up to 75 percent of the employee’s compensation (including unfunded liability costs) may be charged to the WSFR grant. This practice enables States to shift up to 75 percent of the cost of an unfunded liability attributable to an employee whose work is related to the grant from the State to the WSFR grant.

Analysis

Federal regulations provide that charging unfunded liabilities to Federal awards may be allowable costs if certain criteria are met.⁸ We analyzed each aspect of cost allowability in relation to unfunded liabilities. Generally, for a cost to be considered allowable, it must meet various conditions set forth in the award letter and in Federal regulations, including factors related to reasonableness, timing, and nature of the costs.⁹ With respect to pension plan and postretirement healthcare, the costs must be incurred in accordance with established awardee policies and other requirements, such as reasonableness, to be allowable.¹⁰

Reasonableness of Costs

As a general matter, a cost must be “reasonable” to be considered allowable for purposes of a Federal grant. “A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.”¹¹ One of the factors in making this determination is whether a cost is

⁶ Maine applies 30 percent to current salaries and wages to determine the amount for unfunded liabilities. For example, if an employee’s salary and wages were \$1,000 per pay period, the State would contribute \$300 ($\$1,000 \times 30$ percent) to the unfunded liabilities using State or grant funds.

⁷ *Funding of State and Local Government Pension Plans: A National Problem*, GAO, August 30, 1979. The report stated that the Federal Government’s policy is to reimburse under grant programs, a proportionate share made by the State or local government. For the grants reviewed, the GAO found that 13 percent of contributions were charged to Federal grant programs.

⁸ 2 C.F.R. § 200.403.

⁹ 2 C.F.R. § 200.403.

¹⁰ 2 C.F.R. § 200.431(c), (d), (g), (h).

¹¹ 2 C.F.R. § 200.404, “Reasonable costs.”

“generally recognized as ordinary and necessary¹² for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.”¹³

We question whether the amounts of unfunded liabilities charged to the grants, in relation to the overall expenditures, are unreasonable pursuant to relevant Federal guidance. Maine charged unfunded liabilities to each of the 12 WSFR awards we reviewed and, moreover, applied the State’s *indirect cost rate*¹⁴ of 30 percent to the grant claims (see Figure 1). As a result, Maine used \$386,763 (Federal share) in WSFR funds to pay down its unfunded liabilities.

Figure 1: Federal Share of Unfunded Liability Costs in WSFR Grants for State Fiscal Years 2018 and 2019

Categories	Federal Share (\$) (A)	Indirect Cost Rate (B)	Indirect Cost (\$) (A x B)	Total (\$)
Unfunded Retiree Health	107,265	30%	32,179	139,444
Unfunded Retirement	190,245	30%	57,074	247,319
Total	\$297,510		\$89,253	\$386,763

By comparison, its employer *normal costs* for retirement contributions are only 5.7 percent of grant payroll expenditures.

Spending 30 percent of grant payroll expenditures on unfunded liabilities coupled with the large disparity between the employer’s unfunded liability contributions and employer’s normal costs bring into question whether this amount of unfunded liability contributions is “ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.”¹⁵

State Pension Liability Contribution Summary

After identifying this issue in Maine, we reviewed and summarized financial information contained in the ACFRs from 10 other States. The applicable accounting standards¹⁶ require each State to report pension assets at *fair value*¹⁷ and include a plan’s true *funded status*. As also

¹² “Ordinary and necessary” costs refer to those that are commonly and typically used by the State. For example, administrative expenses, such as office supplies to support the State and services of professionals that support the State. See IRS News Release FS-2007-17, issued March 2007.

¹³ 2 C.F.R. § 200.404(a).

¹⁴ In general terms, an indirect cost rate is the percentage of an organization’s indirect costs in relation to its direct costs and is a standardized method of charging individual programs for their share of indirect costs.

¹⁵ 2 C.F.R. § 200.404(a).

¹⁶ Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, issued in June 2012, became effective for financial statements in fiscal years beginning after June 15, 2013.

¹⁷ GASB Statement No. 72, *Fair Value Measurement and Application*, issued in February 2015, became effective for financial statements in fiscal years beginning after June 15, 2015.

required by accounting standards, these State disclosures identify pension and other postemployment benefits (OPEB)¹⁸ contribution rates as a percentage of covered payroll.¹⁹ In most instances, the disclosures also represented that these States had unfunded liabilities.²⁰ Although we did not audit any information identified in the ACFRs, these unfunded liabilities are likely included in pension and OPEB contribution rates.²¹

Given the variability in the States' reporting, we acknowledge that the rates presented likely do not represent a one-to-one comparison with what we identified during our audit of Maine and may not consist entirely of unfunded liabilities; this information cannot be discerned without a full audit of each State. As a result, we cannot confirm how the percentages would affect WSFR awards or what percentage may be applied to unfunded liabilities. Even acknowledging that the percentages identified in Figure 2 may not consist entirely of unfunded liabilities, they may still reduce funds available for grant use under the WSFR program.

We compared our calculation of Maine's unfunded liability costs, 30 percent of payroll, to 10 other States' ACFRs and found that 4 States had higher combined pension and OPEB employer contribution rates than Maine. This may also correlate with those States having higher unfunded liability rates.

We found a wide range of State practices using a percentage of payroll costs that could potentially cover unfunded liabilities. In general, if a larger percentage is applied to payroll for unfunded liabilities, but the total award amount remains constant, the State has less money available to complete the purpose of the Federal grant. For example, as shown in Figure 2, State 3 may have used as much as 84 percent per payroll dollar for unfunded liabilities, while State 6 used an amount that could constitute up to 9 percent for unfunded liabilities. This means that State 3 may have been able to use only 16 percent of the payroll dollars that would otherwise be available to complete WSFR projects, while State 6 potentially had 91 percent available for the payroll to complete WSFR projects. This substantial difference among State practices highlights the need for clear requirements in grant agreements to identify and compel disclosure of unfunded liabilities—regardless of how they are named. Currently, WSFR awards do not explicitly require disclosure of the States' unfunded liabilities or how those costs are absorbed

¹⁸ OPEB comprises benefits other than pensions that State employees receive as part their retirement benefits package. These benefits include retiree medical insurance, which is usually the most significant of the OPEB costs, but they can also include other benefits, such as life insurance, disability insurance, and long-term care insurance.

¹⁹ GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued in June 2015, became effective for financial statements in fiscal years beginning after June 15, 2017. See also GASB Statement No. 67.

²⁰ We acknowledge that State 1 and State 9 reported a net OPEB asset in 2021. This means that these States reported that they have OPEB current assets that exceed the current OPEB liabilities in 2021. Each year, the net liability or net asset is presented in the ACFR based on the present value of the assets in that fiscal year.

²¹ Based on our understanding of each State's practices, these disclosures also identify the States' net pension and net OPEB liabilities and the methods and assumptions used to reduce them. Net pension and net OPEB liabilities are similar to unfunded liabilities in that they each refer to the present value of projected benefit payments that is attributed to past periods of employee service and represent the difference between assets and projected benefit payments (liabilities). Some States, however, do not use the same terminology and appear to include differing types of costs in their percentages. We believe the rates identified in Figure 2 also include employee normal costs paid by the employer.

into the grants. As the grant-issuing entity, however, the FWS could consider requiring such disclosures in future WSFR awards as part of the required budget approval.²²

Figure 2: Employer Liability Contributions As a Payroll Percentage²³

State	Liability Categories	FY 2021 (%)	FY 2020 (%)	FY 2019 (%)
State 1	Total	26.95	22.05	24.59
	<i>Pension</i>	22.41	16.66	18.85
	<i>OPEB</i>	4.54	5.39	5.74
State 2	Total	68.00	51.00	50.00
	<i>Pension</i>	24.00	22.00	19.00
	<i>OPEB</i>	44.00	29.00	31.00
State 3	Total	84.43	77.06	105.26
	<i>Pension</i>	73.28	62.77	93.45
	<i>OPEB</i>	11.15	14.29	11.81
State 4	Total	-	-	-
	<i>Pension</i>	36.40	36.10	33.10
	<i>OPEB</i> ²⁴	-	-	-
Maine	Total	33.71	36.11	39.67 ²⁵
	<i>Pension</i>	22.59	22.59	24.29
	<i>OPEB</i>	11.12	13.52	15.38
State 5	Total	42.80	39.00	42.40
	<i>Pension</i>	19.70	18.20	18.60
	<i>OPEB</i>	23.10	20.80	23.80

²² A “[b]udget approved by the Federal Awarding Agency” is one of the required documents the Federal awarding agency must include with each Federal award. See 2 C.F.R. § 200.211(b)(11).

²³ The ACFR reports the employer contributions to the pension plans as one rate and does not distinguish normal costs from unfunded liability costs in any State but State 4, which differentiated the normal cost (3.3 percent of payroll) from the unfunded liability cost (36.4 percent of payroll). However, States could be combining their normal costs and unfunded liability costs into a single rate presented in this figure. Further, it is likely that there are additional costs included in each State’s OPEB rates beyond healthcare, which is traditionally the largest component of OPEB. We did not comprehensively analyze the components included in each State’s rates and intend this to be a general comparison. We interpret the percentages of payroll for pension and OPEB as payments toward each State’s respective liabilities.

²⁴ We did not include the OPEB rate for this State because the ACFR identified differing methods of financing the plan, and we therefore concluded that it would be inappropriate to report any percentage.

²⁵ The 2019 data for Maine reflects the percentage of payroll presented in Maine’s ACFR, which differs slightly from the rate we calculated during the WSFR audit. This difference reflects a slight variation in the time periods at issue in these two reports. In particular, during the WSFR audit, we calculated the average unfunded pension at 19.5 percent, unfunded retiree healthcare at 10.8 percent and the normal costs at 5.7 percent during State fiscal years 2018 and 2019, for a total of 36 percent. In contrast, in this table, we present the data directly from Maine’s ACFR, which is presented by year, is not an average over a 2-year period; it may also be calculated with different data sets, including immaterial additions to OPEB. These differences do not change our overall conclusions or recommendations.

State	Liability Categories	FY 2021 (%)	FY 2020 (%)	FY 2019 (%)
	Total	8.72	8.49	8.59
State 6	<i>Pension</i>	7.52	7.32	7.43
	<i>OPEB</i>	1.20	1.17	1.16
	Total	-	-	-
State 7	<i>Pension</i>	17.52	17.35	16.47
	<i>OPEB</i> ²⁶	-	-	-
	Total	-	-	-
State 8	<i>Pension</i>	20.65	19.66	19.23
	<i>OPEB</i> ²⁷	-	-	-
	Total	20.17	20.16	20.27
State 9	<i>Pension</i> ²⁸	17.68	17.70	17.70
	<i>OPEB</i>	2.49	2.46	2.57
	Total	-	-	-
State 10	<i>Pension</i>	16.11	16.00	12.77
	<i>OPEB</i> ²⁹	-	-	-

State Amortization Practices Affect Federal Grants Utilization

We noted that different practices by States relating to amortization can substantially affect the extent to which unfunded liabilities will be reduced. In particular, States can choose between two methods of amortization for unfunded liabilities, an *open period* or a *closed period*, which sets the time period for eliminating them. Depending on the method a State chooses, the unfunded liabilities may nonetheless never be eliminated even with the use of ongoing payroll contributions. This means that some States will continue to use WSFR funds for unfunded liabilities indefinitely.

An open period amortization resets the *amortization payments* annually, similar to refinancing a mortgage each year, and could reduce monies available for key award purposes indefinitely. In practice, this approach may cause continued reliance on Federal award contributions for the costs. Furthermore, annual contributions toward unfunded liabilities may only be enough to cover the interest on the debt. The effects of different amortization practices

²⁶ This State showed an OPEB liability for its health insurance program but reported an asset for its overall OPEB rates. Accordingly, we did not report the OPEB information because we could not determine the most appropriate information to include.

²⁷ We did not include the OPEB rate for this State because the ACFR identified differing methods of financing the plan, and we therefore concluded that it would be inappropriate to report any percentage.

²⁸ This State had 3 separate pension plans for public employees and each had a separate rate associated with it. We chose the plan with the lowest rate for this table. That plan reported a net pension asset in 2020.

²⁹ We did not include the OPEB rate for this State because the ACFR identified differing methods of financing the plan, and we therefore concluded that it would be inappropriate to report any percentage.

further highlight the need for the FWS to obtain an understanding of how WSFR funds are applied to unfunded liabilities and develop clear guidance on what is acceptable.

Other Cost Allowability Factors

In our review of Maine’s use of WFSR grant funds for payments toward unfunded liabilities, we also considered other aspects of cost allowability—namely the timing and nature of payments. Specifically, we noted that the unfunded liabilities were not incurred during the periods of performance set in the “Notice of Award” letters accepted by the MDMR, which state, “Only allowable costs resulting from obligations incurred during the performance period may be charged to this award.” The pension liabilities among the States we reviewed began accruing many decades ago. Because the liabilities accrued before the awards were made, these liabilities may constitute out-of-period costs as anticipated by the award letters.³⁰

Furthermore, although Federal regulations permit fringe benefits³¹—including pensions—to be treated as either a direct or indirect cost depending on State accounting practices,³² this particular use of WSFR funds may constitute an indirect cost rather than a direct cost. Federal regulations set forth cost principles that States must follow when compensating employees for work performed under Federal awards. Direct costs are those that “can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.”³³ *Indirect costs* are costs for a common or joint purpose within the State and that benefit all programs or projects and are usually charged to the Federal awards by the use of an indirect cost rate.

For example, the pay and benefits of a marine resource scientist who works within the MDMR on a WSFR-funded grant are direct costs. In contrast, the pay and benefits of a supervisor or administrative employee who works within various departments is an indirect cost because it is necessary for Maine’s operation but cannot be assigned to an individual department within the State.

If only a portion of the direct costs are attributable to the Federal grant, the costs must be allocated between the Federal and non-Federal entity in proportion to the benefits received. When a cost is allocated, it must satisfy the following conditions:³⁴

³⁰ 2 C.F.R. § 200.403(h).

³¹ Pensions are generally treated as “fringe benefits,” but relevant Federal regulations do not differentiate between unfunded pensions and “normal” pensions. Federal regulations define fringe benefits as “allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick or military), employee insurance, pensions, and unemployment benefit plans.” See 2 C.F.R. § 200.431(a).

³² Fringe benefits may be charged directly or indirectly “[i]n accordance with the non-Federal entity’s accounting practices.” See 2 C.F.R. § 200.431(c). Therefore, States can implement a policy that identifies unfunded pensions as either direct or indirect costs.

³³ 2 C.F.R. § 200.413.

³⁴ 2 C.F.R. § 200.405.

- The goods or services were specifically for the Federal grant;
- The goods or services benefit both the Federal grant and other work of the grant recipient and the costs can be shared equitably; and
- The goods or services are necessary for the grant recipient’s overall operations and is allowable to the Federal grant.

We question whether unfunded liability costs are more indicative of an indirect cost rather than a direct cost. Specifically, an indirect cost can be characterized as a “cost of doing business,” but a direct cost provides measurable, direct benefits to the award. Both direct and indirect costs are allowable under Federal awards, but they must follow the considerations in the regulations. The States’ unfunded liabilities do not benefit the Federal award and therefore may be an indirect cost.

Unfunded liabilities are incurred State costs and amortized on the basis of historical obligations; they are not incurred specifically for the purposes of WSFR awards. Furthermore, because unfunded liabilities are State liabilities that have no beneficial impact on the WSFR program, accomplishment of grant goals, or any benefit to the Federal award, they may be better suited as indirect costs. For example, in Maine, if unfunded liabilities were instead classified as indirect costs, Maine’s Statewide cost allocation would capture those costs and assign them to the benefiting activities on a reasonable and consistent basis. This would result in a change to the MDMR’s indirect cost rate,³⁵ which could reduce the costs of unfunded liabilities to the Federal awards.³⁶

Special Considerations for WSFR and the 3-Percent Limitation

We also considered the nature and amount of these unfunded liabilities in the context of WSFR program regulations. Specifically, overhead or indirect costs of State central services outside of the State fish and wildlife agency must follow an approved cost allocation plan, and the central service costs³⁷ cannot exceed 3 percent of the State’s annual apportionment (3-percent limitation) to be eligible for funding under the Dingell-Johnson Act and the Pittman-Robertson Act.³⁸ For example, the MDMR’s apportionments³⁹ totaled a little more than \$2.34 million for the 12 grants open during the audit period, meaning that the maximum amount (3-percent

³⁵ In general terms, an indirect cost rate is the percentage of an organization’s indirect costs to its direct costs and is a standardized method of charging individual programs for their share of indirect costs.

³⁶ If unfunded liabilities were included in the States’ indirect cost rate, it may decrease the amount of unfunded liabilities attributed to the Federal awards because indirect rates are charged as a percentage of direct costs incurred under the award and are spread among numerous cost objectives.

³⁷ Central service costs are the costs of services provided by a State on a centralized basis to its departments and agencies. 2 C.F.R. § 200.1.

³⁸ 50 C.F.R. § 80.53.

³⁹ For the context of this report, the maximum amount of central service costs of approximately \$70,000 was calculated using actual award dollars received by the State of Maine for WSFR grants between January 1, 2017, and December 31, 2019, rather than the apportionment, due to timing differences between the State’s fiscal year and the Government’s fiscal year.

limitation) for central service costs is approximately \$70,000.⁴⁰ The 3-percent limitation set on WSFR funds is specific to the program and was enacted with the amendments of the Pittman-Robertson and Dingell-Johnson Acts in 1970. The effect of this provision is to restrict States' spending of grant funds for administrative costs in the form of overhead or indirect costs for services provided by State central service activities.

The unfunded liabilities we reviewed potentially constitute central service costs within the meaning of the statute, and the FWS should consider this point when determining reasonableness.

Conclusion and Recommendations

Between 2017 and 2019, the MDMR spent more than \$539,948 (\$386,763 Federal share), or 30 percent of WSFR payroll costs, on pre-existing unfunded liabilities. This money was accordingly unavailable for the defined purposes of the grants—namely, for conservation, restoration, and management of wildlife and sport fish resources. We also note that, for States that re-amortize their unfunded liabilities, these liabilities will remain indefinitely. For example, among the States analyzed for Figure 2, we encountered an annual actuarial valuation report explaining that the State's unfunded pension liabilities might improve gradually but would never be paid down in their entirety using an open-period amortization because they are re-amortized each year for a new 20-year period. Because limited or no progress will be made in reducing these liabilities, these expenses, if permissible, will constitute an ongoing and persistent reduction in funds available for the specified purposes of the grants.

The efficiency and effectiveness of Federal grants are potentially reduced when a State directly charges a Federal grant to pay down unfunded liabilities. If States use a greater proportion of WSFR grant funding to pay down unfunded liabilities, less funding is available to accomplish the grant's agreed-upon objectives. This practice is not unique to WSFR, and this finding may affect other grant programs at the U.S. Department of the Interior (DOI) and beyond.

In discussions on these issues, the FWS officials with whom we spoke agreed that these costs might be unreasonably high, detract from the efficiency of the Federal award, could be considered out-of-period expenses, and are potentially more appropriate as indirect costs. We believe the FWS is in the best position to determine whether these expenditures—or these levels of expenditures—are consistent with the articulated goals of the WSFR program. Depending on its conclusions, the FWS may wish to impose limitations in grant agreements regarding the amount of funds available for unfunded liability spending.

We provided a draft of this report to the FWS for review. The FWS concurred with both recommendations and will work with the DOI to implement corrective actions. Based on the FWS' response, we consider the recommendations resolved. Below we summarize the FWS' response to our recommendations, as well as our comments on their response. See Attachment 2 for the full text of the FWS' response; Attachment 3 lists the status of each recommendation.

⁴⁰ The central service costs of \$70,279 is calculated as 3 percent of \$2,342,612 (total apportionment).

We recommend that the FWS:

1. Consult with appropriate U.S. Department of the Interior offices to determine the extent to which unfunded liabilities are allowable grant expenditures, considering reasonableness, classification, and the period incurred.

FWS Response: The FWS concurred with the recommendation and stated that it “will work with appropriate DOI offices to determine the extent to which unfunded liabilities are allowable grant expenditures on DOI grants, considering reasonableness, classification, and the period incurred.”

OIG Comment: Based on the FWS’ response, we consider this recommendation resolved. We will consider this recommendation implemented when the FWS provides documentation evidencing that it has determined the extent to which unfunded liabilities are allowable expenditures.

2. Develop and implement guidance pertaining to WSFR grant agreements that includes disclosure of State agencies’ unfunded liabilities in project budgets and clarifies the allowability of unfunded liabilities.

FWS Response: The FWS concurred with the recommendation and stated that “after determining the extent if any to which unfunded liabilities are allowable DOI grant expenditures, we will develop and implement guidance pertaining to WSFR grant agreements that includes appropriate disclosures and clarifies the allowability of unfunded liabilities.”

OIG Comment: Based on the FWS’ response, we consider this recommendation resolved. We will consider this recommendation implemented when the FWS provides documentation demonstrating that it has developed guidance for WSFR grant agreements that includes disclosure of State agencies’ unfunded liabilities in project budgets and clarifies the allowability of unfunded liabilities.

We will notify Congress about our findings, and we will report semiannually, as required by law, on actions you have taken to implement the recommendations and on recommendations that have not been implemented. In addition, the information in this management advisory will be included in our semiannual report to Congress, and we post a public version of this report on our website, including your written response, no later than 3 days from the date we issue it to you in final form.

If you have any questions about this report, please contact me at aie_reports@doioig.gov.

Attachments (3)

Attachment 1: Glossary

Actuarial Accrued Liability—The portion of the actuarial present value of projected benefits (and expenses, if applicable), as determined under a particular *actuarial cost method* that is not provided for by future normal costs. Under certain actuarial cost methods, the actuarial accrued liability is dependent upon the actuarial value of assets (Actuarial Standard of Practice (ASOP) 4, § 2.1).

Actuarial Cost Method—A procedure for allocating the actuarial present value of projected benefits (and expenses, if applicable) to time periods, usually in the form of a normal cost and an actuarial accrued liability. For purposes of this standard, a *pay-as-you-go method* is not considered to be an actuarial cost method (ASOP 4, § 2.2).

Amortization Payment—That portion of the pension plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability (Governmental Accounting Standards Board (GASB) Statement No. 25, ¶ 45, C-5).

Closed Period—A specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the recognition period initially is 5 years on a closed basis, 4 years remain after the first year, 3 years after the second year, and so forth (GASB Statement No. 25, ¶ 44).

Fair Value—The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability (GASB Statement No. 72, ¶ 5).

Funded Status—Any comparison of a particular measure of plan assets to a particular measure of plan obligations (ASOP 4, ¶ 2.11). In this advisory, funded status is the ratio of a State retirement system's assets divided by the sum of actuarial accrued liabilities and expenses.

Indirect Costs—Also referred to as facilities & administrative (F&A) costs, means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived (2 C.F.R. § 200.1, "Definitions.").

Indirect Cost Rate—A device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base (2 C.F.R. § 200, Appendix VII(B)(7)). The allocated indirect costs are distributed to individual Federal grant awards and other activities by means of an indirect cost rate. The indirect cost rates calculated by a State or a department are subject to review and approval through a negotiation process known as rate-setting.

Net Pension Liability—Portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position (GASB Statement No. 68).

Net OPEB Liability—The liability of employers and nonemployer contributing entities to plan members for benefits provided through the OPEB plan. (GASB Statement No. 74 ¶35).

Normal Cost—The portion of the actuarial present value of projected benefits (and expenses, if applicable) that is allocated to a period, typically 12 months, under the actuarial cost method. Under certain actuarial cost methods, the normal cost is dependent upon the actuarial value of assets (ASOP 4, § 2.17).

Open Period— The amortization period either begins again or is recalculated at each actuarial valuation date. The amortization period may increase, decrease, or remain stable within a maximum number of years specified by law or policy (for example, 30 years). An open period amortization resets the amortization payments annually (GASB Statement No. 25, ¶ 44).

Pay-as-you-go Method—A method of financing a pension plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due (GASB Statement No. 25, ¶ 45, C-8).

Attachment 2: Response to Draft Report

The U.S. Fish and Wildlife Service's response to our draft management advisory follows on page 15.



United States Department of the Interior

FISH AND WILDLIFE SERVICE



In Reply Refer To:
FWS/MA/PERMA/RM/078377

Memorandum

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

From: Director  Digitally signed by
MARTHA WILLIAMS
Date: 2023.02.23
17:03:03 -05'00'

Subject: Draft Management Advisory – Unfunded Liabilities for Wildlife and Sport Fish Restoration Program Grants (Report No. 2020–ER–058-A)

Thank you for the opportunity to comment on and respond to the draft management advisory *Unfunded Liabilities for Wildlife and Sport Fish Restoration Program Grants* (Report No. 2020–ER–058-A). Resolving audit issues continues to be an agency priority, and the Service values the opportunity to improve.

The Office of Inspector General (OIG) recently reviewed the Maine Department of Marine Resources (MDMR) use of Wildlife and Sport Fishing Restoration (WSFR) funds. During your review, you found that the MDMR used a portion of the funds to make payments toward the State’s unfunded retirement and retiree healthcare liabilities. Maine applied 30 percent to current salaries and wages to determine the amount charged for unfunded liabilities. After identifying this issue in Maine, the OIG reviewed several other states’ methods of charging unfunded pension liability expenses and found wide range of state practices with respect to using a percentage of payroll costs to cover unfunded liabilities.

The draft advisory questions the extent to which unfunded liabilities are allowable grant expenditures and the appropriateness using a percentage of payroll costs to directly charge grants for unfunded liabilities. The draft advisory makes two recommendations to the Service.

Recommendation 1: Consult with appropriate U.S. Department of the Interior offices to determine the extent to which unfunded liabilities are allowable grant expenditures, considering reasonableness, classification, and the period incurred.

Response: The Service concurs with the recommendation. We will work with appropriate U.S. Department of the Interior (DOI) offices to determine the extent to which unfunded liabilities are allowable grant expenditures on DOI grants, considering reasonableness, classification, and the period incurred.

Target Date: December 31, 2023

Responsible Official: Paul Rauch, Assistant Director, Wildlife and Sport Fish Restoration

Recommendation 2: Develop and implement guidance pertaining to WSFR grant agreements that includes disclosure of State agencies' unfunded liabilities in project budgets and clarifies the allowability of unfunded liabilities.

Response: The Service concurs with the recommendation. After determining the extent if any to which unfunded liabilities are allowable DOI grant expenditures, we will develop and implement guidance pertaining to WSFR grant agreements that includes appropriate disclosures and clarifies the allowability of unfunded liabilities.

Target Date: March 31, 2024

Responsible Official: Paul Rauch, Assistant Director, Wildlife and Sport Fish Restoration

If you have any questions concerning these responses, please contact Mr. Paul Rauch, the Service's Assistant Director for Wildlife and Sport Fishing Restoration, at [REDACTED], or Mr. Scott Knight, the Service's Manager, Division of Financial Assistance Support and Oversight, at 703-358-2237.

Attachment 3: Status of Recommendations

Recommendation	Status	Action Required
<p>2020-ER-058-A-01 We recommend that the U.S. Fish and Wildlife Service (FWS) consult with appropriate U.S. Department of the Interior offices to determine the extent to which unfunded liabilities are allowable grant expenditures, considering reasonableness, classification, and the period incurred.</p>	<p>Resolved: FWS officials concurred with the recommendation.</p>	<p>We will track implementation of the corrective actions.</p>
<p>2020-ER-058-A-02 We recommend that the FWS develop and implement guidance pertaining to WSFR grant agreements that includes disclosure of State agencies' unfunded liabilities in project budgets and clarifies the allowability of unfunded liabilities.</p>	<p>Resolved: FWS officials concurred with the recommendation.</p>	<p>We will track implementation of the corrective actions.</p>



REPORT FRAUD, WASTE, ABUSE, AND MISMANAGEMENT

The Office of Inspector General (OIG) provides independent oversight and promotes integrity and accountability in the programs and operations of the U.S. Department of the Interior (DOI). One way we achieve this mission is by working with the people who contact us through our hotline.



If you wish to file a complaint about potential fraud, waste, abuse, or mismanagement in the DOI, please visit the OIG's online hotline at www.doioig.gov/hotline or call the OIG hotline's toll-free number: **1-800-424-5081**

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How Does it Help?

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