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Audit




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Memorandum

To: Martha Williams
Director, U.S. Fish and Wildlife Service

From: Colleen Kotzmoyer 
Director, Contract and Grant Audit Division

Subject: Final Audit Report – *Wildlife and Sport Fish Restoration Grants Awarded to the State of North Carolina Wildlife Resources Commission by the U.S. Fish and Wildlife Service*
Report No. 2024-CGD-017

This report presents the results of our audit of costs claimed by the North Carolina Wildlife Resources Commission (Commission) under grants awarded by the U.S. Fish and Wildlife Service (FWS) through the Wildlife and Sport Fish Restoration Program.

During the audit, we found that the Commission generally ensured that grant funds and State hunting and fishing license revenue were used for allowable fish and wildlife activities and complied with applicable laws and regulations, FWS guidelines, and grant agreements. However, we noted unsupported equipment usage rates and issued a notice detailing the finding and recommendations to FWS and the Commission. FWS and the Commission concurred, immediately began taking corrective actions, and then provided documentation of their actions. We appreciate the proactive measures to address our recommendations before we issued our report; based on the responses and documentation, we consider the recommendations to be fully implemented. In this report, we summarize the FWS and the Commission responses and actions taken to address our recommendations, as well as our comments on their responses. We list the status of the recommendations in Appendix 4.

We will notify Congress about our finding, and we will report semiannually, as required by law, on the action you have taken to implement the recommendations. We will also post a public version of this report on our website.

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

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Introduction

Objectives

In March 2021, we entered into an intra-agency agreement with the U.S. Fish and Wildlife Service (FWS) to conduct audits of State agencies receiving grant funds under the Wildlife and Sport Fish Restoration Program (WSFR). These audits assist FWS in fulfilling its statutory responsibility to oversee State agencies' use of these grant funds.

The objectives of this audit were to determine whether the North Carolina Wildlife Resources Commission (Commission) used grant funds and State hunting and fishing license revenue for allowable fish and wildlife activities and complied with applicable laws and regulations, FWS guidelines, and grant agreements. The scope of our audit was State fiscal years (SFYs) ending June 30, 2022, and June 30, 2023.

See Appendix 1 for details about our scope and methodology. See Appendix 2 for sites we visited.

Background

FWS provides grants to States¹ through WSFR for the conservation, restoration, and management of wildlife and sport fish resources as well as educational and recreational activities. WSFR was established by the Pittman-Robertson Wildlife Restoration Act and the Dingell-Johnson Sport Fish Restoration Act.² In general, the Acts and related Federal regulations allow FWS to reimburse grantees a portion of eligible costs incurred under WSFR grants—up to 75 percent for States and up to 100 percent for the Commonwealths, territories, and the District of Columbia. The reimbursement amount is called the Federal share and the portion the States must match with their own funds is called the State share. To meet the State-share requirement, the Commission used general license revenues, other state funds, and in-kind contributions.³ The Acts require that hunting and fishing license revenue be used only for the administration of participating fish and wildlife agencies. In addition, Federal regulations require participants to account for any income earned from grant-funded activities and to spend this income before requesting grant reimbursements.

¹ Federal regulations define the term "State" as the 50 States; the Commonwealths of Puerto Rico and the Northern Mariana Islands; the territories of Guam, the U.S. Virgin Islands, and American Samoa; and the District of Columbia (Dingell-Johnson Sport Fish Restoration Act only).

² Formally known, respectively, as the Federal Aid in Wildlife Restoration Act, 16 U.S.C. § 669, as amended, and the Federal Aid in Sport Fish Restoration Act, 16 U.S.C. § 777, as amended.

³ License revenues are from the sale of hunting and fishing licenses or permits; other state funds include the State of North Carolina's non-federal funding sources; and in-kind contributions may be volunteer hours.

Results of Audit

We determined that the Commission generally ensured that grant funds and State hunting and fishing license revenue were used for allowable fish and wildlife activities and complied with applicable laws and regulations, FWS guidelines, and grant agreements. However, we identified a total amount of \$1,476,058 (\$1,107,044 Federal share) in connection with unsupported equipment usage rates. See Appendix 3 for a statement on monetary impact.

Unsupported Equipment Usage Rates

Federal regulations state that costs must be necessary and reasonable for the performance of the Federal award in order to be allowable.⁴ Additionally, costs must be adequately documented in order to be allowable under Federal awards.⁵ Consideration must also be given to market prices for comparable goods or services for the geographic area.⁶

FWS guidance titled, *Recovering Equipment Costs on a WSFR Grant*, states:⁷

- The State fish and wildlife agency must establish its own equipment rates based on its costs to acquire and operate the equipment. These rates must consider market prices for comparable goods or services in the geographic area and be based on actual allowable costs.
- FWS considers that the basis for an equipment rate from one State agency to another State agency could vary considerably based on the agency's responsibilities, major uses of equipment, and other factors. Therefore, the State fish and wildlife agency must establish its own rates.

We found that the Commission utilized unsupported equipment rates on WSFR grants during SFYs 2022 and 2023. Commission officials provided us with a copy of the North Carolina Department of Administration Motor Fleet Management (MFM) vehicle mileage rates that they use to charge equipment usage costs to WSFR grants. The MFM vehicle mileage rates are dated as of September 2016. State officials from both the Commission and MFM informed us that they do not have the original calculations to support the September 2016 rates.

The Commission allows the use of equipment for multiple projects so long as the equipment mileages are tracked and allocated accordingly. The Commission then applies the MFM vehicle mileage rates to the vehicles based on the type of vehicle and the total number of miles that were driven in support of the specific WSFR grant activity. We totaled the equipment use rate charges for the seven grants in our sample. Because the equipment usage rates are unsupported, we are questioning costs shown in Figure 1.

⁴ 2 C.F.R. § 200.403(a).

⁵ 2 C.F.R. § 200.403(g).

⁶ 2 C.F.R. § 200.404(c).

⁷ U.S. Fish and Wildlife Service (FWS) Guidance titled, *Recovering Equipment Costs on a Wildlife and Sport Fish Restoration (WSFR) Grant*, dated October 21, 2016.

Figure 1: Federal Share of Questioned Costs Related to Equipment Usage Rates

Grant No.	Grant Title	Total Costs	Federal Share
F22AF02034	NC – Fisheries Investigations	\$140,678	\$105,508
F22AF02027	NC – Hunter Education Recruitment and Retention	\$4,027	\$3,020
F22AF01949	NC – Operations and Maintenance of Game Lands	\$348,476	\$261,357
F22AF01628	NC – Wildlife Management	\$495,433	\$371,575
F22AF01497	NC – Hatchery Operations	\$19,596	\$14,697
F21AF03373	NC – Operations and Maintenance of Game Lands	\$344,593	\$258,445
F21AF02577	NC – Fisheries Investigations	\$123,255	\$92,442
Total		\$1,476,058	\$1,107,044

This issue occurred because Commission does not have a formalized process to develop, document, and update equipment usage rates in compliance with Federal criteria and FWS guidance, including the requirement for rates to be based on actual allowable costs and consider market price in the geographic area. Per the Commission, they have continued to utilize MFM's September 2016 vehicle mileage rates until such time as an agency-specific calculation methodology can be determined. The initiative has been delayed due to recent turnover of several key Commission officials previously involved in the effort.

Since the equipment usage rates are unsupported, the Commission received reimbursement for \$1,107,044 (Federal share) in unsupported costs charged to WSFR grants. Further, if it continues to use these equipment usage rates, the Commission will continue to charge future WSFR grants for additional unsupported costs.

Recommendations

We recommend that FWS require the Commission to:

1. Resolve the \$1,107,044 (Federal share) in costs associated with the unsupported equipment usage rates.
2. Issue a memorandum to Commission officials to immediately cease utilizing the unsupported September 2016 MFM vehicle mileage rates for WSFR grant related activities.
3. Develop and implement a formalized process to calculate, document, and update equipment usage rates that align with Federal criteria and FWS guidance.

Recommendations Summary

During our audit, we issued a Notice of Potential Finding and Recommendations on the unsupported equipment usage rate. FWS and the Commission concurred with our recommendations and took immediate action to resolve the finding. Because of the expediency with which our concerns were addressed, we were able to review the corrective actions and associated documentation that the Commission provided before we issued our report. Based on this review, we consider all three recommendations implemented. Below we summarize the FWS and Commission responses and actions taken to implement our recommendation, as well as our comments on their responses. We have not tested the implementation of these recommendations, but the actions taken have met the intent of the recommendations.

We recommend that FWS require the Commission to:

1. Resolve the \$1,107,044 Federal share in questioned costs associated with the unsupported equipment usage rates.

FWS Response: FWS concurred with the recommendation and immediately began working with the Commission to resolve the questioned costs.

Commission Response: The Commission concurred with the recommendation and provided sufficient supporting documentation demonstrating that the questioned costs were resolved when its newly developed equipment usage rates (see Recommendation 3 below) was applied to the mileage allocated for the seven WSFR grants in our sample.

OIG Comment: We consider Recommendation 1 implemented based on the FWS and Commission responses. We obtained and reviewed the supporting documentation and determined it is sufficient support to close the recommendation.

2. Issue a memorandum to Commission officials to immediately cease utilizing the unsupported September 2016 MFM vehicle mileage rates for WSFR grant related activities.

FWS Response: FWS concurred with the recommendation and immediately began working with the Commission to cease utilizing the unsupported September 2016 MFM vehicle mileage rates for WSFR grant related activities.

Commission Response: The Commission concurred with the recommendation and provided a memorandum written by its Deputy Director of Operations. The memorandum directs Commission officials to immediately cease using the unsupported September 2016 MFM vehicle mileage rates for WSFR grant related activities.

OIG Comment: We consider Recommendation 2 implemented based on the FWS and Commission responses. We obtained and reviewed the supporting documentation and determined it is sufficient support to close the recommendation.

3. Develop and implement a formalized process to calculate, document, and update equipment usage rates that align with Federal criteria and FWS guidance.

FWS Response: FWS concurred with the recommendation and immediately began working with the Commission to develop and implement a formalized process on equipment usage rates that align with Federal criteria and FWS guidance.

Commission Response: The Commission concurred with the recommendation and provided sufficient supporting documentation of their formalized process to calculate, document, and update equipment usage rates that align with Federal criteria and FWS guidance. Specifically, the Commission's new

process focuses on the continuous development for calculating a mileage rate annually and that the calculation be based on actual maintenance and operation costs. In addition, the Commission will review their mileage rate calculation process annually.

OIG Comment: We consider Recommendation 3 implemented based on the FWS and Commission responses. We obtained and reviewed the supporting documentation and determined it is sufficient support to close the recommendation.

Appendix 1: Scope and Methodology

Scope

We audited the North Carolina Wildlife Resources Commission's (Commission's) use of grants awarded by the U.S. Fish and Wildlife Service (FWS) under the Wildlife and Sport Fish Restoration Program (WSFR). The scope of our audit included grants open during State fiscal years (SFYs) ending June 30, 2022, and June 30, 2023. During the audit period, there were 54 grants that claimed \$100.5 million in Federal expenditure reimbursement. We reviewed seven grants with \$32.9 million in Federal expenditures (approximately 33 percent of Federal expenditures made during the audit period). We also reviewed license revenue during the same period. In addition, we reviewed historical records for the acquisition, condition, management, and disposal of real property and equipment purchased with either license revenue or WSFR grant funds.

Methodology

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

We assessed whether internal control was significant to the audit objectives. We determined that the following related principles were significant to the audit objectives:

- Management should identify, analyze, and respond to risks related to achieving the defined objectives.
- Management should design control activities to achieve objectives and respond to risks.
- Management should implement control activities through policies.
- Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

We tested the design, implementation, operating effectiveness of internal controls over activities related to our audit objective. Our tests and procedures included:

- Examining the evidence that supports selected expenditures that the Commission charged to the grants.
- Reviewing transactions related to purchases, direct costs, drawdowns of reimbursements, in-kind contributions, and program income.
- Interviewing Commission officials.
- Inspecting equipment and other property.
- Reviewing equipment inventory and disposal records.
- Determining whether the Commission used hunting and fishing license revenue for the administration of allowable program activities.
- Determining whether the State passed required legislation assenting to the provisions of the Acts.
- Evaluating Commission policies and procedures for assessing risk and monitoring subawards.

- Determining whether the Commission directly charged the State's unfunded pension liabilities to WSFR grants. Commission officials stated that any unfunded pension liabilities are paid via the indirect rate or with State funds and are not charged directly to WSFR grants. Our review of the general ledger, indirect cost rate, and other accounting information confirmed that unfunded pension liabilities were not directly charged to WSFR grants.
- Reviewing the fringe benefits charged during the payroll process to understand the coding for payroll deductions and to determine whether the fringe benefit codes are allowable, allocable, and reasonable.
- Visiting sites throughout the State (see Appendix 2 for a list of sites visited).

We found an internal control deficiency that we discussed in the "Results of Audit" section of our report and made recommendations that FWS and the Commission addressed.

Based on the results of our initial assessments, we assigned a level of risk and selected a judgmental sample of seven out of 54 grants with activity during our audit period. This included grants for the operations and maintenance of game lands, wildlife management, fisheries investigations, hatchery operations, and hunter education.

Our review of these grants included assessments on the following:

- Actual costs incurred.
- Grant claims and corresponding drawdowns.
- Application of the negotiated indirect cost rate agreement.
- Payroll allocations.
- Allowable procurement costs.
- Management of equipment.
- Recognition and application of potential program income.
- Progress of agreed-upon grant objectives.

We used auditor judgment and considered risk levels relative to other audit work performed to determine the degree of testing performed in each area. Our sample selections were not generated using statistical sampling, and therefore we did not project the results of our tests to the total population of transactions.

This audit supplements, but does not replace, the audits required by the Single Audit Act Amendments of 1996. Single audit reports address controls over Statewide financial reporting, with emphasis on major programs. Our report focuses on the administration of the North Carolina fish and wildlife agency, and that agency's management of WSFR resources and license revenue.

The Commission provided computer-generated data from its official accounting system and from informal management information and reporting systems. We assessed the reliability of data by performing electronic testing, reviewing existing information about the data and the system that produced them, and interviewing Commission employees knowledgeable about the data. While we assessed the completeness and accuracy of the data, we did not assess the reliability of the accounting system as a whole.

Prior Audit Coverage

OIG Audit Reports

We reviewed our last two audits of costs the Commission claimed on WSFR grants.⁸ We followed up on the recommendation from the 2019 report. We reviewed the Commission's corrective actions and found that the one recommendation has been implemented. For the implemented recommendation, we verified the Commission has taken the appropriate corrective actions. There were no reportable findings or recommendations from the 2014 report.

State Audit Reports

We reviewed the single audit reports for SFYs 2022 and 2023 to identify control deficiencies or other reportable conditions that affect WSFR. In those reports, the Schedule of Expenditures of Federal Awards indicated about \$64.5 million (combined) in Federal expenditures related to WSFR but did not include any findings directly related to WSFR, which was not deemed a major program for Statewide audit purposes. Neither of these reports contained any findings that would directly affect the WSFR grants.

⁸ 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), issued September 2019.

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, 2011, Through June 30, 2013 (Report No. R-GR-FWS-0003-2014), issued March 2014.

Appendix 2: Sites Visited

Headquarters	Raleigh
Fish Hatcheries	McKinney Lake Watha
Boating Access Area	Holly Shelter
Public Fishing Area	Surf City Community Center U.S. Hwy 15-501 U.S. Hwy 421
Depots	Holly Shelter Jordan Lake Sandhills
Shooting Ranges	Holly Shelter John Lentz Hunter Education Complex Wake County Firearms Education and Training Center

Appendix 3: Monetary Impact

We reviewed seven grants that were open during the State fiscal years that ended June 30, 2022, and June 30, 2023. The seven grants included expenditures of about \$44 million and related transactions. We questioned \$1.1 million in Federal share as unsupported.

Monetary Impact: Unsupported Costs (Federal Share)

Grant No.	Grant Title	Cost Category	Questioned Costs (Federal Share)
F22AF02034	NC – Fisheries Investigations	Equipment Usage Costs	\$105,508
F22AF02027	NC – Hunter Education Recruitment and Retention	Equipment Usage Costs	\$3,020
F22AF01949	NC – Operations and Maintenance of Game Lands	Equipment Usage Costs	\$361,357
F22AF01628	NC – Wildlife Management	Equipment Usage Costs	\$371,575
F22AF01497	NC – Hatchery Operations	Equipment Usage Costs	\$14,697
F21AF03373	NC – Operations and Maintenance of Game Lands	Equipment Usage Costs	\$258,445
F21AF02577	NC – Fisheries Investigations	Equipment Usage Costs	\$92,442
Totals			\$1,107,044

Appendix 4: Status of Recommendations

Recommendation	Status	Action Required
2024-CGD-017-01 We recommend that the U.S. Fish and Wildlife Service (FWS) require the North Carolina Wildlife Resources Commission (Commission) to resolve the \$1,107,044 (Federal Share) in costs associated with the unsupported equipment usage rates.		
2024-CGD-017-02 We recommend that FWS require the Commission to issue a memorandum to Commission officials to immediately cease utilizing the unsupported September 2016 North Carolina Department of Administration Motor Fleet Management equipment usage rates for Wildlife Sport Fish Restoration Program grant related activities.	Implemented	No action is required.
2024-CGD-017-03 We recommend that FWS require the Commission to develop and implement a formalized process to calculate, document, and update equipment usage rates that align with Federal criteria and FWS guidance.		



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