



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

Issues Identified With Wildlife Restoration Subawards to the University of Tennessee, National Bobwhite Conservation Initiative



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Memorandum

To: Aurelia Skipwith
Director, U.S. Fish and Wildlife Service

From: Melanie L. Sorenson *Melanie L. Sorenson*
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Subject: Management Advisory – *Issues Identified With Wildlife Restoration Subawards to the University of Tennessee, National Bobwhite Conservation Initiative*
Report No. 2020-WR-019

In 2019, the U.S. Fish and Wildlife Service (FWS) apportioned \$673.6 million for grants to State¹ fish and wildlife agencies under its Wildlife and Sport Fish Restoration Program (WSFR), through the provisions of the Pittman-Robertson Wildlife Restoration Act. States may provide WSFR funds in the form of a subaward to other non-Federal entities, such as universities, to accomplish grant objectives.

We are nearing completion on multiple audits of grants awarded under WSFR and, during fieldwork on three of these audits, we observed issues with subawards to the University of Tennessee, National Bobwhite Conservation Initiative (NBCI), that have resulted in ineligible costs claimed on WSFR grants.

The NBCI is a national initiative that provides data and tools to various States and external partners (such as nongovernmental organizations) for restoring bobwhite quail populations to target densities set by State wildlife agencies. State fish and wildlife agencies fund the NBCI through WSFR subawards and State hunting and fishing license revenues. The NBCI also receives subawards from external partners and direct grants from other non-FWS Federal agencies.

This management advisory (1) summarizes our findings about NBCI cost allocation during audit periods prior to the NBCI's 2017 implementation of a recharge center accounting methodology, (2) presents our determination why the currently used recharge center is not compliant with Federal regulations and WSFR guidelines, and (3) presents a potential opportunity for the NBCI to continue its work in a way that complies with Federal regulations.

¹ In this report, we use the term "State" to refer generally to any of the primary funding recipients, including States, Commonwealths, Territories, and the District of Columbia.

Improper Allocation of NBCI Costs Among Benefiting States and External Partners During Audit Periods

During a 2019 site visit to the NBCI, we determined that the NBCI did not properly allocate costs among all participating States and other external partners. The NBCI did not have a policy or a sound and reasonable methodology to determine and allocate assignable costs in proportion to the received benefits. This was partially due to the NBCI's accounting system, which has allocation limits that prevent proper allocation of Federal dollars.²

NBCI officials said they tried to allocate costs across accounts, but did not view the system's allocation limit as a real issue because they considered their funding, in their words, as one "pot" of money from which to pay for activities that benefited all participating States and external partners. We found, however, that this practice does not ensure costs are properly allocated to Federal grants, as required by Federal regulations.

Federal regulations at 2 C.F.R. § 200.403 state that to be allowable, costs must be necessary, reasonable, and allocable for the performance of the Federal award. Under 2 C.F.R. § 200.405, a cost is allocable to a particular award if the goods and services involved are chargeable or assignable to that Federal award in accordance with the relative benefits received. When costs benefit both the Federal award and other work of a non-Federal entity, they are allocable if they are distributed in proportions that may be approximated using reasonable methods. Part (d) of that section states that if a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit.

Because the NBCI did not properly allocate the costs among all participating States and external partners in proportion to the received benefits, and because the NBCI did not distribute those costs using a reasonable methodology, the costs are considered unallocable and not eligible to be charged to Program grants.

We have questioned these WSFR grant costs in our audits of the Pennsylvania Game Commission;³ the Kansas Department of Wildlife, Parks, and Tourism; and the Kentucky Department of Fish and Wildlife Resources. However, we are aware that this issue also applies to WSFR grants to other States.

Emerging Risk: Implementation of Recharge Center Accounting Methodology at the NBCI

In 2017, the University of Tennessee conducted an internal audit of the NBCI's cost allocation methodology. To address the issues identified in the internal audit, in late 2017 NBCI officials implemented a "recharge" accounting methodology or accounting system. In the

² The University of Tennessee accounting system used by the NBCI can allocate a cost across a maximum of 16 accounts. NBCI costs often apply to more than 16 accounts; therefore, the accounting system is unable to allocate costs as Federal regulations require.

³ We also questioned the cost of the Pennsylvania Game Commission's subaward to the NBCI due to the Commission's refusal to refund budgeted amounts that remained unused at the end of the subaward period. This would constitute a fixed-price subaward, which is unallowable under the Program.

recharge methodology—which was implemented after the audit periods described in the previous section—costs are incurred by the NBCI and cumulate in the recharge accounting system. The NBCI seeks to cover these costs by charging subaward agreements a predetermined activity rate per activity day. Recharge centers are considered “specialized service facilities” under Federal regulations at 2 C.F.R. § 200.468, which states the costs of services at such facilities (such as a wind tunnel or a nuclear research reactor) must be charged directly to awards based on the usage of the services and a schedule of rates. The goal of the recharge center is to “break even,” that is, at the end of the fiscal period, to have the costs incurred equal the total revenues received from activity rate charges.

We have identified multiple issues and concerns regarding use of the recharge center methodology, leading us to conclude that it does not comply with Federal regulations and WSFR criteria. Our concerns include the following:

- The current subaward agreements operate as fixed-amount subawards, which are unallowable under WSFR grants and applicable Federal regulations.
- Costs are not charged to grants according to the relative benefits received, as required by Federal regulations.
- The NBCI and auditors cannot verify the activity days used in the recharge center to assign cost rates.
- The recharge center uses different rates for Federal and non-Federal activities, which is prohibited by Federal regulations.
- In situations where States provide funding to the NBCI via license revenue (nongrant) funds, potential diversions of license revenues may have occurred.

Agreements Operate as Unallowable Fixed-Amount Subawards

The way the recharge center determines budgets for the work it performs for its partners results in agreements that operate as fixed-amount subawards, which are unallowable under WSFR grants and applicable Federal regulations.

The recharge center has established separate rates for five activities it performs. These rates are used to determine the budgeted amount of funding a partner should provide to receive a specified level of benefits. However, when we reviewed the subaward budgets, we determined that the recharge center’s approach to preparing budgets is faulty: Each partner State specifies to the NBCI how much it would like to provide in funding, and then the NBCI calculates the number of hours per activity that would result in the specified funding amount, instead of the other way around. This practice constitutes a fixed level of funding that does not change based on the benefits received.

Therefore, these subawards are fixed-amount agreements, which are unallowable under WSFR.

Costs Are Not Related To Benefits Received

NBCI officials told us that the amount a State contributes does not affect the level of benefits received. For example, if Texas were to contribute less than Delaware, it would still receive the same benefits from NBCI activities. Recharge centers are traditionally established to charge for internal use of resources such as wind tunnels or nuclear research reactors. Because the NBCI's recharge center rates are based on "activity days" and States receive the same level of benefit regardless of the actual activity days used, the NBCI's rate measurements are arbitrary. As a result, the amount of costs charged to a WSFR grant for NBCI activities does not correlate to the benefits received.

The NBCI and Auditors Cannot Verify Rate Measurements

The rate measurements (activity days) used in the recharge center to allocate rates cannot be verified from NBCI and University of Tennessee records. When the NBCI established the recharge center, it relied on prior personnel records that detailed employees' tasks. These tasks were used to establish the five recharge center activities and their associated rates. Auditors should be able to determine the actual number of "activity days" that are being consumed so that they can verify the amounts charged to State subawards—but NBCI employees do not record their time with an associated activity rate, and the University of Tennessee's accounting system does not track costs at an activity level. As a result, labor and direct costs are not associated with a specific recharge center activity, and we are unable to verify the actual expenditures per activity. In addition, the NBCI is unable to verify the accuracy of individual activity rates. University of Tennessee policy requires that recharge center rates be reviewed for accuracy at least biennially.

Recharge Center Rates Differ for Federal and Non-Federal Activities

The recharge center uses a combination of Federal and non-Federal rates with different costs, but using different rates for Federal and non-Federal activities is unallowable per Federal regulations.

Four of the recharge center's activity rates are specified as federally allowable, and the fifth activity rate is used for costs that are not allowable under Federal awards. These unallowable costs are typically related to political activities, fundraising, promotion, and outreach. In the recharge center, all costs are charged to a single account and billed externally based on established activity rates. Federal regulations specify that specialized service facilities may not discriminate between (i.e., use different rates for) activities under Federal awards and other activities of the non-Federal entity. In addition, because the NBCI is unable to verify the rates used for individual activities (as described in the previous section), it will also be unable to confirm that Federal awards are not being charged a share of unallowable costs.

Potential Diversions of License Revenues May Have Occurred

States are potentially diverting license revenues when they provide funding to the NBCI using their license revenues. In these cases, the State does not receive a contract or agreement,

and these fixed-amount contributions are not dependent on a specified level of service. We observed one instance where a State provided a fixed amount of \$10,000 to the NBCI and did not even request a receipt. The State communicated that it had no expectation of a contract or agreement. Although we could not confirm whether the \$10,000 was license revenue, a requirement for participation in WSFR is that license revenues must be used solely for the administration of a State's fish and game agency. Since license revenue contributions are essentially donations to the NBCI, instead of expenditures for the direct administration of the State fish and game agency, they may be diversions of license revenues.

Opportunity for the NBCI To Consider

We have identified a potential funding opportunity for the NBCI to consider. The main cause of the NBCI's inability to comply with Federal regulations and WSFR requirements is its attempt to allocate costs among many partners with various contracts, performance periods, and funding sources, both Federal and non-Federal. If the NBCI could contract with a single granting agency, it would likely not have these cost allocation challenges. The FWS already administers a grant program for projects or initiatives that benefit many States, known as the Multistate Conservation Grants Program (MSCGP).

The MSCGP funds projects that address regional or national priorities of State fish and wildlife agencies. It was established by the Wildlife and Sport Fish Restoration Programs Improvement Act of 2000, which made available up to \$6 million each year for projects that benefit at least 26 States, a majority of the States in an FWS region, or a regional association of State fish and game departments. Because the NBCI benefits at least 25 States ranging in size from Texas to Delaware, it could be eligible to apply for funding under the MSCGP. This could alleviate the NBCI's challenges in allocating costs between multiple contracts. Instead, the NBCI would charge actual allowable costs directly to the MSCGP grant.

Conclusion and Recommendations

The NBCI provides mostly homogenous services to various States and external partners, some of which provide non-Federal funds. During our WSFR audits, we questioned costs charged to WSFR grants related to subawards to the NBCI because it did not properly allocate costs among all benefiting States and external partners. In response to an internal audit, the NBCI has since implemented a recharge center accounting methodology in an attempt to better comply with Federal regulations regarding cost allocability. In our opinion, this methodology does not comply with Federal regulations. Specifically, the agreements between the NBCI and States contributing Federal funding are fixed-amount subawards; costs charged to States are not related to the benefits received; recharge center rates cannot be measured or verified in the NBCI's accounting system; the recharge center rates differ for Federal and non-Federal activities; and, in situations where States contribute license revenues, potential diversions of license revenues may have occurred.

The MSCGP offers an opportunity for projects that benefit multiple States or FWS regions (such as the NBCI) to apply for funding. Participating in the MSCGP could alleviate the NBCI's issues related to allocating costs among various external partners and funding sources.

We recommend that the FWS:

1. Require WSFR States to discontinue providing grant and/or license revenue funding to the NBCI
2. Resolve the amount of questioned costs related to subawards to the NBCI before and after implementation of the recharge center
3. Identify other similar programs or grantees receiving WSFR awards or subawards that may also have the issues outlined in this advisory, and take corrective action
4. Work with the NBCI to develop and implement policies and procedures that comply with Federal regulations

Response to Report

Please provide us with your written response by August 5, 2020. The response should provide information on the actions you have taken or planned to address the recommendations, as well as target dates and titles of the officials responsible for implementing these actions. Please send your response to aie_reports@doioig.gov.

The information in this management advisory will be included in our semiannual report to Congress and posted on our website no later than 3 days from the date we issue it to you. Please contact me at 303-236-9243 if you have any questions.

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