



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

MANAGEMENT OF THE COASTAL IMPACT ASSISTANCE PROGRAM, STATE OF MISSISSIPPI

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INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

JUN 27 2013

Memorandum

To: Daniel M. Ashe
Director, U.S. Fish and Wildlife Service

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

Subject: Final Audit Report – Management of the Coastal Impact Assistance Program,
State of Mississippi
Report No. ER-IN-MOA-0013-2011

This memorandum transmits the results of our audit of the Coastal Impact Assistance Program (CIAP) grants for the State of Mississippi. Our audit found significant deficiencies in the management of CIAP grants by the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) and the Mississippi Department of Marine Resources (DMR), such as—

- grants approved that did not meet criteria in CIAP legislation;
- widespread conflicts of interest at DMR;
- improper land appraisals; and
- circumvention of sole-source procurement regulations.

The U.S. Fish and Wildlife Service (FWS), which assumed responsibility for administering and managing CIAP grants from BOEMRE at the beginning of fiscal year 2012, requested that we conduct this audit. During our audit, however, we found that FWS had not taken the necessary steps to prevent similar problems in the administration of these funds. In fact, FWS has relaxed monitoring requirements and awarded \$398 million in CIAP grants in only 8 months. It also has not enforced previously established BOEMRE grantee requirements to ensure the proper use of CIAP funds and has failed to conduct reliable risk assessments of CIAP grantees.

FWS has much more experience in grant management than BOEMRE but has failed to implement some of the most important controls over the grant funding. Our 37 recommendations target deficiencies that occurred under BOEMRE and seek to correct those propagated by FWS' current policies of relaxed oversight and expedited obligation of funds. Based on FWS' response to the draft report, we modified our final report as appropriate. In its response, FWS concurred or partially concurred with 32 of our 37 recommendations and is working to implement or close these recommendations (see Appendix 4). We consider 7 recommendations unresolved, 17 resolved but not implemented, and 13 closed (see Appendix 5).

We request that FWS reconsider and clarify, in writing, the unresolved recommendations within 30 days. The response 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. Please address your response to:

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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 call me at 202-208-5745.

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Results in Brief

Our audit of Coastal Impact Assistance Program (CIAP) grants for the State of Mississippi, initiated at the request of the U.S. Fish and Wildlife Service (FWS), found multiple deficiencies by the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) and the Mississippi Department of Marine Resources (DMR) that led us to question almost \$30 million dollars in CIAP funds.

During our audit, we found—

- grants were approved that did not meet criteria in CIAP legislation;
- widespread conflicts of interest at DMR in the administration of CIAP and land purchases;
- improper land appraisals that diminished CIAP's impact;
- circumvention of sole-source procurement regulations;
- improper charges to CIAP grants;
- improper use of equipment; and
- various accounting, payroll, and financial issues.

We have no assurance that FWS, which assumed responsibility for administering and managing CIAP grants from BOEMRE at the beginning of fiscal year 2012, has taken the necessary steps to prevent similar deficiencies in the stewardship of these public funds.

For example, FWS has reduced monitoring requirements and awarded almost \$400 million in CIAP grants after our warnings that major fraud could occur. In addition, FWS' hiring practices cast doubt on the ability of CIAP staff to independently perform their oversight duties.

Relaxed oversight coupled with accelerated grant awards undermine the credibility of programs like CIAP and expose the Federal Government to fraud, waste, and mismanagement. We provide 37 recommendations that we believe will help FWS eliminate deficiencies and correct errors that occurred under BOEMRE, as well as those propagated by FWS' current policies of relaxed oversight and expedited obligation of funds.

Introduction

Objective

We conducted this audit to (1) determine whether Coastal Impact Assistance Program (CIAP) grant recipients have complied with CIAP's authorizing legislation, Federal regulations, U.S. Department of the Interior (DOI) policies, and grant terms and conditions; and (2) identify grant management challenges that the U.S. Fish and Wildlife Service (FWS) should address as it assumes the responsibility of managing CIAP from the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE).

We performed this audit at the request of FWS, which acquired oversight of CIAP in fiscal year (FY) 2012. As a result, we included steps in our audit to help focus their attention on specific grant management challenges (see Appendix 1). We plan to issue additional reports on each State receiving CIAP funds.

Background

The Energy Policy Act of 2005 (Act) created CIAP, codified at 43 U.S.C. § 1356a. CIAP provides grant funds derived from Federal offshore lease revenues to oil-producing States for conservation, protection, or restoration of coastal areas, wildlife, and natural resources. The Act authorized the Secretary to disburse \$250 million in each of FYs 2007, 2008, 2009, and 2010 to eligible CIAP grant recipients in the coastal zone counties, parishes, or boroughs of Alabama, Alaska, California, Louisiana, Mississippi, and Texas.

The Secretary delegated oversight of these funds to the Minerals Management Service (MMS), which bore both the initial responsibility of approving State plans and the continuing responsibility of reviewing, approving, and monitoring grants. In June 2010, MMS reorganized into BOEMRE. As of October 1, 2011, responsibility for managing the ongoing grants and awarding the balance of the funds was transferred to FWS.

In December 2011, at the Office of Inspector General's (OIG's) request, DOI's Office of the Solicitor determined that the Act established a permanent appropriation, allowing disbursement of funds until they are exhausted. At the time, over \$500 million remained unobligated.

The Act required grant recipients to use all funds for at least one of five authorized uses (AUs):

- Projects and activities for the conservation, protection, or restoration of coastal areas, including wetland (AU1).
- Mitigation of damage to fish, wildlife, or natural resources (AU2).

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- Planning assistance and the administrative costs of complying with CIAP requirements (AU3).
- Implementation of a Federally approved marine, coastal, or comprehensive conservation plan (AU4).
- Mitigation of the impact of Outer Continental Shelf activities through funding of onshore infrastructure projects and public service needs (AU5).

The Act allocated CIAP funds to each State based on the ratio of Outer Continental Shelf revenues generated relative to all eligible States. Allocations for FYs 2007 and 2008 were based on revenues received for FY 2006, and allocations for FYs 2009 and 2010 were based on revenues received for FY 2008 (see Figure 1).

Fiscal Year	Alabama	Alaska	California	Louisiana	Mississippi	Texas
2007	\$25,551,607	\$2,425,000	\$7,444,442	\$127,547,899	\$30,939,851	\$48,591,202
2008	25,551,607	2,425,000	7,444,442	127,547,899	30,939,851	48,591,202
2009	19,728,257	37,471,876	4,923,125	120,911,589	23,819,815	35,645,337
2010	19,524,845	37,085,568	4,872,364	119,663,561	23,574,218	35,279,444
Total	\$90,356,316	\$79,407,444	\$24,684,373	\$495,670,948	\$109,273,735	\$168,107,185

Figure 1. CIAP allocations by State for FY 2007 through FY 2010.

The Act further divided these amounts among the State governments and their counties, parishes, or boroughs. Each State government was apportioned 65 percent of the State’s overall CIAP allocation. The remaining 35 percent was divided among the State’s eligible counties, parishes, or boroughs based on several factors, including population, miles of coastline, and proximity to leased tracts.

To receive CIAP funds, the Governor of each eligible State had to submit for BOEMRE’s approval a coastal impact assistance plan, detailing how CIAP funds would be spent. Each Governor was required to solicit local input and provide for public participation in the development of the State plan. BOEMRE reviewed each State plan for consistency with the authorized uses and required content, including certification by the Governor that ample opportunity for public input occurred. Upon approval, eligible recipients could apply for CIAP funding.

The State of Mississippi had four eligible CIAP recipients: the Department of Marine Resources (DMR) (designated by the Governor), and Hancock, Harrison, and Jackson Counties. DMR manages the State government’s portion of CIAP

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funds, while the boards of supervisors of Hancock, Harrison, and Jackson Counties manage funds allotted to each county (see Figure 2).

Fiscal Year	DMR	Hancock County	Harrison County	Jackson County	Total
2007	\$20,110,903	\$2,132,997	\$4,273,309	\$4,422,642	\$30,939,851
2008	20,110,903	2,132,997	4,273,309	4,422,642	30,939,851
2009	15,482,880	1,650,169	3,289,580	3,397,186	23,819,815
2010	15,323,242	1,633,158	3,255,662	3,362,156	23,574,218
Total	\$71,027,928	\$7,549,321	\$15,091,860	\$15,604,626	\$109,273,735

Figure 2. CIAP funds allocated to Mississippi recipients for FY 2007 through FY 2010.

According to a State CIAP official, a DMR senior official made the final decision on all State projects and subgrants, and each of the three counties' board of supervisors made the final decision on its county's projects and subgrants. Top priority projects were classified as "Tier 1," and backup projects were labeled "Tier 2"; the State plan was then forwarded to BOEMRE for approval.

Findings

The State of Mississippi's DMR and Hancock, Harrison, and Jackson Counties were awarded 100 CIAP grants from DOI totaling \$99.8 million from FY 2009 through FY 2012. We found that both BOEMRE and grant recipients managed these funds poorly, resulting in improper actions and potential waste of Federal funding.

BOEMRE officials conducted assessments of grantees prior to awarding grants to determine a grantee's level of risk. BOEMRE officials did not, however, monitor grant recipients by conducting follow-up site visits and only reviewed performance and financial reports for red flags or overall compliance. Furthermore, BOEMRE officials awarded grants that did not meet the requirements of CIAP's authorizing legislation.

These conditions allowed grant recipients to operate in an environment rife with conflicts of interest, with no assurance that many of the grants issued in Mississippi were used for intended purposes or benefitted the general public. In fact, of the almost \$39 million in our sample representing 57 grants, we question approximately \$30 million in CIAP-ineligible and unsupported costs and funds to be put to better use (see Appendix 2).

We are concerned that similar problems will continue under FWS' administration of CIAP. FWS did not conduct grantee risk assessments, even though it had not previously dealt with most of the grant recipients. Instead, FWS relied on those conducted by BOEMRE, even after being informed that the BOEMRE assessments may have been inadequate. In addition, FWS' hiring practices called into question the CIAP liaison's ability to independently perform monitoring duties of the grantees. We briefed FWS officials on our findings in March 2012, just a few weeks after FWS began awarding grants, yet FWS issued 63 grants and grant modifications worth \$51.6 million to Mississippi from February through September without ensuring that additional safeguards were in place. Ignoring these deficiencies exposes FWS and the Federal Government to fraud, waste, and mismanagement.

BOEMRE Monitoring of Grant Projects

BOEMRE officials conducted the majority of their grant risk mitigation prior to awarding grants. They spent a large amount of time and effort reviewing both the State plans and individual grants with the intention that such intense scrutiny before awarding any money would prevent future waste. While we commend upfront review of plans and grants, officials must also conduct site visits to ensure the proper use of funds. We were informed that BOEMRE staff conducted no site visits during 5 years of CIAP administration. In addition, although major emphasis was placed on the preaward review of grants, we found that BOEMRE

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officials did not always adequately review grant reports to assist in ensuring that funds were being spent properly.

Among the key monitoring tools available to BOEMRE were the required periodic performance and financial reports submitted by the grantees. Despite these tools, grantees told us that they rarely received substantive feedback on any of the reports submitted. In a review of DMR files, we found that nearly 28 percent of the required financial reports were either submitted late or were absent.

During a review of performance reports, we found one instance where a grantee unilaterally changed the scope of a grant in a performance report for the Heritage Resources of the Mississippi Gulf Coast, resulting in \$293,748 that may not have supported the original purpose of the grant. Grant officials, however, must preapprove any scope changes. BOEMRE personnel should have identified the change in scope as a clear violation of the grant agreement, but it went unnoticed.

In the absence of site visits, which could detect and prevent future problems, ensuring timely submission and careful review of reports was particularly important. With the exception of the preaward risk assessments, these reports served as BOEMRE's primary monitoring tool. As a result, grantees could have changed grant scopes, used funds for unauthorized purposes, or failed to stay on schedule or to meet grant objectives without BOEMRE's knowledge. We believe that this approach, in particular the complete lack of site visits conducted by BOEMRE personnel, led to many of our audit findings.

Recommendations

We recommend that FWS:

1. Design and implement monitoring procedures to ensure that grantees submit timely financial and performance reports;
2. Review financial and performance reports and resolve any identified issues with grantees; and
3. Conduct and document regular site visits to ensure compliance with grant objectives.

Administration and Monitoring Problems Persist Under FWS

Monitoring Requirements

We found that rather than enforcing existing grantee requirements to ensure the safeguarding of CIAP funds, FWS relied on weak risk assessments that were

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previously performed by BOEMRE and relaxed previously established BOEMRE monitoring requirements. Therefore, FWS has not independently assessed the risk posed by any grantees under CIAP, even though FWS officials have no prior experience with most of the CIAP recipients. One FWS official remarked that FWS has no reason to believe that any one of the grantees is more of a risk than another but noted that FWS has not developed a tool to assess grantee risk for CIAP recipients. FWS officials also claimed that they did not need to conduct risk assessments because BOEMRE had already done so. We found, however, that many of those assessments were weak, primarily because DMR did not respond to questions regarding conflict-of-interest policies, which placed CIAP funds at risk. DMR also stated it had procurement policies in place to promote competition, but it was still inappropriately awarding sole-source contracts. Therefore, FWS should not have solely relied on the BOEMRE risk assessments.

In addition, FWS officials waived two important compliance requirements that should have been considered only after independently determining grantee risk. Officials waived the requirement to submit financial and performance reports more frequently than annually. While the prior performance of many grantees warrants this waiver, conducting risk assessments would have indicated that some of the CIAP-eligible entities in Mississippi required closer monitoring and should have been required to submit these reports more often.

Officials also waived the “10 percent rule,” which requires grantees to obtain prior approval before transferring funds between budget categories of certain grants if the transfer is expected to exceed 10 percent of the grant’s total approved budget. This rule helps to ensure that grantees do not inflate budgets and spend excess funds on unallowable costs.

Conducting risk assessments can help awarding agencies identify grantees or grant activities that require additional monitoring to ensure accountability for Federal funds. Risk assessments also help ensure that limited monitoring resources are focused on grantees requiring the most oversight.

Without conducting risk assessments and adjusting compliance requirements accordingly, FWS cannot effectively monitor grant projects to prevent fraud, waste, and mismanagement. These issues could be exacerbated if FWS does not assess grantee risk and institute appropriate monitoring mechanisms.

Hiring of State Liaisons

In an attempt to better oversee the use of funds in CIAP States, FWS hired five liaisons to help CIAP recipients complete grant applications, fulfill reporting requirements, and monitor the use of funds. These Federal liaison positions are located in Biloxi, MS; Spanish Fort, AL; Baton Rouge, LA; Austin, TX; and Sacramento, CA. FWS, however, included State employees in the hiring process of the FWS liaisons charged with monitoring State CIAP spending, thus calling

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into question the liaisons' ability to independently perform their duties. In essence, FWS employed liaisons in Alabama, Louisiana, and Mississippi who arguably owe their jobs to the very people they were hired to monitor.

FWS officials asked State employees to assist in interviewing applicants for liaison positions and allowed State employees to provide an opinion on their preferred candidates, a routine practice at FWS. Three State employees—two from Mississippi and one from Alabama—and two FWS officials interviewed applicants for the positions in Biloxi and Spanish Fort. Similarly, two Louisiana employees and two FWS officials interviewed candidates for the Baton Rouge position. The Mississippi participants informed us that they selected the preferred candidate for the position in Biloxi, and FWS hired the candidate. An FWS official involved in the hiring process supported that claim in an email to the interview panel members, saying: "These are important positions, and if you feel that none of the candidates meet your expectations, we can re-advertise or come up with a Plan B."

We are especially concerned with the relaxed monitoring requirements and the hiring process because of the rapid pace at which FWS awarded CIAP grants—\$398 million in 8 months. This is more than three times the rate at which FWS awarded grants under its Wildlife and Sport Fish Restoration Program, even though FWS had no prior experience with CIAP or with most of the CIAP grantees. A major factor affecting the speed with which FWS issued CIAP grants was a proposed budget cut of \$200 million to this program for FY 2013. In fact, an FWS official held conference calls with all CIAP recipients urging them to submit grant applications for any remaining CIAP funds before October 2012 to avoid any potential cuts.

Obligating nearly \$400 million in CIAP funds within approximately 8 months may not have provided FWS enough time to perform due diligence and ensure that CIAP grant proposals meet Federal requirements. As a result, CIAP funds are at increased risk for fraud, waste, and mismanagement.

Recommendations

We recommend that FWS:

4. Independently assess risk of CIAP grant recipients and determine how and when to employ various monitoring tools, such as requiring additional reporting or adherence to the 10 percent rule; and
5. Modify its hiring process to eliminate the State's influence regarding the hiring of the State's CIAP liaison.

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Approved CIAP Grants that Failed To Support an Authorized Use

BOEMRE approved and provided several CIAP grants to DMR that did not clearly support at least one of the authorized uses of CIAP funds. Mississippi's State plan asserted that CIAP grants would provide conservation, protection, or restoration of coastal areas. We found, however, that seven different grant projects should not have been approved since the projects had little or no relevance to the preservation of the coastal areas. We therefore question almost \$5.9 million in ineligible costs and funds to be put to better use, the full amount obligated for these seven projects at the time of our review (see Figure 3).

Grant Number	Grant Title	Basis for Questioning Costs	Ineligible Questioned Costs	Funds To Be Put to Better Use
F12AF70001	Documenting and Conserving the Heritage Resources of the MS Gulf Coast, Phases 1 & 2	Executive Review Panel (ERP) File Review	\$293,748	\$156,252
F12AF70013	Infinity Project	OIG Site Visit	226,039	273,961
F12AF70024	Old Wire Road Trail Project	ERP File Review	119,565	92,135
F12AF70028	Ohr-O'Keefe Museum of Art Mississippi Sound Welcome Center	ERP File Review/ OIG Site Visit	483,650	16,350
F12AF70161	Pass Christian Harbor Expansion, Phases 1 & 2	ERP File Review	89,735	26,765
F12AF70166	Long Beach Harbor Expansion, Phases 1 & 2	ERP File Review	0	1,145,000
F12AF70181	Joseph T. Jones Park Educational Boardwalk, Pedestrian Bike Trail and Educational Pavilion	ERP File Review/ OIG Site Visit	0	2,940,000

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Grant Number	Grant Title	Basis for Questioning Costs	Ineligible Questioned Costs	Funds To Be Put to Better Use
Total			\$1,212,737	\$4,650,463

Figure 3. Total amount obligated in grant awards that do not clearly support at least one of the authorized uses under the Energy Policy Act of 2005.

Five of the projects were originally submitted as part of Mississippi’s State plan under AU4—the implementation of a Federally approved marine, coastal, or comprehensive conservation plan. BOEMRE personnel requested an opinion from the Office of the Solicitor on what qualified as a “Federally approved marine, coastal or comprehensive conservation management plan” since the projects submitted for approval were all part of the Mississippi Gulf Coast National Heritage Area plan. BOEMRE personnel had determined that this plan was 90 percent related to cultural heritage and less than 10 percent to coastal conservation. The Office of the Solicitor provided a list of examples of what it considered to meet the intent of the requirement and stated that, while the list was not exhaustive, BOEMRE should employ a “functional test” to determine if a given plan meets the intent of AU4.

BOEMRE officials subsequently rejected all seven projects since they determined that the Mississippi Gulf Coast National Heritage Area plan did not satisfy AU4 requirements because neither the plan nor the individual projects provided any direct benefit to the natural coastal environment. BOEMRE, however, had broadened its interpretation of AU1 to include projects that provide an “indirect” benefit to the natural coastal environment. Therefore, all projects that had been rejected because they provided no direct benefit to the coastal environment were later approved under the AU1 revision.

We question the use of CIAP grant funds for any of the projects that were originally determined to provide no direct benefit to the coastal environment but were later approved because of the policy change allowing “indirect” benefits. We were especially concerned with the approval of three of the projects—the Ohr-O’Keefe Museum of Art, the Old Wire Trail, and the Infinity Science Center.

Ohr-O’Keefe Museum of Art

The Ohr-O’Keefe Museum of Art Mississippi Sound Welcome Center, a pottery and art museum, was awarded a subgrant for \$500,000 to install six skylights and flooring in the welcome center, construct a lecture hall for educational purposes, and create a living laboratory using plants and vegetation outside the museum. The skylights and flooring were projected to cost \$450,000, leaving only 10 percent of the award for features that could have benefitted the environment, such as coastal exhibits and landscaping.

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During our site visit, the subgrantee informed us that the construction plan of the lecture hall had been discarded—a fact that BOEMRE was not informed of—but that the planting of the living laboratory would take place after construction in the museum was completed. According to the most recent Federal Financial Report, however, only \$16,350 remains available on the grant, which means that the amount actually intended for conservation purposes is less than 4 percent of the total award. We do not believe that this project accomplishes CIAP goals.

Old Wire Road Trail

The Old Wire Road Trail project was awarded \$211,700 to obtain rights-of-way and construct a 6-foot-wide asphalt trail across roughly 20 miles of the Old Wire Road, a historic telegraph line. The section of the trail funded by CIAP was entirely within the boundaries of Stone County, MS, which is a landlocked county not designated as an eligible recipient for CIAP grants (see Figure 4).

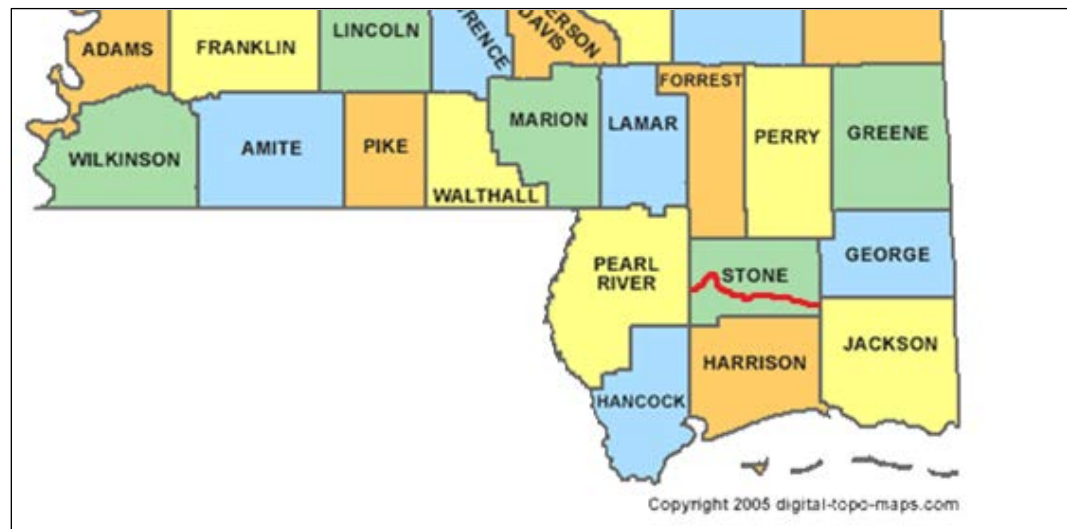


Figure 4. Map depicting the approximate placement of the Old Wire Trail in landlocked Stone County, MS.

BOEMRE’s policy regarding the noncoastal upper counties, however, states that “all CIAP projects do not need to be undertaken solely within a State’s coastal zone, but project benefits should flow to the coastal zone.” We question whether the benefits of an inland asphalt trail “flow to the coastal zone” or meet any of the authorized uses of CIAP funds. The project narrative includes the placement of interpretive signs, but these signs account for less than 2 percent of the overall budget.

We were particularly concerned about this project because DMR had requested a \$788,300 amendment. We notified FWS in March 2012 of our concerns, but FWS still approved the amendment in May 2012.

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Infinity Science Center

The Infinity Project was awarded \$500,000 to fund the construction of a classroom at the Infinity Science Center, which is part of the National Aeronautics and Space Administration’s (NASA) Stennis Space Center. According to the grant agreement, this classroom would be “a state of the art education facility that [would] provide long-term, continuous demonstration, outreach, and education opportunities for visitors to support the mission of educating the public on space, marine and environmental sciences.” Since this is a general-purpose classroom in a NASA facility, we question whether the project meets any of CIAP’s authorized uses.

Recommendations

We recommend that:

6. DOI’s Assistant Secretary for Policy, Management and Budget resolve the ineligible questioned costs of \$1,212,737 awarded by BOEMRE and address the \$4,650,463 in funds to be put to better use;
7. FWS review and revise CIAP guidance to ensure compliance with the Act; and
8. FWS review all open CIAP grants and Mississippi’s State plan and conduct regular site visits of high-risk grant projects to ensure compliance with the CIAP requirement.

Potential Conflicts of Interest Regarding DMR’s Administration of CIAP

DMR and county officials placed CIAP funds at risk by allowing individuals with apparent or actual conflicts of interest to apply for, evaluate, manage, or benefit from CIAP funding. Undisclosed conflicts of interest between a DMR CIAP official, another DMR senior official, the Mississippi Gulf Coast National Heritage Area, and their family and friends were at the core of 23 grants totaling roughly \$16 million. At the time of our review, over \$8.8 million had already been drawn down (see Figure 5).

Grant Number	Grantee	Subgrantee	Total Grant Amount	Ineligible Questioned Costs	Funds To Be Put to Better Use
F12AF70001	DMR	None	\$450,000	\$293,748	\$156,252
F12AF70005	DMR	Lucedale	154,000	143,541	10,459
F12AF70013	DMR	Mississippi	500,000	226,039	273,961

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Grant Number	Grantee	Subgrantee	Total Grant Amount	Ineligible Questioned Costs	Funds To Be Put to Better Use
		State University			
F12AF70016	DMR	Land Trust for the Mississippi Coastal Plain (LTMCP)	849,838	844,366	5,472
F12AF70018	DMR	LTMCP	350,000	252,438	97,562
F12AF70024	DMR	Stone County	211,700	119,565	92,135
F12AF70028	DMR	Ohr-O'Keefe	500,000	483,650	16,350
F12AF70034	DMR	University of Southern Mississippi (USM)	249,990	16,894	233,096
F12AF70118	Harrison County	LTMCP	18,910	13,558	5,352
F12AF70119	Harrison County	LTMCP	18,960	1,729	17,231
F12AF70128	DMR	The Nature Conservancy (TNC)	100,000	12,836	87,164
F12AF70214	DMR	LTMCP	16,594	13,173	3,421
F12AF70222	DMR	USM	2,250,000	746,084	1,503,916
F12AF70228	DMR	LTMCP	26,000	3,400	22,600
F12AF70232	DMR	None	245,000	231,659	13,341
F12AF70237	DMR	Institute for Marine Mammal Studies (IMMS)	3,366,247	1,336,189	2,030,058
F12AF70260	DMR	USM	993,816	111,991	881,825
F12AF70267	DMR	TNC	400,000	117,065	282,935
F12AF70270	DMR	None	3,725,300	3,695,253	30,047
F12AF70281	DMR	Pascagoula	552,000	0	552,000
F12AF70298	DMR	Maritime and Seafood Industry Museum	300,000	0	300,000
F12AF70302	DMR	IMMS	474,365	0	474,365
M09AF15332	DMR	USM	276,000	207,200	68,800
Total			\$16,028,720	\$8,870,378	\$7,158,342

Figure 5. Ineligible questioned costs related to grants and subgrants awarded with potential conflicts of interest.

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Questionable Purchase and Management of Real Property

The State of Mississippi included in its State plan a Gulf Coast land acquisitions project totaling \$10.8 million. It intended to purchase several land parcels from residents who could express interest in selling eligible properties by filling out a Land Acquisition Application and Ranking Criteria form found on the DMR CIAP Web site. DMR would evaluate and rank these properties based on established criteria and determine which properties to purchase. Structuring this land acquisition project in the State plan as one overall acquisition project instead of identifying the individual parcels upfront did not allow the public a chance to comment on the properties DMR selected for purchase. This created an environment that allowed questionable land purchases to occur, including the purchases of the home of a State CIAP official's parents and a yacht club and boat storage facility.

Purchase of the Home of a State CIAP Official's Parents

At least three parties engaged in potential conflicts of interest when DMR purchased the Pascagoula property using a \$245,000 grant: a DMR CIAP official, the CIAP official's parents, and another DMR senior official. DMR paid \$195,000 for the 0.95-acre parcel, which included a fully functioning, recently renovated house located in a residential neighborhood.

According to the grant agreement, DMR acquired the Pascagoula property for conservation, green space, and low-impact public use. We found, however, that a DMR CIAP official's parents owned the Pascagoula property. The CIAP official, who is responsible for overall CIAP administration, helped to compile the State plan and ordered the appraisals for CIAP land acquisitions. A DMR senior official, who approves and signs all grant agreements, informed us that he knew of the relationship between the sellers and the CIAP official prior to the transaction but allowed the sale to proceed after the CIAP official assured him that the property would be selected for acquisition in the same manner as all other land purchases under CIAP. DMR, however, could not provide us with documentation showing how the Pascagoula property was selected or how it ranked in comparison to other properties submitted by the public for consideration.

In addition, the sale agreement between the sellers and DMR stated: "The Sellers warrant and represent that neither the Sellers, nor any member of [the] Sellers' family, are related by marriage, blood within a first or second degree of kinship, or [has a] direct business relationship to" the DMR senior official. The CIAP official, however, has a familial relationship with the sellers (their daughter) and a direct business relationship with the DMR senior official (his employee). Furthermore, one of the sellers of this property—the CIAP official's mother—is a commissioner of the Mississippi Gulf Coast National Heritage Area. Since the DMR senior official has oversight of and is actively involved with this organization, he also appears to have a direct business relationship with the seller.

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DMR hired a contractor who reports to the CIAP official and manages all aspects of CIAP land acquisitions. According to the contract, “[t]he Contractor certifies that it . . . [w]ill establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain.” Upon learning of the planned purchase of the Pascagoula property, the contractor informed the CIAP official that an ethics opinion on the project may be necessary to “help ensure that everything is transparent” and to “protect [the CIAP official] and [DMR] going forward on this purchase.”

Four months later, an attorney employed by the contractor contacted the Mississippi Attorney General’s office, suggesting that the acquisition of the Pascagoula property may violate CIAP grant language addressing conflicts of interest. Specifically, the attorney warned that the contractor had a “duty to advise DMR that this project could and most likely does fall within the last part of the Conflict of Interest provision of Section E.7, in that it could ‘give the appearance of being motivated by desire for private gain for themselves or others (apparent conflict of interest), particularly those with whom they have family (emphasis added) . . . ties.” The Attorney General’s office concurred and quickly emailed the DMR senior official and the CIAP official, advising that an opinion from the State ethics commission was the most prudent course of action.

Despite being informed by the contractor of the potential impropriety and being advised by a member of the State Attorney General’s office, we have no indication that an ethics opinion was rendered or pursued. Just over 2 months after being advised by the attorney to seek such an opinion, the purchase of the CIAP official’s parent’s home was finalized.

Purchase of Yacht Club and Boat Storage Facility Owned by a DMR Senior Official’s Friend

A DMR senior official engaged in a potential conflict of interest when DMR purchased Harbor Landing, a yacht club and boat storage facility owned by a friend of the senior official, for approximately \$3.7 million (about \$2.1 million per acre) in CIAP funds. According to the grant agreement, DMR planned to remove all structures and restore the waterfront area to a community green space.

DMR allowed the seller to “wind down” operations at the boat storage facility for a year and a half after the purchase. According to the DMR senior official, he had a “handshake” deal with the seller, allowing the seller to keep all revenue as long as the revenues were offset by any operations and maintenance costs. The owner was told to keep accurate records and not to earn any profit, but no one from DMR has ever requested to see the records.

Due to the potential conflict of interest and subsequent events, we question whether DMR ever intended to use this property for green space. The yacht club

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and boat storage would need to be demolished to fulfill the stated purpose of the purchase. Any demolition would have to be funded through non-CIAP appropriations. Such a high-priced property that could require an extra investment of State funds to be able to even call it green space is, at the very least, difficult to justify.

In addition, Harbor Landing was purchased by DMR in December 2010. Just 2 months later, in February 2011, the City of Ocean Springs, MS, requested that DMR consider selling Harbor Landing to a credible buyer to preserve the city's tax base and avoid congestion in the city's harbor. The language in the deed to the property makes it clear that property acquired with CIAP funding is obtained for conservation purposes and is to remain preserved and in the State's possession. The DMR senior official, however, replied that although he did not envision being able to move forward with the proposal, he would be willing to sell if the city paid any resulting legal expenses.

Approval of Projects Administered by a DMR Senior Official's Wife

A potential conflict of interest existed between a DMR senior official and his wife, who has been employed by two different major DMR subgrantees—the University of Southern Mississippi (USM) and the Institute for Marine Mammal Studies (IMMS). IMMS received funding under grant F12AF70237 for \$3,366,247 and F12AF70302 for \$474,365 in phase one of the grant. USM received subawards totaling \$4,125,360.

The DMR senior official's wife worked for USM until April 2010. USM received 11 CIAP subgrants, including a grant to reconstruct the Marine Education Center and Aquarium (MECA) destroyed by Hurricane Katrina in 2005. The DMR senior official's wife had administered MECA for over 15 years and was designated as the project lead for USM in the original CIAP grant award.

On March 1, 2010, IMMS announced that the DMR senior official's wife had been named one of its directors and was leaving her position at USM. The next day, DMR submitted an unusual request to switch subgrantees on the MECA construction grant from USM to IMMS, stating that USM was "hesitant to complete the project" because of its current economic situation. This request meant that what would become the largest grant in the State of Mississippi, worth nearly \$7.8 million, was switched from the former employer of the senior official's wife to her new employer.

Due to the timing of both events, we interviewed the former director of USM's Gulf Coast Research Laboratory to better understand the requested subgrantee change. He denied that USM hesitated in moving forward with the CIAP grant to construct a new MECA once the project began. He also stated that USM gave up the almost \$7.8 million grant after splitting up grants managed by the DMR senior official's wife into those that were "the University's" and those that were "hers."

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In a press release announcing the DMR senior official's wife's employment with IMMS, the senior official's wife stated that she would bring millions in grant funding and many marine programs to IMMS. Shortly thereafter, the change in subgrantees from USM to IMMS was approved by BOEMRE. Several months later, IMMS received funding from another CIAP award for over \$3.3 million for a project that was initially excluded when the Mississippi CIAP plan was assembled. This grant budgeted for several employees' salaries, including a portion of the DMR senior official's wife's salary.

The appearance of a conflict of interest, coupled with evidence that DMR deliberately misled BOEMRE, causes us to question 100 percent of the expenditures under these grants.

Appearance of Conflicts of Interest Involving the DMR Senior Official's Son

Beginning in January 2010, the DMR senior official's son served on the board of trustees of a nonprofit organization, the Nature Conservancy (TNC). Approximately 1 month earlier, however, DMR submitted a grant application to BOEMRE that requested \$100,000 for a subgrant to TNC. In March 2010, shortly after the DMR senior official's son began serving on TNC's board, DMR applied for another CIAP grant that included \$400,000 for a second TNC subgrant. We noted that the DMR senior official signed both of these grant agreements, thereby providing funds to an organization that his son helps oversee.

Furthermore, DMR considered using CIAP funds to purchase property belonging to the senior official's son by including the property on a list of CIAP-eligible lands, thereby presenting the appearance of a conflict of interest. Ultimately, the Land Trust for the Mississippi Coastal Plain (LTMCP) purchased the son's property using other DOI funds it received through a subgrant from DMR. Those Federal funds, however, were not authorized for real property purchases.

CIAP Projects Evaluated by Individuals With Apparent Conflicts of Interest

We found several other appearances of or actual conflicts of interest related to the eligible CIAP recipients that assisted with the development of the State plan. In one instance, two DMR employees evaluated the nearly \$7.8 million proposed USM grant that was to be overseen by the DMR senior official's wife, even though the DMR senior official was in their supervisory chain. In another instance, a DMR employee reviewed projects submitted by nonprofit organizations, including LTMCP, even though the employee served on LTMCP's advisory board. LTMCP submitted 12 projects to DMR for consideration, and at least 6 of those projects were included in the State plan with LTMCP listed as the subgrantee.

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Benefits Accruing to Commissioners of the Mississippi Gulf Coast National Heritage Area

A DMR CIAP official is also the director of the Mississippi Gulf Coast National Heritage Area, managing it jointly with a group of commissioners. At least seven commissioners, however, managed or potentially benefitted from CIAP subgrants. For example—

- one commissioner, also a LTMCP senior official, received four CIAP subgrants from DMR totaling more than \$1.2 million for land acquisitions, salaries, and related expenses;
- another commissioner, also a Stone County consultant, serves as the county's contact for the Old Wire Road Trail grant, which according to the State plan will total nearly \$1 million after all phases and is a project that does not comply with the legislatively mandated uses of CIAP funds; and
- another commissioner, also a senior official of the Ohr-O'Keefe Museum of Art, oversees the \$500,000 grant the museum used to install skylights in its gift shop and cafeteria.

The Mississippi Gulf Coast National Heritage Area's plan also suggests that DMR intended to distribute CIAP funds in a manner that we consider inconsistent with the CIAP requirements. The plan lists all of the projects involving these seven commissioners and remarks that those projects are eligible for CIAP funding because they reside within one of the six counties that make up the Mississippi Gulf Coast National Heritage Area. The plan does not discuss whether the projects meet congressional requirements to receive CIAP funding, creating the impression that these projects could have received funding due to business ties rather than merit.

The Code of Federal Regulations (43 C.F.R. § 12.60) requires States to expend and account for grant funds in accordance with State laws and procedures for expending and accounting for their own funds. Therefore, DMR must comply with Statewide policies and procedures, such as the Mississippi Agency Accounting Policies and Procedures Manual. The manual states that each agency head is responsible to help "design, implement, maintain, and champion an internal control program that encompasses all agency fiscal programs and related activities." DMR, however, had not implemented several controls intended to deter and avoid conflicts of interest, including—

- a code of ethical conduct for all employees and a separate code of conduct for accounting and finance employees;
- policies and procedures on fraud, waste, and mismanagement that depict the agency's responsibilities and enhance its employees' abilities to prevent, detect, and report fraudulent or wasteful activity;

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- policies and procedures that prevent management from overriding internal controls and outline how compliance will be monitored; and
- policies and procedures to review accounting entries for “related party” transactions, where one party has significant influence or control over another party.

Furthermore, none of the three counties could provide us with policies and procedures for reporting fraud, waste, or mismanagement to independent investigative entities, such as the appropriate Office of Inspector General. Although one county has a policy on reporting fraud to county managers and attorneys, the breadth and depth of the potential conflicts of interest we discovered could deter employees from contacting DMR or county officials. Employees’ awareness and use of reporting mechanisms like Federal hotlines can be particularly useful to oversight agencies located outside the Gulf region since conflicts of interest are generally difficult to detect from afar. Left unchecked, these types of improprieties place Federal funds at risk; reward a close group of family, friends, and business associates; and prevent programs from benefitting the public.

Recommendations

We recommend that FWS:

9. Resolve the \$8,870,378 in ineligible questioned costs arising from potential conflicts of interest regarding DMR’s and Harrison and Hancock Counties’ administration of CIAP and address the \$7,158,342 of funds to be put to better use;
10. Review the State’s CIAP grants to identify and rectify potential conflicts of interest; such action could include requiring grantee and subgrantee staff to report memberships on boards of directors of outside organizations, reviewing large contracts and other procurement transactions for propriety, comparing the names of individuals involved in grant projects with a list of DMR or county employees, and performing site visits and formally informing employees of ways to report fraud, waste, or mismanagement to independent authorities;
11. Require DMR to provide support that it is complying with and implementing Chapter 30, “Internal Control,” from the Mississippi Agency Accounting Policies and Procedures Manual, per the C.F.R. requirement;
12. Require DMR to establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the

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Recommendations

appearance of personal or organizational conflict of interest, or personal gain, as required by the assurance statements for Federal financial assistance, and periodically review compliance with the safeguards;

13. Require the State to publicly announce each land parcel considered for purchase with CIAP funds, allow ample time for public comment, and report the comments to FWS prior to issuance of the grant award;
14. Monitor real property purchased with CIAP funds to ensure that grantees and subgrantees do not inappropriately dispose of such property, with particular attention given to the Harbor Landing site and to acquisitions involving a potential conflict of interest; and
15. Require DMR to account for all revenues and expenditures related to the Harbor Landing boat storage facility beginning with the date DMR took ownership of the property.

Improper Land Appraisals Diminished CIAP's Impact

DMR receives CIAP grants to acquire and conserve real property, but appraisals of real property must meet the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA). As of December 31, 2011, DMR, Harrison County, and four of their subgrantees—the City of Lucedale, the City of Pascagoula, LTMCP, and the Lynn Meadows Discovery Center (LMDC)—had acquired or were attempting to acquire 16 parcels of land under grants provided by BOEMRE.

After discussing appraisal terminology, theory, and practice with a Federal appraisal expert from the DOI Office of Valuation Services, we identified 13 UASFLA requirements that we consider to be key elements and best practices that could affect the appraiser's estimation of market value—

- arms-length transactions;
- tax assessors' and grantees' appraisal amounts;
- analysis and application of highest and best use;
- extraordinary assumptions;
- consideration of sales history;
- cost and/or income capitalization methods of appraisal;
- zoning differences;
- verification of comparable sales;
- sales to governments and nonprofits as comparables;

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- quantitative adjustments to comparable sales;
- qualitative analysis of comparable sales;
- stale appraised values and comparable sales; and
- reliance on the seller’s appraisal.

None of the CIAP appraisals fully met these criteria, with each appraisal containing an average of five deficiencies (see Appendix 3). Some of the most alarming issues with inadequate appraisals and questionable land acquisitions include extremely large disparities between tax assessors’ and grantees’ appraisals, questionable analysis of highest and best use, inadequate investigation and consideration of sales history, unsupported and inconsistent quantitative adjustments to comparable sales, and the reliance on the seller’s appraisal. These issues can diminish CIAP’s overall impact on coastal communities by resulting in overpayment for property and reducing the amount of funds available for other projects.

Large Disparities Between Tax Assessors’ and Grantees’ Appraisals

UASFLA requires appraisal reports to state the value of the property that local officials use for tax purposes. In 15 of 16 instances, property values determined by CIAP appraisals varied dramatically from the values assigned by county tax assessors. Five properties appraised at least 1,000 percent higher for CIAP purposes than for tax assessment purposes, with the most egregious example appraising 7,382 percent higher (see Figure 6).

Land Tract	County Tax Assessor’s Appraisal	CIAP Appraisal	Percentage Difference
Charnley-Norwood	\$457,320	\$1,300,000	184%
Hanover Point	183,400	1,260,000	587
Harbor Landing	1,320,050	4,050,000	207
Lynn Meadows Discovery Center	198,490	1,070,000	439
McNeil Property	10,650	130,000	1,121
Moran Site	33,132	380,500	1,048
Moss Point	3,300	32,500	885
Old Fort Bayou	70,680	1,250,000	1,669
Pascagoula	175,790	195,000	11
Pass Christian Beach Front Park	595,125	5,250,000	782
Point Park	200,470	465,000	132
Potoman LLC	38,085	170,000	346
Reynolds (Front Beach Drive)	202,840	835,000	312
Reynolds (Rod and Reel Road)	8,970	25,700	187

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Land Tract	County Tax Assessor's Appraisal	CIAP Appraisal	Percentage Difference
Swetman-Meeboer	4,745	355,000	7,382
Wolf River	11,977	360,000	2,906

Figure 6. Disparities between appraisals conducted for CIAP grants and county tax assessors' appraisals.

The appraisal expert from the Office of Valuation Services informed us that tax assessors' valuations can vary widely from appraisals conducted under UASFLA, depending on the appraisal method required in each tax assessor's jurisdiction. He noted, however, that significant disparities generally warrant an explanation in the appraisal reports. Only two appraisals, for LTMCP's planned acquisition of the Potoman LLC and Swetman-Meeboer properties, attempted to address these differences but did not do so convincingly. The appraisals justified the disparities by showing that other LTMCP acquisitions also cost considerably more than the values determined by the tax assessor. This method, however, does not rely on independent data (i.e., sales in which LTMCP was not involved) to explain the significant disparities.

Questionable Analysis and Application of Highest and Best Use

One of the first steps in the appraisal process is to determine the highest and best use (HBU) of the property being appraised. HBU represents the most profitable use for which the property is adaptable and likely to be needed in the reasonably near future. After determining HBU, appraisers use comparable properties with the same HBU to estimate the value of the subject property.

Although UASFLA considers the determination of HBU as one of the most important elements of the entire appraisal process, CIAP appraisals contained numerous instances of questionable HBU analysis and application:

- Eight CIAP appraisals either (1) did not report HBUs for all comparable sales or (2) used comparable sales with HBUs different from the subject property. According to UASFLA, all comparable sales fundamentally have the same economic HBU as the property under appraisal. Comparable sales that do not meet this standard are not truly comparable to the subject property and should not be considered in UASFLA appraisals (see Appendix 3).
- Five CIAP appraisals list multiple HBUs for the subject property or the comparable sales. For example, the Wolf River appraisal presents four possibilities for HBU, even though it does not consider the property to be a candidate for mixed use. Similarly, the Moss Point appraisal lists multiple HBUs for three of the four comparable sales used in that report. According to UASFLA, "each potential use must be analyzed in terms of

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its physical possibility, legal permissibility, financial feasibility, and its degree of profitability. That use which meets the first three tests and is the most profitable use (i.e., results in the highest value) is the property's highest and best use" (see Appendix 3).

- Four CIAP appraisals assert that assemblage—the practice of combining two or more land parcels under a single ownership or use—represents HBU of the subject property or the comparable sales. According to UASFLA, however, “the appraiser’s estimate of highest and best use must be an *economic* use [original emphasis].” A June 22, 2005 article entitled “Disassembling Assemblage,” published by the Appraisal Institute—a global association of nearly 23,000 professional real estate appraisers—echoes this sentiment. The article states: “Unfortunately for most property owners, the actions of the adjoining property owners cannot be dictated. If they could, the highest and best use of every property would be for the adjacent property owner to purchase it [for assemblage purposes]. An absurd extension? Many assemblage conclusions are just as absurd” (see Appendix 3).

Inadequate Investigation and Consideration of Sales History

UASFLA states that “[p]rior sales of the same property, reasonably recent and not forced, are extremely probative evidence of market value.” The standards also require appraisers to report all sales of the subject property within the past 10 years. If no sale occurred within that timeframe, appraisals must indicate the last sale of the property, irrespective of date, since Federal courts have considered sales up to 14 years old as relevant in determining market value. Prior sales history, however, is not fully reported in 11 of the 16 CIAP appraisals (see Appendix 3). For example, the April 2010 appraisal of Harbor Landing notes that the property had been sold in January 2004 for \$675,000. Even though this sale occurred only 6 years prior to the CIAP appraisal, the appraiser discounted it in his analysis “[d]ue to its occurrence several years in the past.” This standard is particularly relevant given that the appraiser’s valuation of Harbor Landing totals \$4,050,000, an appreciation of 600 percent over 6 years.

Unsupported and Inconsistent Quantitative Adjustments to Comparable Sales

Comparable sales inevitably differ from the subject property in a number of ways. For example, a comparable sale could have an ocean view, while the subject property does not. Such features increase or decrease the value of comparable sales, and unless appraisers adjust for these differences, they could overstate or understate the value of the subject property. According to UASFLA: “The preferred method of adjusting comparable sales is through the use of quantitative [specific dollar or percentage] adjustments whenever adequate market data exists to support them.” The Federal appraisal expert we consulted explained that quantitative adjustments should be supported by verifiable data.

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Of the 16 appraisals we reviewed, 11 do not adequately support quantitative adjustments of comparable sales (see Appendix 3) For instance, in the report for the one of the properties, the appraiser adjusted the price of three comparable sales by 15 percent due to size differences. The appraiser, however, did not calculate the specific amount of this adjustment using market data; he appeared to estimate the 15 percent figure based only on his experience.

The appraiser also inconsistently adjusted comparable sales without adequate explanation. The comparable sales in the report were adjusted due to differences in acreage—the largest comparable (40 acres) is 4 times larger than the smallest (9.7 acres)—but approximately 8 months later, the same appraiser valued another property without quantitatively adjusting any comparable sales for size. In this case, the largest comparable sale (150.2 acres) was 376 times larger than the smallest (0.4 acres).

Reliance on the Seller's Appraisal

DMR based its purchase of the Hanover Point and the Pass Christian Beach Front Park properties on UASFLA appraisals completed for and addressed to the sellers without procuring its own. We have no evidence that DMR addressed this issue to ensure the impartiality and thoroughness of these appraisals.

These issues arose due to ineffective management by virtually all parties involved in the appraisal process—Federal officials, grantees, and appraisers. First, BOEMRE grant language did not require grantees and subgrantees to obtain independent reviews of their appraisals from a qualified appraiser under certain conditions. Instead, BOEMRE officials examined the appraisals, although they had little knowledge of and no training on UASFLA. One BOEMRE grant specialist informed us that if she could “follow the math” used in an appraisal, she considered it adequate.

Second, we have no assurance that DMR officials engaged the most competent, qualified, and experienced individuals to work on land acquisitions because they did not procure key services competitively. For example, the hand-selected environmental and real estate consulting firm charged with coordinating all aspects of CIAP land acquisitions, including work performed by third-party appraisers, was also required to gather and submit all deliverables, including appraisal reports, to DMR. The contractor, however, only performed a “cursory documentation and compliance check of the appraisal reports” in spite of (1) its implicit responsibility to submit reasonably accurate deliverables, and (2) DMR’s professed need for “technical expertise in . . . appraisal and appraisal review,” which was touted as a reason to hire the contractor under sole-source procurement procedures. Furthermore, the resume for the contractor’s representative working on CIAP projects does not indicate any prior experience with UASFLA appraisals.

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UASFLA quotes the U.S. Supreme Court’s decision in *Searl v. School District, Lake County*, to highlight the importance of fully supported appraisals: “It is the duty of the state, in the conduct of the inquest by which the compensation is ascertained, to see that it is just, not merely to the individual whose property is taken, but to the public which is to pay for it.”¹ Since the CIAP appraisals fall short of meeting required standards, the public has no assurance that it paid a fair price for land acquired by DMR and its subgrantees. As a result, we question \$12,639,045 in ineligible costs, which represents all expenses incurred under CIAP grants for land acquisitions through December 2011 (see Figure 7).

Grant Number	Grantee/ Subgrantee	Land Tract	Grant Amount	Ineligible Questioned Costs	Funds To Be Put to Better Use
F12AF70005	DMR/Lucedale	McNeil Property	\$154,000	\$143,541	\$10,459
F12AF70016	DMR/LTMCP	Old Fort Bayou	849,838	844,366	5,472
F12AF70022	DMR/LMDC	LMDC	1,200,000	1,009,350	190,650
F12AF70039	DMR	Pass Christian Beach Front Park	3,044,000	3,042,231	1,769
F12AF70040	DMR	Hanover Point	1,294,500	1,289,316	5,184
F12AF70118	Harrison County/LTMCP	Potoman LLC	18,910	13,558	5,352
F12AF70119	Harrison County/LTMCP	Swetman-Meeboer	18,960	1,729	17,231
F12AF70185	DMR	Charnley-Norwood	1,045,400	1,023,780	21,620
F12AF70206	DMR	Moran	540,180	15,056	525,124
F12AF70214	DMR/LTMCP	Moss Point	16,594	13,173	3,421
F12AF70224	DMR	Reynolds Properties	896,100	891,033	5,067
F12AF70232	DMR	Pascagoula	245,000	231,659	13,341
F12AF70270	DMR	Harbor Landing	3,725,300	3,695,253	30,047
F12AF70281	DMR/Pascagoula	Point Park	552,000	0	552,000
M09AF15751	DMR	Wolf River	425,000	425,000	0
Total			\$14,025,872	\$12,639,045	\$1,386,737

Figure 7. Ineligible questioned costs for land acquisitions charged to CIAP grants through December 2011.

¹ 133 U.S. 553, 562 (1890).

Recommendations

We recommend that FWS:

16. Resolve the ineligible questioned costs of \$12,639,045 resulting from land appraisals that do not meet Federal standards before allowing further drawdowns on land acquisition grants and ensure funds totaling \$1,386,737 are put to better use;
17. Require grantee and subgrantees to provide evidence that appraisers are competitively selected, do not present conflicts of interest, have demonstrated the ability to complete appraisals in accordance with Federal standards, and are approved by FWS before CIAP recipients draw down funds;
18. Require CIAP grantees and subgrantees to obtain appraisal reviews that comply with Federal appraisal standards and ensure that the reviewers are competitively selected, do not present conflicts of interest, and have demonstrated the ability to perform appraisal reviews in accordance with Federal standards; and
19. Review appraisals and appraisal reviews obtained by CIAP grantees on a regular basis to ensure compliance with Federal appraisal standards.

Circumvention of Sole-Source Procurement Regulations

Four grant recipients in Mississippi—DMR, Hancock County, Harrison County, and the Ohr-O’Keefe Museum of Art—circumvented Federal and State procurement rules by continually awarding sole-source contracts without adequate justifications. This allowed the recipients to avoid dollar thresholds and additional procurement requirements by using purchase orders (POs) for services that should have been charged directly to existing contracts. As of December 2011, the four grant recipients issued sole-source contracts and POs totaling almost \$1.4 million and paid over \$1 million for associated goods and services. We therefore have no assurance that grantees paid the optimal price for services or that Federal funds were equally available to all potential contractors (see Figure 8).

Contractor	Grantee/ Subgrantee	Scope of Contract/ Purchase Order (PO)	Contract/PO Amounts	Ineligible Questioned Costs
A	DMR	Assist with State CIAP Plan	\$89,500	\$81,085

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Contractor	Grantee/ Subgrantee	Scope of Contract/ Purchase Order (PO)	Contract/PO Amounts	Ineligible Questioned Costs
A	DMR	Administer State CIAP Grants	428,000	327,073
A	DMR	Manage Land Acquisitions	200,847	168,312
B	DMR	Develop Wastewater Projects and Apply for Grants	52,483	33,410
B	Harrison County	Administer County CIAP Grants	No Maximum	108,448
C	Hancock County	Administer County CIAP Grants	No Maximum	0*
D	Hancock County	Implement GIS Projects	430,875	127,628
E	Hancock County	Design Sewer Projects	135,275	141,810
F	Ohr-O'Keefe	Design Landscape	32,800	33,650
Total			Over \$1,369,780	\$1,021,416

Figure 8. Charges to CIAP grants for inadequately justified sole-source procurements.

*This grant is included because we questioned the use of a sole-source contract. Hancock County had not yet sought reimbursement for any costs associated with the grant at the time of our review.

In accordance with the Mississippi Code Annotated § 25-9-120(3)(a), all contracts for professional and personal services must be procured through either competitive-sealed bidding, competitive-sealed proposals, small purchases, sole-source procurements, or emergency procurements. Procurements cannot be divided or underestimated, and the total amount of the contract determines the appropriate procedures for procurement of services. Service contracts for \$50,000 or less may be procured from any source following agency rules and regulations. Service contracts greater than \$50,000 but not exceeding \$100,000 may be procured from the lowest acceptable bidder after obtaining three written quotes. Service contracts over \$100,000 may be procured from the lowest bidder or the best proposal after advertising and soliciting for bids or proposals and are subject to review and approval of Mississippi's Personal Service Contract Review Board. In select cases, an agency may determine a sole-source procurement to be necessary. These types of procurements are not permissible unless a requirement is available from only a single supplier. That determination must be justified and approved in writing by the head of the State agency. The justification should

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explain why no other vendor meets the need. Competition should be used if there is any indication that another vendor can provide the same services. The regulations also provide for the cancellation of contracts awarded in violation of these requirements.

Department of Marine Resources

DMR provided \$718,347 in sole-source awards to a real estate consulting firm (Contractor A) consisting of 5 contracts and 55 POs that DMR should have charged to an existing contract. DMR hired Contractor A to perform three main services: (1) assist in writing the State CIAP plan, (2) administer the State’s CIAP grants, and (3) manage CIAP land acquisitions.

In November 2006, Contractor A began work under a \$44,500 sole-source contract to help write the State CIAP plan. According to the sole-source justification, Contractor A’s vice president was the only individual with relevant experience to fulfill DMR’s needs, due to her prior work under a different CIAP grant program established in 2001.² In June 2007, DMR amended the contract cost to \$89,500 and expanded its scope, requiring Contractor A to assist DMR and the State’s three coastal counties with the grant application process (see Figure 9).

Grant Number	Procurement Method	Begin Date	End Date	Contract Amount
F12AF70110	Contract No. 07-032	11/1/2006	12/31/2007	\$44,500
F12AF70110	Amendment to Contract No. 07-032	6/8/2007	12/31/2007	45,000
Total				\$89,500

Figure 9. Sole-source contract awarded to Contractor A to help write the State CIAP plan.

These actions suggest that DMR attempted to avoid the requirement to obtain three price solicitations and written responses for contracts totaling \$50,001 to \$100,000. The amendment more than doubled the cost of the contract, bringing into question whether the initial contract—only \$5,501 short of the \$50,001 threshold—reasonably estimated the job’s cost. Furthermore, since DMR officials did not solicit price quotations or bids, they could not state with certainty that only Contractor A was able to perform these tasks. Considering the influx of Federal grant funds in the Gulf region following Hurricane Katrina, many other

² Public Law 106-553, Section 903 authorized CIAP in FY 2001 to assist States in mitigating the impacts from Outer Continental Shelf oil and gas development and production. Congress appropriated \$150 million to seven coastal States—Alabama, Alaska, California, Florida, Louisiana, Mississippi, and Texas—and “coastal political subdivisions” within those States, to implement this program. Under the program, Ocean and Coastal Resource Management administered more than 150 separate grants to States and localities. CIAP funded more than 600 projects, including habitat protection and restoration, land acquisition, and water quality improvement projects. Congress reauthorized the program for FYs 2007 through 2010.

individuals or firms could have had relevant experience in developing a State plan and assisting with grant applications.

One month after completion of the contract, DMR provided Contractor A with another sole-source contract for \$41,000 to administer the State’s CIAP grants. DMR justified this award based on the contractor’s unique experience and ability. Contractor A subsequently received two additional sole-source contracts to continue this work. These three contracts totaled \$428,000 (see Figure 10).

Grant Number	Procurement Method	Begin Date	End Date	Contract Amount
F12AF70110	Contract No. 08-053	2/1/2008	6/30/2008	\$41,000
F12AF70110	Contract No. 09-012	7/1/2008	6/30/2009	96,000
F12AF70110 F12AF70206	Contract No. 10-017	7/1/2009	6/30/2012	291,000
Total				\$428,000

Figure 10. Grant number and contract information for contracts DMR awarded to Contractor A to administer Mississippi’s CIAP grants.

We found that DMR could have competed all three of the contracts because an environmental consulting firm (Contractor B) had relevant experience administering the 2001 CIAP grant program for Harrison County. Although the director of DMR’s Office of Coastal Management and Planning informed us that Contractor B did not want the State contract, we found no documentation showing that DMR solicited Contractor B or any other individual or firm to bid on this work. In addition, the CIAP administrator, who is also the vice president for Contractor A, suggested that other firms were capable of successfully administering the State’s CIAP grants. In an interview, she told us: “I’m not saying I’m the only person who could have done this [type of work]—not at all.”

In March 2010, DMR issued the first of eight POs to pay Contractor A to manage CIAP-funded land acquisitions. Over the next 2 months, DMR paid Contractor A \$34,800 for this work without a contract in place. In July 2010, Contractor A was awarded yet another sole-source contract for \$75,000 to continue managing the land acquisitions under seven grants. DMR later amended the contract, adding another \$13,291 in costs. The sole-source justification for the contract stated that Contractor A had extensive knowledge of CIAP and offered a unique combination of services, including land appraisals, landscape design, and conservation planning. DMR, however, provided no evidence indicating it attempted to research other vendors that could perform these services, casting doubt on the use of a sole-source contract.

Even with a contract in place, DMR continued to issue POs to Contractor A for costs related to CIAP land acquisitions. In total, Contractor A received an

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additional \$77,756 from 47 POs, all of which related to the scope of the original contract but were not charged to it (see Figure 11). DMR paid 56 percent of the costs for managing CIAP land acquisitions using POs. By underestimating the contract value, using different procurement methods rather than issuing a single contract, and splitting similar purchases into several transactions, DMR avoided the \$100,000 threshold that would have triggered review by Mississippi's Personal Service Contract Review Board.

Grant Number	Procurement Method	Begin Date	End Date	Amount
F12AF70039 F12AF70040	8 Purchase Orders	3/25/2010	6/2/2010	\$34,800
F12AF70206 F12AF70039 F12AF70040 F12AF70224 F12AF70270 F12AF70185 F12AF70232	Contract No. 11-033	7/1/2010	6/30/2011	75,000
F12AF70206 F12AF70039 F12AF70224 F12AF70270 F12AF70185 F12AF70232	Amendment to Contract No. 11-033	3/18/2011	6/30/2011	13,291
F12AF70206 F12AF70039 F12AF70040 F12AF70224 F12AF70270 F12AF70185 F12AF70232	47 Purchase Orders	8/30/2010	12/8/2011	77,756
Total				\$200,847

Figure 11. Purchase orders and contracts DMR used as sole-source procurements to Contractor A to manage CIAP land acquisitions.

In addition, DMR awarded Contractor B a sole-source contract for \$50,000 to develop wastewater projects and apply for CIAP funding. DMR officials justified this procurement based on Contractor B's knowledge of the subject area and experience coordinating CIAP projects. Given the many wastewater projects underway in the Gulf region, this justification does not demonstrate that Contractor B was the only available firm able to do this work. Eight days after the contract took effect, DMR issued one purchase order to Contractor B for work related to, but not paid under, this contract. This action suggests that DMR

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attempted to keep this procurement below the \$50,001 limit to avoid obtaining three price solicitations and written responses (see Figure 12).

Grant Number	Procurement Method	Begin Date	End Date	Amount
F12AF70110	Contract No. 11-038	7/1/2010	6/30/2011	\$50,000
F12AF70110	1 Purchase Order	7/9/2010	7/9/2010	2,483
Total				\$52,483

Figure 12. Sole-source procurement and purchase order awarded to Contractor B to develop wastewater projects and apply for grants.

Harrison County

On October 2, 2006, the Harrison County Board of Supervisors awarded Contractor B a sole-source contract to administer Harrison County’s CIAP grants. This time-and-materials contract did not set a maximum cost. A second time-and-materials contract was awarded on March 9, 2009, for a cost not to exceed \$213,034 (see Figure 13). The sole-source justifications for these contracts stated that Contractor B was the only firm with the “knowledge, experience, and ability to efficiently move forward” with CIAP, since it had managed projects under the prior CIAP beginning in 2001. Harrison County provided no evidence indicating it attempted to research other vendors that could perform these services, casting doubt on the use of a sole-source contract.

Grant Number	Procurement Method	Begin Date	End Date	Amount
F12AF70006	Contract Number Requested but not Received	10/2/2006	2/28/2009	No Maximum
F12AF70006	Contract Number Requested but not Received	3/9/2009	None	\$213,034
Total				Over \$213,034

Figure 13. Sole-source procurements awarded to Contractor B to administer CIAP grants for Harrison County.

Hancock County

In February 2011, the Hancock County Board of Supervisors awarded a sole-source, time-and-materials contract to Contractor C under grant F12AF70310 to administer Hancock County’s CIAP grants. Although the contract does not state a maximum cost, it sets the contractor’s hourly rate at \$37.50. We found no evidence, however, that the county competed this acquisition or justified it as a sole-source award in writing. In the grant file, a BOEMRE contracting officer acknowledged that Contractor C would receive a sole-source award for this work since it had administered Federal grants for the county since 1997.

The Board of Supervisors also awarded a \$430,875 sole-source contract to an information technology company (Contractor D) under grant F12AF70274 to track recovery from Hurricane Katrina by implementing a new geographic information system (GIS). The county could not provide us with a written sole-source justification. In BOEMRE's grant file, however, a county official claimed that Contractor D was the most experienced GIS firm in the area and that other Mississippi counties set the precedent of providing sole-source awards to this contractor. The official also stressed that the county was not aware of this grant opportunity until Contractor D brought it to the county's attention. Finally, the official noted that dozens of "unqualified or out of state" firms would bid on this contract if it were advertised, but county officials did not have the technical knowledge to analyze the bids. Without advertising this opportunity and fostering competition, however, Hancock County could not ascertain whether "unqualified" firms would have bid on this project.

The county's CIAP administrator informed us that the county also awarded a \$135,275 sole-source contract to an engineering firm (Contractor E) under grant F12AF70115 to design sewer projects. According to the grant file, however, a county official assured BOEMRE that all CIAP-funded procurements would be competed in accordance with 43 C.F.R. § 12.76, which states that competition should be used unless the service is available only from one source. We noted that several engineering firms operate in the State's Gulf region.

Ohr-O'Keefe Museum of Art

The Ohr-O'Keefe Museum of Art, a DMR subgrantee, awarded a sole-source contract for \$32,800 to a landscaping firm to provide a master landscaping plan for an outdoor living laboratory under grant F12AF70028. According to museum staff, the architect who designed the museum's buildings recommended Contractor F for the landscaping project. Museum officials, however, could not provide a written sole-source justification for their selection of this contractor. Since the officials informed us that they intended to follow State regulations for this procurement, they should have competed the contract in the absence of an adequate sole-source justification.

Recommendations

We recommend that FWS:

20. Resolve the ineligible questioned costs of \$1,021,416 from inadequately justified sole-source procurement awards charged to F12AF70006, F12AF70028, F12AF70039, F12AF70040, F12AF70110, F12AF70115, F12AF70185, F12AF70206, F12AF70224, F12AF70232, F12AF70270, and F12AF70274;

Recommendations

21. Require that CIAP recipients provide evidence of compliance with Federal procurement regulations, including requirements to follow grantees' and subgrantees' own procurement standards; and
22. Develop and implement a plan to verify that CIAP recipients are not splitting procurements into smaller purchases to avoid competition thresholds.

Unallowable, Unallocable, and Unreasonable Charges to CIAP Grants

DMR and its subgrantees charged a variety of supplies, services, and equipment items to CIAP grants. To be eligible for Federal reimbursement, such expenses must be allowable, allocable (within the scope of the grant), reasonable, and adequately supported by price quotations, invoices, receipts, and similar documentation. We found, however, that DMR (1) spent \$23,967 on unallowable promotional items, (2) incurred \$2,229 in unallocable and unreasonable registration costs for a conference, and (3) awarded a subgrant that resulted in \$203,847 in unsupported costs.

Unallowable Charges for Promotional Items

In May 2011, DMR cohosted a “Coastal Development Strategies Conference” in Biloxi, MS, dealing with climate change, energy and resiliency, infrastructure, development, and other similar issues. DMR charged \$23,967 for conference souvenirs to a CIAP grant that was awarded for the conservation of the heritage resources of the Mississippi Gulf Coast (see Figure 14). The souvenirs—described as “promotional” in the State’s accounting system—included gourmet aprons, tote bags, golf bag coolers, and commemorative coins. In addition, DMR officials purchased hundreds more items than needed, since only 320 people registered for the conference.

Item	Number Purchased	Total Cost
Gourmet Aprons	1,000	\$11,527
Tote Bags	1,250	4,898
Golf Bag Coolers	250	4,578
Commemorative Coins	519	2,964
Total		\$23,967

Figure 14. Unallowable promotional items charged to F12AF70001.

Federal regulations state that the costs of promotional items and memorabilia, including gifts and souvenirs, are not allowed under Federal grants and are not even considered incidental costs of hosting a conference. Since DMR officials did not follow this regulation, they now have fewer funds available to conserve heritage resources and have jeopardized their ability to fulfill the grant objectives.

Unallocable and Unreasonable Conference Registration Fees

DMR charged \$2,229 to grant F12AF70148 to cover registration fees for two employees attending a conference and trade fair on business and the environment in Vancouver, Canada, in March 2012. DMR received this grant to support an environmental stewardship program in the State's elementary schools. Nothing in the conference agenda related to this objective. In addition, DMR conference attendees never charged time to any CIAP grant, making their participation in the conference of questionable benefit to CIAP.

As stated in Federal regulations, costs are only allocable to a cost objective (i.e., a grant award) if they are chargeable or assignable in accordance with the relative benefits received. Reasonable costs must (1) be generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award and (2) not represent a significant deviation from the grantee's established practices. Because DMR spent \$2,229 that was not allocable to this grant and did not meet the standards for reasonable costs, the State's elementary schools did not receive these funds to educate students on environmental stewardship.

Unsupported Costs Incurred by a Subgrantee

DMR awarded a subgrant to the Institute for Marine Mammal Studies (IMMS) to be used for research, rescue, and rehabilitation of stranded marine animals. After excluding payroll, travel, gasoline, and all expenses less than \$100, we selected \$251,035 from the remaining \$462,750 charged to grant F12AF70237 (54 percent) for review. Less than 20 percent of the expenditures in our sample were supported adequately enough to justify Federal reimbursement.³

Specifically, IMMS staff—

- could not demonstrate that \$37,649 in expenditures was approved before being invoiced;
- could not provide competitive price quotations for purchases worth \$30,989;
- made a payment on a \$116,050 noncompetitive purchase before preparing the sole-source justification or obtaining approval from DMR; and

³ Two purchases were not supported due to multiple problems. As a result, the sum of the expenditures from the individual examples in this section exceeds the questioned costs related to this grant.

- selected vendors before seeking competitive price quotations for items totaling \$144,307.

IMMS’s procurement policies state that all expenditures “should be meticulously [original emphasis] recorded” on a Purchase Order, and “all purchases should be PRE-APPROVED [original emphasis] and price comparison should be done and documented prior to purchase” for items costing \$100 or more. Although IMMS has no specific policies for noncompetitive procurements, 43 C.F.R. § 12.76(g)(2)(ii) allows the awarding agency to review documentation supporting these procurements prior to purchase.

Recommendations	
We recommend that FWS:	
23.	Resolve the ineligible questioned costs of \$23,967 charged to grant F12AF70001 and \$2,229 charged to grant F12AF70148;
24.	Resolve the ineligible questioned costs of \$203,847 charged to grant F12AF70237; and
25.	Instruct DMR and IMMS staff members involved in the procurement process to follow applicable Federal regulations and the terms and conditions of CIAP grant agreements, and provide documentation to demonstrate this compliance to FWS.

Equipment Purchased With CIAP Funds Used Improperly

DMR expended \$195,743 of CIAP grant funds on equipment, much of which was assigned to employees who never charged time to CIAP. We also identified instances of DMR staff misusing CIAP equipment, leading us to question \$107,443 of these costs (see Figure 15).

Grant Number	Grant Title	Ineligible Questioned Costs
F12AF70003	Sustainable Development and Smart Growth Management Initiative	\$3,189
F12AF70107	Impact Monitoring Program	1,508
F12AF70109	Coastal Wetlands Database Enhancement	91,330
F12AF70112	Aquatic Invasive Species Coordination, Assessment and Control Plan Implementation	400
F12AF70148	Mississippi Environmental Stewardship Program	11,016
Total		\$107,443

Figure 15. Ineligible equipment costs charged to CIAP grants.

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With that \$107,443, DMR bought several portable electronic devices for \$88,027, including 13 laptop computers, 12 digital cameras, and 10 GPS receivers. Only two of these items, a digital camera and a laptop, were assigned to a staff member who charged part of her time to CIAP projects. DMR provided the remaining questioned items to personnel who charged no time to CIAP activities. DMR also charged a towable trailer costing nearly \$2,000 and assigned this item to an employee who did not charge time to CIAP. During our audit fieldwork, this individual informed us that she planned to use the trailer to deliver materials promoting DMR to the “Second Annual Pass Christian Oyster Festival.” She confirmed that this use was not related to CIAP. We visited the festival and verified that DMR staff had used the trailer to transport items such as cookbooks, hand sanitizer, bumper stickers, and fishing guidebooks to a booth at the festival. None of these materials were related to CIAP or the objectives of the grant that funded the purchase of the trailer.

According to the CIAP grant agreements, “[a]ny real property or equipment that is improved or acquired with Federal grant funds must be used for the originally authorized purposes as long as needed for those purposes.” Since the grants to which DMR charged the equipment were ongoing at the start of our audit, the CIAP-funded equipment should still be needed and used for grant purposes. DMR’s misuse of these CIAP funds has reduced the amount available to conserve, protect, and restore the State’s natural coastal environment—a primary CIAP objective.

Recommendations

We recommend that FWS:

26. Resolve the ineligible questioned costs of \$107,443 charged to grants F12AF70003, F12AF70107, F12AF70109, F12AF70112, and F12AF70148; and
27. Require DMR to prorate the cost of each piece of equipment among the projects benefitting from its use, and provide documentation to FWS evidencing proper use.

Mishandled Accounting and Financial Issues

Federal grant regulations require specific and accurate accounting of all grant transactions to ensure that funds are being fairly spent and accurately recorded. We found a myriad of mishandled accounting and financial issues with CIAP grant funds in the State of Mississippi, including an improper recording of transactions in the financial management system, unsupported payroll expenses, unsupported indirect costs, and unreported program income.

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Financial Management System

DMR received several grants under CIAP to purchase real property for green space and conservation. DMR officials, however, incorrectly charged four CIAP land appraisals to other Federal awards and never corrected these errors. DMR charged \$17,000 to the National Oceanic and Atmospheric Administration's Emergency Disaster Recovery Program (EDRP) for land appraisals authorized under three CIAP grants. Congress provided EDRP funds to aid in the recovery of the marine resources and fisheries industry following Hurricanes Katrina, Rita, and Wilma.

DMR failed to transfer the erroneous appraisal charges, totaling \$17,000, to the appropriate CIAP grants, even though approximately 2 years have passed since the appraisals were performed (see Figure 16). According to 43 C.F.R. § 12.60, States must follow their own laws and procedures to account for grant funds. Accordingly, the State's accounting manual notes that identifying erroneous transactions and adjusting the accounting records on a timely basis helps ensure the accuracy of accounting information.

Improper Funding Source Charged	Amount	Correct Funding Source (CIAP Grant)	Transaction Date	Months Elapsed
EDRP	\$6,000	F12AF70224	12/10/2009	25
EDRP	500	F12AF70224	4/22/2010	21
EDRP	3,000	F12AF70232	4/6/2010	21
EDRP	7,500	F12AF70270	5/24/2010	20
Total	\$17,000			

Figure 16. CIAP land appraisals erroneously charged to other Federal funds.

These accounting issues arose due to two main reasons. First, DMR officials had to complete the appraisals before applying for land acquisition grants since the requested funding amounts depended largely on the results of the appraisals. In order to timely pay the appraisers, the officials charged other available Federal funds for the CIAP-related appraisal costs. Second, DMR's Coastal Management and Planning Office director, who oversees the State's administration of CIAP, informed us that she knew these costs needed to be transferred but had not completed the necessary paperwork.

As a result, we cannot determine the extent to which the State's financial management system accurately reflects CIAP expenditures. Additional expenses attributable to CIAP could still be charged to other Federal awards or vice versa, making DMR's Federal financial reports unreliable.

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Unsupported and Ineligible Payroll Expenses

Federal regulations outline specific requirements for charging salaries and wages to Federal grants:

- Salaries and wages to Federal awards must be supported by personnel activity reports.
- The reports must reflect an after-the-fact distribution of the actual activity of each employee.
- Budget estimates or distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards.
- Each report must account for the employee's total compensated activities.
- The reports must be signed by the employee, must be prepared at least monthly, and must coincide with one or more pay periods.

DMR, Hancock County, and four subgrantees could not support \$1.3 million in payroll expenses charged to CIAP grants. Specifically, they tracked payroll with personnel activity reports that did not meet Federal requirements, charged CIAP grants for unrelated work, and used budgeted hours to charge payroll to CIAP projects (see Figure 17).

Grant Number	Abbreviated Grant Title	Grantee	Subgrantee	Questioned Costs
F12AF70001	Documenting Heritage Resources	DMR	None	\$141,012
F12AF70004	Coastal Wetland Impact Database	DMR	None	85,882
F12AF70016	Old Fort Bayou Land Acquisition	DMR	LTMCP	11,878
F12AF70018	Green Infrastructure	DMR	LTMCP	10,939
F12AF70043	Ozone Forecasting Service	DMR	DEQ	94,732
F12AF70110	CIAP Administration	DMR	None	3,955
F12AF70118	Tchoutacabouffa River Greenway	Harrison County	LTMCP	4,109
F12AF70119	Biloxi River Greenway	Harrison County	LTMCP	2,393
F12AF70148	Environmental Stewardship Program	DMR	None	7,464
F12AF70214	Moss Point Land Acquisition	DMR	LTMCP	3,298
F12AF70219	Empowering Ecological Stewards	Hancock County	None	27,529
F12AF70228	Pascagoula River Ecotourism	DMR	LTMCP	3,140

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Grant Number	Abbreviated Grant Title	Grantee	Subgrantee	Questioned Costs
F12AF70237	Marine Animal Strandings	DMR	IMMS	862,441
Total				\$1,258,772

Figure 17. Unsupported and ineligible payroll costs charged to CIAP grants.

Personnel Activity Reports

We obtained and reviewed payroll documentation from IMMS and determined that they did not sufficiently meet the C.F.R. requirements for personnel activity reports, also known as timesheets. Federal regulations require that such reports must be signed by the individual employee or a responsible supervisor with firsthand knowledge of the activities performed by the employee. We found, however, that timesheets from IMMS were initialed only by the vice president and chief financial officer, who has no supervisory duties over the personnel charging time to the grant, and we have no documentation demonstrating that the employees’ actual supervisors were consulted during the preparation of these timesheets. Furthermore, while the timesheets do contain the code “stranding” for CIAP-related charges, we found several instances where hours listed as “regular” were assigned to CIAP with no evidence to support such an allocation. Therefore, we have no assurance that employees’ time is being charged to the correct funding source.

Work Performed Outside the Grant Scope

We interviewed a Mississippi Department of Environmental Quality (MDEQ) scientist who stated that he has charged all of his time to a CIAP grant awarded to provide ozone forecasts for Hancock, Harrison, and Jackson Counties. He informed us, however, that during the grant period, he also worked on ozone issues in DeSoto and Lauderdale Counties, which are approximately 350 and 150 miles away, respectively, from the three coastal counties listed in the grant agreement. For example, the MDEQ scientist helped determine the environmental effects of a power plant in Kemper County during the grant period. The scientist’s supervisor, who managed this project for the subgrantee, acknowledged that MDEQ should not charge any hours to the grant for work outside the State’s coastal zone.

Because the scientist charged all of his time to this grant while simultaneously working in unrelated areas, we could not determine how much of his payroll costs relate to the actual grant.

Budgeted Hours Used to Charge Payroll to CIAP Projects

Federal regulations require grantees to document and charge actual hours worked toward grant objectives. Budget estimates or other distribution percentages determined before services are performed do not qualify as support for charges to

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Federal awards. We found, however, that DMR employees used budgeted hours to charge time to CIAP grants. According to DMR employees, its accounting department had a list of the percent of time to charge and would use that to charge the employees' respective projects. Regardless of timesheets, payroll charges against DMR grants were always based on budgeted hours.

Hancock County used budgeted hours for part of a teacher's salary to carry out a grant for high school students. The teacher was given \$17,300 as a rider to her contract for the CIAP work, which was then distributed evenly in her monthly paychecks.

Indirect Costs

DMR charged indirect costs to three CIAP grants to pay for central services, such as human resources, accounting, and procurement services that benefit those grant programs. From State fiscal years (SFYs) 2007 through 2011 (July 1, 2006, to June 30, 2011), the U.S. Department of Commerce approved the indirect cost rates used by DMR on all of its Federal grants. In SFY 2012, this function shifted to DOI, but DMR did not seek the requisite approval for its indirect cost rate from DOI because it was unaware of this requirement.

As a result, in SFY 2012, DMR used an unsupported rate to charge indirect costs not only to its CIAP grants but also to all of its other Federal grants. Therefore, all indirect costs charged under DMR's CIAP grants in SFY 2012 are unsupported (see Figure 18).

Grant Number	Grant Title	Unsupported Indirect Costs
F12AF70107	Impact Monitoring Program	\$1,869
F12AF70110	Administrative Costs of Complying with CIAP	\$24,577
F12AF70222	Restoring Fish Stocks in the MS Sound	\$43,072
Total		\$69,518

Figure 18. Unsupported indirect costs charged to CIAP grants.

Without taking corrective action, DMR could continue to charge unsupported indirect costs to all of its Federal grants.

Program Income

CIAP grant recipients in Mississippi did not report at least \$43,882 in program income earned on two grants as required by Federal regulations. Program income is gross income received by a grantee. The income is "directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period." If a recipient earns program income, the income should be deducted from the total grant amount unless the grant agreement specifies an alternative. With the deduction method, program income is deducted from the

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grant amount, making more Federal funds available for other projects to restore, preserve, and conserve Mississippi's coastal environment.

In one instance, we found that the Hancock County Board of Supervisors was awarded a grant to install 260 new sewer lines in homes around the county. These sewer lines replaced the existing septic tanks, some of which were leaching waste into Gulf waters. Homeowners were required to pay a \$32 monthly service fee after these new lines were connected. As a result, from October 2010 through January 2012, the County earned \$43,232 in service fees for 206 active sewers.

The grant periods for each of the two grants remains open and, therefore, the amount of program income earned will continue to increase. In addition, both Harrison County and Jackson County plan to install sewer lines that could also earn substantial program income.

Revenue earned from these programs was not reported appropriately because the State of Mississippi and Hancock County officials believed the fees earned were for operations and maintenance, not program income. Operations and maintenance, if authorized by Federal regulations or the grant agreement, however, is a deduction from program income, not in lieu of program income. Neither CIAP grant guidance nor the grant award allows grantees to use program income for operations and maintenance. Furthermore, neither State nor county officials could provide us with documentation showing that program income was used for operations and maintenance.

Recommendations

We recommend that FWS:

28. Resolve the unsupported questioned costs of \$1,254,817 and the ineligible questioned costs of \$3,955 in payroll costs;
29. Resolve the \$17,000 in land appraisals erroneously charged to other Federal funds;
30. Require DMR to adjust accounting errors in a timely manner in accordance with the Mississippi Agency Accounting Policies and Procedures Manual;
31. Require DMR to determine if other CIAP expenses have been inappropriately charged to other funding sources (or vice versa) and correct any errors;
32. Establish and implement procedures to ensure that when employees charge time to more than one grant, payroll charges are adjusted to reflect the actual hours worked on those grants;
33. Enforce Federal regulations and DMR policy requiring employees to record the amount of time they worked on each project on their timesheets;
34. Resolve the unsupported indirect costs of \$69,518 charged to grants F12AF70107, F12AF70110, and F12AF70222;
35. Require DMR to implement policies and procedures to ensure that it does not charge indirect costs to CIAP grants before entering into an indirect cost rate agreement with the appropriate Federal agency;
36. Resolve the \$43,882 in unreported program income; and
37. Provide additional guidance to State and county CIAP staff to ensure they understand the concept of program income and that they can identify, disburse, and report program income.

Conclusion and Recommendations

Conclusion

The findings documented in our audit cover a range of improper activities and serious management deficiencies that raise significant questions about the expenditure of millions of dollars and the stewardship of public funds through CIAP grant projects. The problems began with BOEMRE's poor administration and lax monitoring of early grant projects and have persisted under FWS' management.

CIAP grants have been approved that failed to support an authorized use under the law. Conflicts of interest within the Mississippi DMR have marred the program and the public's perception of CIAP. Improper land appraisals have undermined CIAP's intended impact of protecting environmentally fragile coastal areas and communities. In the areas of procurement and accounting, sole-source regulations were circumvented; unallowable, unallocable, and unreasonable charges were allowed to be made on certain grants; and equipment purchases and other financial issues were mishandled.

We believe our recommendations will assist FWS in resolving systemic deficiencies and personnel issues that have affected the policies, implementation, administration, management, and oversight of CIAP. Failure to act on these recommendations could further undermine CIAP and open the door to fraud, waste, and mismanagement of millions of dollars in Federal funds meant to conserve, protect, and restore American coastal areas, wildlife, and natural resources.

Recommendations Summary

We recommend that:

1. FWS design and implement monitoring procedures to ensure that grantees submit timely financial and performance reports.

FWS Response

FWS concurred with this recommendation. FWS provided CIAP grantees guidance to ensure that financial and performance reporting conformed to DOI and WSFR policies. FWS' full response is included as Appendix 4.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed Appendix 5 summarizes the status of all 37 recommendations.

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2. FWS review financial and performance reports and resolve any identified issues with grantees.

FWS Response

FWS concurred with this recommendation. FWS noted that monitoring policies and procedures and grantee guidelines have been revised and implemented.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

3. FWS conduct and document regular site visits to ensure compliance with grant objectives.

FWS Response

FWS concurred with this recommendation. Site visits are conducted regularly and documented through trip reports. These reports are submitted to the CIAP branch chief for review and approval.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

4. FWS independently assess risk of CIAP grant recipients and determine how and when to employ various monitoring tools, such as requiring additional reporting or adherence to the 10 percent rule.

FWS Response

FWS did not concur with this recommendation. FWS stated that its “mandate was to process the grants in an expeditious, efficient, accurate manner in order to make timely awards.” FWS did not conduct its own risk assessment for the eligible grantees because it relied on the risk assessments conducted by BOEMRE.

OIG Analysis of FWS Response

We consider this recommendation unresolved. We found multiple deficiencies in the BOEMRE risk assessments, especially regarding the lack of conflict-of-interest policies, making them unreliable. Further, many of the eligible grantees receiving CIAP funds are local governments that are grantees new to FWS. We maintain our position that not conducting its own risk assessments after being briefed in March 2012 of the egregious concerns detailed in this report was detrimental to the program. We do not believe choosing speed over stewardship was prudent. We request that FWS reconsider performing risk assessments. When resolved, we will refer this recommendation to the Assistant Secretary for Policy, Management and Budget to track its implementation.

5. Modify its hiring process to eliminate the State's influence regarding the hiring of the State's CIAP liaison.

FWS Response

FWS did not concur with this recommendation. FWS requested a review by the Department of Human Resources, specifically related to privacy, ethics, and Federal hiring violations. The Director of Human Resources determined the hiring process complied with Federal and FWS hiring policies.

OIG Analysis of FWS Response

We consider this recommendation unresolved. After further consideration, we removed draft language stating this practice was illegal. While FWS did not violate any hiring rules, we believe that it would be a better practice to hire grant liaisons independently from those grantees that they are hired to monitor. When resolved, we will refer this recommendation to the Assistant Secretary for Policy, Management and Budget to track its implementation.

6. DOI's Assistant Secretary for Policy, Management and Budget resolve the ineligible questioned costs of \$1,212,737 awarded by BOEMRE and address the \$4,650,463 in funds to be put to better use.

FWS Response

FWS did not concur with this recommendation. While FWS acknowledged that not all aspects of the projects mentioned in this section directly benefit coastal resources, it noted that each project contains components that clearly fulfill the requirements of the authorized uses (AUs). FWS also stated that the completion of these projects provides a greater overall good than is quantified in the individual awards, which in many cases funded only a small portion of a larger construction project intended to benefit the public. Therefore, FWS considered each of the projects to meet the AU for which it was awarded. Furthermore, FWS stated that the deviations from grant objectives observed by OIG staff on these projects are consistent with the original intent of the approved projects in the State plan, or will be adjusted to ensure consistency prior to grant closure.

OIG Analysis of FWS Response

We consider this recommendation unresolved. While these projects may provide a public good and may deserve public funding, we do not believe there is sufficient justification for CIAP to provide that funding. We acknowledge that certain aspects of these projects do appear to meet the requirements set forth by AU1, such as the planting of native vegetation or

coastal conservation, but these aspects often represented a minor portion of the overall funding. The fact that a small portion of a project may serve for the conservation, protection, or restoration of coastal areas does not justify substantial additional funding that falls outside of those parameters, thus causing us to question whether any projects initially determined to provide little or no direct benefit to the natural coastal environment were designed or completed in the spirit of the Act. When resolved, we will refer this recommendation to the Assistant Secretary for Policy, Management and Budget to track its implementation.

7. FWS review and revise CIAP guidance to ensure compliance with the Act.

FWS Response

FWS concurred with this recommendation. FWS substantially retained the BOEMRE guidance but revised the process for making substantial changes to approved projects and more fully describing and justifying modifications to approved projects. Changes now require a supplemental public review.

OIG Analysis of FWS Response

We consider this recommendation unresolved. As support for its response, FWS provided us with a copy of the July 2010 BOEMRE “State Plan Receipt and Review Standard Operating Procedures.” We could not identify any modifications to the policy. We request that FWS reconsider our recommendation to revise CIAP guidance and modify the standard operating procedures to clarify the parameters for meeting the authorizing legislation. When resolved, we will refer this recommendation to the Assistant Secretary for Policy, Management and Budget to track its implementation.

8. FWS review all open CIAP grants and Mississippi’s State plan and conduct regular site visits of high-risk grant projects to ensure compliance with the CIAP requirement.

FWS Response

FWS concurred with this recommendation. FWS reviewed the Mississippi State plan and found it complied with all CIAP requirements. The State liaison conducts site visits and monitors project progress.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

9. FWS resolve the \$8,870,378 in ineligible questioned costs arising from potential conflicts of interest regarding DMR’s and Harrison and Hancock

Counties' administration of CIAP and address the \$7,158,342 of funds to be put to better use.

FWS Response

FWS concurred with this recommendation. FWS will work with grantees to resolve this issue. They have reviewed 4 of the 23 grants containing conflicts of interest and consider these closed.

OIG Analysis of FWS Response

We consider this recommendation resolved but not implemented. We request that FWS provide more detail on the resolution of the four reviewed grants to consider them closed. When all 23 grants are resolved, we will refer the recommendation to the Assistant Secretary for Policy, Management and Budget to track its implementation.

10. FWS review the State's CIAP grants to identify and rectify potential conflicts of interest; such action could include requiring grantee and subgrantee staff to report memberships on boards of directors of outside organizations, reviewing large contracts and other procurement transactions for propriety, comparing the names of individuals involved in grant projects with a list of DMR or county employees, and performing site visits and formally informing employees of ways to report fraud, waste, and mismanagement to independent authorities.

FWS Response

FWS concurred with this recommendation. FWS is working with grantees and subgrantees to resolve this issue and provide State and county staffs with a mechanism to report waste, fraud, and mismanagement. The Mississippi Commission on Marine Resources has installed oversight committees to monitor contract expenditures and land acquisitions.

OIG Analysis of FWS Response

We consider this recommendation resolved but not implemented. Recent media coverage has called into question the independence and legitimacy of the Mississippi Commission on Marine Resources. FWS should ensure proper oversight of its grantees. We will refer the recommendation to the Assistant Secretary for Policy, Management and Budget to track its implementation.

11. FWS require DMR to provide support that it is complying with and implementing Chapter 30, "Internal Control," from the Mississippi Agency Accounting Policies and Procedures Manual, per the C.F.R. requirement.

FWS Response

FWS concurred with this recommendation. DMR implemented various internal control policies and procedures in March 2013.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

12. FWS require DMR to establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain, as required by the assurance statements for Federal financial assistance, and periodically review compliance with the safeguards.

FWS Response

FWS concurred with this recommendation. DMR implemented various internal control policies and procedures in March 2013.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

13. FWS require the State to publicly announce each land parcel considered for purchase with CIAP funds, allow ample time for public comment, and report the comments to FWS prior to issuance of the grant award.

FWS Response

FWS did not concur with this recommendation. FWS is working with grantees to verify that all CIAP recipients follow appropriate Federal and State land acquisition procedures. FWS believes requiring public comment on each land purchase would place an undue burden on recipients.

OIG Analysis of FWS Response

We consider this recommendation unresolved. The State of Mississippi included one large project for land purchases rather than individual projects. DMR solicited public interest in selling property, but the majority of land purchases were bought from individuals with a personal relationship with DMR employees. We believe DMR owes the public the chance to comment on potential land purchases to prevent further conflicts in land acquisitions. We request that FWS reconsider this recommendation for any remaining land purchases. When resolved, we will refer this recommendation to the Assistant Secretary for Policy, Management and Budget to track its implementation.

14. FWS monitor real property purchased with CIAP funds to ensure that grantees and subgrantees do not inappropriately dispose of such

property, with particular attention given to the Harbor Landing site and to acquisitions involving a potential conflict of interest.

FWS Response

FWS concurred with this recommendation. FWS actively monitors grant-funded activities to ensure that the property continues to be used for the purpose for which it was acquired. In addition, FWS provided training to grant recipients on land acquisition, disposal, and management in perpetuity in FY 2012 and has not received any formal requests to dispose of property.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

15. FWS require DMR to account for all revenues and expenditures related to the Harbor Landing boat storage facility beginning with the date DMR took ownership of the property.

FWS Response

FWS concurred with this recommendation. FWS is working with DMR to resolve this issue, and DMR is compiling the materials necessary for review.

OIG Analysis of FWS Response

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

16. FWS resolve the ineligible questioned costs of \$12,639,045 resulting from land appraisals that do not meet Federal standards before allowing further drawdowns on land acquisition grants and ensure funds totaling \$1,386,737 are put to better use.

FWS Response

FWS partially concurred with this recommendation. FWS agreed that the appraisals did not meet the technical standards for Federal appraisals. FWS is conducting supplemental reviews and is contracting for a specialized, certified review appraiser. FWS did not agree that land acquisition funds should be held and put to better use.

OIG Analysis of FWS Response

We consider this recommendation unresolved. FWS concurred with the questioned costs related to land appraisals that did not meet Federal standards. As a result, FWS has an obligation to discontinue payment on any land acquisition and allow those funds to be put to better use. When

resolved, we will refer this recommendation to the Assistant Secretary for Policy, Management and Budget to track its implementation.

17. FWS require grantee and subgrantees to provide evidence that appraisers are competitively selected, do not present conflicts of interest, have demonstrated the ability to complete appraisals in accordance with Federal standards, and are approved by FWS before CIAP recipients draw down funds.

FWS Response

FWS concurred with this recommendation and provided supplemental guidance to all grant recipients. This proposed supplemental guidance requires an appraisal review for most acquisitions.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

18. FWS require CIAP grantees and subgrantees to obtain appraisal reviews that comply with Federal appraisal standards and ensure that the reviewers are competitively selected, do not present conflicts of interest, and have demonstrated the ability to perform appraisal reviews in accordance with Federal standards.

FWS Response

FWS concurred with this recommendation. FWS proposed new policy and standard operating procedures that includes review of land appraisals by a certified review appraiser and reiterates compliance with the terms and conditions of the grant, including the annually submitted assurances.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

19. FWS review appraisals and appraisal reviews obtained by CIAP grantees on a regular basis to ensure compliance with Federal appraisal standards.

FWS Response

FWS concurred with this recommendation. FWS is reviewing all appraisals and appraisal reviews on CIAP-funded land purchases. DMR is preparing internal standard operating procedures and creating additional safeguards to ensure that all costs associated with land acquisitions using Federal funds are supported.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

20. FWS resolve the ineligible questioned costs of \$1,021,416 from inadequately justified sole-source procurement awards charged to F12AF70006, F12AF70028, F12AF70039, F12AF70040, F12AF70110, F12AF70115, F12AF70185, F12AF70206, F12AF70224, F12AF70232, F12AF70270, and F12AF70274.

FWS Response

FWS concurred with this recommendation. FWS is working with grantees to resolve the questioned costs and is reviewing documentation provided by grantees in March 2013. Pending the outcome of that review, FWS will instruct grantees and subgrantees to credit back any questioned costs that are not adequately supported by documentation to justify sole-source procurement awards.

OIG Analysis of FWS Response

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

21. FWS require that CIAP recipients provide evidence of compliance with Federal procurement regulations, including requirements to follow grantees' and subgrantees' own procurement standards.

FWS Response

FWS concurred with this recommendation. FWS is verifying that all CIAP recipients are aware of the need to follow Federal guidelines as well as FWS' internal controls and standards of operations.

OIG Analysis of FWS Response

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

22. FWS develop and implement a plan to verify that CIAP recipients are not splitting procurements into smaller purchases to avoid competition thresholds.

FWS Response

FWS concurred with this recommendation. FWS is verifying that all CIAP recipients are aware of the need to follow Federal guidelines as well as FWS' internal controls and standards of operations.

OIG Analysis of FWS Response

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

23. FWS resolve the ineligible questioned costs of \$23,967 charged to grant F12AF70001 and \$2,229 charged to grant F12AF70148.

FWS Response

FWS concurred with this recommendation. FWS is working with the grantees as they provide the necessary documentation on the questioned costs. Any unsupported costs will be reflected on a revised Federal Financial Report.

OIG Analysis of FWS Response

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

24. FWS resolve the ineligible questioned costs of \$203,847 charged to grant F12AF70237.

FWS Response

FWS concurred with this recommendation. FWS is working with the grantees as they provide the necessary documentation on the questioned costs. Any unsupported costs will be reflected on a revised Federal Financial Report.

OIG Analysis of FWS Response

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

25. FWS instruct DMR and IMMS staff members involved in the procurement process to follow applicable Federal regulations and the terms and conditions of CIAP grant agreements, and provide documentation to demonstrate this compliance to FWS.

FWS Response

FWS concurred with this recommendation and provided training in FY 2012 to CIAP grantee and subgrantee staff members to reiterate the importance of complying with Federal regulations and grant administration requirements. In addition, grantees have been informed of the importance of following their own procurement procedures, provided

that they conform to applicable laws and standards found in 43 C.F.R. § 12.76.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

26. FWS resolve the ineligible questioned costs of \$107,443 charged to grants F12AF70003, F12AF70107, F12AF70109, F12AF70112, and F12AF70148.

FWS Response

FWS concurred with this recommendation. FWS is working with the grantees as they provide the necessary documentation on the questioned costs. Any unsupported costs will be reflected on a revised Federal Financial Report.

OIG Analysis of FWS Response

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

27. FWS require DMR to prorate the cost of each piece of equipment among the projects benefitting from its use, and provide documentation to FWS evidencing proper use.

FWS Response

FWS concurred with this recommendation. FWS is working with the grantees as they provide the necessary documentation on the questioned costs. Any unsupported costs will be reflected on a revised Federal Financial Report.

OIG Analysis of FWS Response

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

28. FWS resolve the unsupported questioned costs of \$1,254,817 and the ineligible questioned costs of \$3,955 in payroll costs.

FWS Response

FWS concurred with this recommendation. FWS is working with the grantees as they provide the necessary documentation on the questioned costs. Any unsupported costs will be reflected on a revised Federal Financial Report.

OIG Analysis of FWS Response

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

29. FWS resolve the \$17,000 in land appraisals erroneously charged to other Federal funds.

FWS Response

FWS concurred with this recommendation and DMR has corrected the \$17,000 of appraisal costs.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

30. FWS require DMR to adjust accounting errors in a timely manner in accordance with the Mississippi Agency Accounting Policies and Procedures Manual.

FWS Response

FWS concurred with this recommendation. FWS is working with DMR to ensure that accounting errors are adjusted in a timely manner.

OIG Analysis of FWS Response

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

31. FWS require DMR to determine if other CIAP expenses have been inappropriately charged to other funding sources (or vice versa) and correct any errors.

FWS Response

FWS concurred with this recommendation. FWS is working with DMR to determine if other CIAP expenses were inappropriately charged to other funding sources. Any errors discovered will be corrected in a timely manner.

OIG Analysis of FWS Response

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

32. FWS establish and implement procedures to ensure that when employees charge time to more than one grant, payroll charges are adjusted to reflect the actual hours worked on those grants.

FWS Response

FWS concurred with this recommendation. FWS is working with grantees to implement procedures to ensure that payroll charges reflect the actual hours worked under a grant.

OIG Analysis of FWS Response

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

33. FWS enforce Federal regulations and DMR policy requiring employees to record the amount of time they worked on each project on their timesheets.

FWS Response

FWS concurred with this recommendation. FWS is working with DMR to enforce Federal regulations and DMR policy requiring employees to record the amount of time worked on each project on their timesheets.

OIG Analysis of FWS Response

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

34. FWS resolve the unsupported indirect costs of \$69,518 charged to grants F12AF70107, F12AF70110, and F12AF70222.

FWS Response

FWS concurred with this recommendation. FWS is working with the grantees as they provide the necessary documentation on the questioned costs. Any unsupported costs will be reflected on a revised Federal Financial Report.

OIG Analysis of FWS Response

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

35. FWS require DMR to implement policies and procedures to ensure that it does not charge indirect costs to CIAP grants before entering into an indirect cost rate agreement with the appropriate Federal agency.

FWS Response

FWS concurred with this recommendation. FWS is working with DMR to clarify DMR's cognizant agency.

OIG Analysis of FWS Response

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

36. FWS resolve the \$43,882 in unreported program income.

FWS Response

FWS did not concur with this recommendation. FWS stated the income resulted from wastewater utility charges for ongoing monthly services to treat sewage and maintain treatment facilities. These charges were not directly generated by CIAP grant activity and should be characterized as governmental revenues, which fall under the exception for program income.

OIG Analysis of FWS Response

We consider this recommendation unresolved. The CIAP grant funded the installation of new sewer lines to 206 houses. The income we are questioning was generated from the service fees charged after installation of these sewer lines and are not considered governmental revenue, as those are defined as taxes, special assessment, levees, and fines. When resolved, we will refer this recommendation to the Assistant Secretary for Policy, Management and Budget to track its implementation.

37. FWS provide additional guidance to State and county CIAP staff to ensure they understand the concept of program income and that they can identify, disburse, and report program income.

FWS Response

FWS concurred with this recommendation. FWS provided training to grantees in FY 2012 on properly reporting program income.

OIG Analysis of FWS Response

We consider this recommendation implemented and closed.

Appendix I: Scope and Methodology

Scope

We performed our 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.

Our audit focused on grant recipients' compliance with the Coastal Impact Assistance Program (CIAP) authorizing legislation, Federal regulations, U.S. Department of the Interior (DOI) policies, and grant terms and conditions, and on identifying grant management challenges that U.S. Fish and Wildlife Service (FWS) should address as it undertakes the responsibility to manage CIAP from the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE). We conducted our audit fieldwork from January 2012 through August 2012. We reviewed costs claimed by grantees under CIAP grants from October 1, 2007, through December 31, 2011.

Methodology

To accomplish our objectives, we reviewed BOEMRE CIAP guidance, including standard operating procedures; prior reports issued by our office and the U.S. Government Accountability Office; and grant files and data provided by BOEMRE and FWS.

We interviewed BOEMRE and FWS officials responsible for creating and managing CIAP grants, including BOEMRE officials in Herndon, VA; Anchorage, AK; and New Orleans, LA; and FWS officials in Arlington, VA. We also interviewed current and former attorneys from DOI's Office of the Solicitor, appraisers from DOI's Office of Valuation Services, and officials at the National Oceanic and Atmospheric Administration.

We interviewed grant recipients and conducted site visits in Mississippi from January 23 through February 3, 2012. Using grants within our sample, we interviewed and visited grant recipients and subrecipients in Hancock, Harrison, and Jackson Counties, as well as the Department of Marine Resources. These sites and interviews included—

- Hancock County
 - CIAP coordinator;
 - tax assessor/collector;
 - county engineer – Compton Engineering;

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- sewer installation site – Pearlinton, MS; and
- Bay High School.
- Harrison County
 - county administrator;
 - CIAP coordinator; and
 - Swetman-Meeboer Parcel.
- Jackson County
 - CIAP administrator;
 - Pascagoula River Audubon Center;
 - West Jackson Utility District; and
 - tax assessor’s office (via email).
- Department of Marine Resources
 - CIAP administrator;
 - Department of Environmental Quality;
 - Personal Services Contract Review Board (by telephone);
 - Land Trust for the Mississippi Coastal Plain;
 - Ohr-O’Keefe Museum of Art;
 - Institute for Marine Mammal Studies;
 - Infinity Science Center;
 - Possum Walk Environmental and Historical Trail at Infinity Science Center;
 - Lynn Meadows Discovery Center, including adjacent lot being considered for purchase known as Former Captain Ed’s Vacation Rentals;
 - Harbor Landing Dry Boat Storage and Yacht Club;
 - City of Lucedale-McNeil Property;
 - Charnley-Norwood Cottage;
 - Front Beach Condominiums;
 - Joseph T. Jones Park;
 - Schooner Pier Complex; and
 - Pass Christian Seafood Festival.

Appendix 2: Questioned Costs

Grant Number	Grant Amount	Claimed Costs	Questioned Costs		Funds To Be Put to Better Use
			Ineligible	Unsupported	
F12AF70001	\$450,000	\$293,748	\$293,748	\$0	\$156,252
F12AF70003	400,000	140,725	3,189	0	0
F12AF70004	250,000	197,013	0	85,882	0
F12AF70005	154,000	143,541	143,541	0	10,459
F12AF70006	254,660	113,341	108,448	0	0
F12AF70013	500,000	226,039	226,039	0	273,961
F12AF70016	849,838	844,366	844,366	0	5,472
F12AF70018	350,000	252,438	252,438	10,939	97,562
F12AF70022	1,200,000	1,009,350	1,009,350	0	190,650
F12AF70024	211,700	119,565	119,565	0	92,135
F12AF70028	500,000	483,650	483,650	0	16,350
F12AF70034	249,990	16,894	16,894	0	233,096
F12AF70039	3,044,000	3,042,231	3,042,231	0	1,769
F12AF70040	1,294,500	1,289,316	1,289,316	0	5,184
F12AF70043	400,000	190,914	0	94,732	0
F12AF70107	60,000	42,867	1,508	1,869	0
F12AF70109	274,500	138,543	91,330	0	0
F12AF70110	2,000,000	1,377,560	439,433	24,577	0
F12AF70112	377,757	160,034	400	0	0
F12AF70115	1,829,525	301,962	141,810	0	43,232
F12AF70118	18,910	13,558	13,558	0	5,352
F12AF70119	18,960	1,729	1,729	0	17,231
F12AF70128	100,000	12,836	12,836	0	87,164
F12AF70148	200,000	50,229	13,245	7,464	0
F12AF70161	116,500	89,735	89,735	0	26,765
F12AF70166	1,145,000	0	0	0	1,145,000

This is a version of the report prepared for public release. Changes have been made to the internal report consistent with 5 U.S.C. §§ 552 (b)(6) and (b)(7)(C) of the Freedom of Information Act (FOIA).

Grant Number	Grant Amount	Claimed Costs	Questioned Costs		Funds To Be Put to Better Use
			Ineligible	Unsupported	
F12AF70181	2,940,000	0	0	0	2,940,000
F12AF70185	1,045,400	1,023,780	1,023,780	0	21,620
F12AF70206	540,180	15,056	15,056	0	525,124
F12AF70214	16,594	13,173	\$13,173	0	3,421
F12AF70219	150,000	0	0	27,529	0
F12AF70222	2,250,000	746,084	746,084	0	1,503,916
F12AF70224	896,100	891,033	891,033	0	5,067
F12AF70228	26,000	3,400	3,400	0	22,600
F12AF70232	245,000	231,659	231,659	0	13,341
F12AF70237	3,366,247	1,336,189	1,336,189	0	2,030,058
F12AF70260	993,816	111,991	111,991	0	881,825
F12AF70267	400,000	117,065	117,065	0	282,935
F12AF70270	3,725,300	3,695,253	3,695,253	0	30,047
F12AF70274	497,875	42,673	127,628	0	650
F12AF70281	552,000	0	0	0	552,000
F12AF70298	300,000	0	0	0	300,000
F12AF70302	474,365	0	0	0	474,365
F12AF70310*	448,710	0	0	0	0
M09AF15332	276,000	207,200	207,200	0	68,800
M09AF15751	425,000	425,000	425,000	0	0
Total	\$35,818,427	\$19,411,740	\$17,582,870	\$252,992	\$12,063,403

*This grant is included because we questioned the use of a sole-source contract. Hancock County had not yet sought reimbursement for any costs associated with the grant at the time of our review.

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Appendix 3: Federal Land Appraisal Standards and Best Practices Not Met

Land Tract	A	B	C	D	E	F	G	H	I	J	K	L	M	Total
Charnley-Norwood		X	X	X	X				X	X		X		7
Hanover Point		X			X	X							X	4
Harbor Landing	X	X			X	X								4
LMDC		X	X					X			X	X		5
McNeil Property		X		X	X					X				4
Moran		X	X	X	X		X	X	X	X				8
Moss Point		X	X	X			X			X				5
Old Fort Bayou		X	X	X			X			X				5
Pascagoula	X			X		X				X				4
Pass Christian Beach Front		X	X	X	X		X					X	X	7
Point Park		X		X	X		X					X		5
Potoman LLC		X	X		X				X	X		X		6
Reynolds (Front Beach Dr.)		X			X		X			X	X			5
Reynolds (Rod and Reel Rd.)		X	X	X			X		X	X				6
Swetman-Meeboer	X	X	X		X				X	X		X		7
Wolf River		X	X	X	X					X				5

Legend:

- A:** Arms-length transaction not ensured due to potential conflict of interest
- B:** Large disparities between tax assessors' and grantees' appraisals
- C:** Questionable analysis of highest and best use of the subject property or comparable sales
- D:** Improper extraordinary assumptions
- E:** Inadequate investigation and consideration of sales history
- F:** Improper application or unjustified omission of the cost and/or income capitalization methods of appraisal
- G:** Unexplained zoning differences between the appraised property and comparable sales
- H:** Verification of comparable sales *prior* to the sale date
- I:** Improper use of sales to governments and nonprofits as comparables
- J:** Unsupported and inconsistent quantitative adjustments to comparable sales
- K:** Improper qualitative analysis of comparable sales
- L:** Use of stale appraised values and comparable sales without adequate justification
- M:** Reliance on the seller's appraisal

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Appendix 4: U.S. Fish and Wildlife Service Response

The U.S. Fish and Wildlife Service response to our report follows on page 63.

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United States Department of the Interior



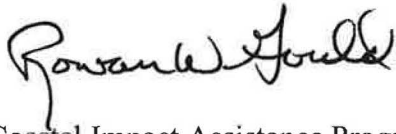
FISH AND WILDLIFE SERVICE
Washington, D.C. 20240

APR 23 2013

In Reply Refer To
FWS/AWSR/CIAP/054319

Memorandum

To: Deputy Inspector General

From: ~~Deputy~~ Director, U.S. Fish and Wildlife Service 

Subject: Draft Audit Report - Management of the Coastal Impact Assistance Program, State of Mississippi Report No. ER-IN-MOA-0013--2011

This is our response to your memorandum dated February 15, 2013, which transmitted the above referenced draft audit report. We appreciate the thoroughness of the review and the recommendations being made to improve administration of the Coastal Impact Assistance Program (CIAP).

Enacted in 2005, this financial assistance grant program has been operational since 2007. It was transferred to the U.S. Fish and Wildlife Service (Service) on October 1, 2011. Our goal for CIAP administration is to administer an accountable, transparent, and productive conservation grant partnership with the eligible States and Coastal Political Subdivisions to meet the Congressional mandate. In April, 2011, as part of our transition planning prior to assuming the responsibility for this program, the Service asked the Office of Inspector General (OIG) to audit the program in order for us to assess any weaknesses that could affect our goal.

From the onset of the audit, the Service has endeavored to work cooperatively with the OIG staff. In mid-September 2011, the OIG expressed serious concerns about the underlying authorization to continue the program. On December 18, 2011, the Service, working through the Department of the Interior, Office of the Solicitor, determined that the existing authorization was sufficient to continue CIAP operations. During this 3-month period, because of the seriousness of the issue, all grant activities were on hold and as a result, the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) did not transfer hard copy grant files to the Service until the end of December.

In January, the OIG alerted the Service that there were four projects that did not meet the CIAP requirements for funding so further funding of those projects should be withheld. The Service immediately notified the grantees that the funds and projects were on hold until a review of the four projects could be completed. Approximately two months later, when all four projects were found to meet one or more of the authorized uses for CIAP funds, the funds were released and the projects were continued.

The Service's detailed response to each of the 38 findings/recommendations in the Draft Audit is attached. A summary table of those responses is also attached for reference. We concur with the majority of the findings and will continue to work with the Mississippi grantees that are affected to resolve the findings. There are also several findings with which we do not, or only partially, concur. We request that these should be acknowledged in the final audit report.

We look forward to working closely with you and your staff on the upcoming audits in Louisiana, Alabama, California, Alaska, and Texas. Together we can attain the goal of improving CIAP accountability and transparency in the grant process while successfully achieving the substantial public benefits and conservation goals outlined in the Energy Policy Act of 2005 and the individual CIAP State Plans. If you need more information on any of these responses, please contact Hannibal Bolton, Assistant Director for Wildlife and Sport Fish Program at 202-208-7337.

OIG RECOMMENDATION	AGENCY RESPONSE	SUMMARY OF FISH AND WILDLIFE SERVICE (SERVICE) ACTION	PROPOSED RESOLUTION
<p>1. Design and implement monitoring procedures to ensure that grantees submit timely financial and performance reports;</p> <p>2. Review financial and performance reports and resolve any identified issues with grantees; and,</p> <p>3. Conduct and document regular site visits to ensure compliance with grant objectives.</p>	<p>Concur</p>	<p>Our monitoring policies and grantee guidelines have been revised and procedures implemented as outlined in our detailed response to the recommendations.</p>	<p>We consider this issue implemented and closed.</p>
<p>4. Independently assess risk of CIAP grant recipients and determine how and when to employ various monitoring tools, such as requiring additional reporting or adherence to the 10 percent rule; and</p>	<p>Do not concur</p>	<p>DOI transferred the authority for administering the CIAP grant program to the Service. The Service uses existing DOI and Service policies as well as WSFR policies, guidelines and practices, developed to administer the Wildlife Restoration, Sport Fish Restoration, and State Wildlife Grants, to administer CIAP grants, including annual reporting and waiving the 10% requirement for non-construction projects. These policies, guidelines and practices are sufficient to address the concerns of the finding regarding risk assessment and monitoring.</p>	<p>We consider this issue closed. No additional action is anticipated.</p>
<p>5. Report potential conflict of interest situations regarding hiring of the State's CIAP liaison to DOI's Office of Ethics for resolution.</p>	<p>Do not concur</p>	<p>The Service conducted an inquiry into the Office of the Inspector General's May 15, 2012, Notification of Potential Findings and Recommendations allegations that the Service engaged in improper personal practices, ethics violations and Privacy Act violations in the selection and hiring process for five State liaison positions. The Service's Human Resources Officer determined that the allegations are unfounded. The DOI Office of Ethics staff provided training to CIAP State liaisons and Headquarters staff in March 2012.</p>	<p>We consider this issue closed. No additional action is anticipated.</p>

<p>6. DOI's Assistant Secretary for Policy, Management and Budget resolve the ineligible questioned costs of \$1,212,737 awarded by BOEMRE and address the \$4,650,463 in funds to be put to better use.</p>	<p>Do not concur</p>	<p>The Service does not concur with the recommendation that DOI staff resolve questioned costs. The Service conducted supplemental reviews of the identified projects and found that all met one or more of the Congressionally authorized uses and were eligible for CIAP funding. The Service will continue to re-evaluate grant projects as they are submitted to ensure that they meet the Congressional eligibility criteria and are as described in approved CIAP State Plans, in addition to meeting federal grant administration standards.</p>	<p>We consider this issue closed. No additional action is anticipated.</p>
<p>7. FWS review and revise CIAP guidance to ensure compliance with the Act;</p>	<p>Concur</p>	<p>The Service has reviewed the BOEMRE guidance to states and CIAP guidance is currently in compliance with the Energy Policy Act of 2005. Therefore, the Service has substantially retained the guidance with the exception of revising the process to make substantial changes to approved projects in State CIAP Plans and more fully describe and justify modifications to approved projects as well as include public review.</p>	<p>We consider this issue implemented and closed. Guidance has been issued relative to the changed process.</p>
<p>8. FWS review all open CIAP grants and Mississippi's State plan and conduct regular site visits of high-risk grant projects to ensure compliance with the CIAP requirement.</p>	<p>Concur</p>	<p>The Service has revised its monitoring protocols and will conduct regular site visits of CIAP-funded grant projects that are considered high-risk, as well as site reviews and other monitoring efforts directed at the substantial number of other CIAP projects.</p>	<p>We consider this issue implemented and closed. No additional action is anticipated.</p>
<p>9. Resolve the \$8,870,378 in ineligible questioned costs arising from potential conflicts of interest regarding DMR's and Harrison and Hancock Counties' administration of CIAP and address the \$7,158,342 of funds to be put to better use;</p>	<p>Concur</p>	<p>The Service is working with the grantees to resolve the issue. The Service is conducting supplemental reviews of the identified projects and will continue to evaluate grant projects as they are submitted to ensure that they meet the Congressional eligibility criteria and are as described in approved CIAP State Plans, in addition to meeting federal grant administration standards. Four of the 23 grants have been reviewed and the costs found to be eligible – see Recommendation 6.</p>	<p>The resolution is not fully implemented. Documentation provided by DMR, Hancock and Harrison Counties is being reviewed. We expect to have the issue fully resolved and implemented by October 1, 2013.</p>
<p>10. Review the State's CIAP grants to identify and rectify potential conflicts of interest; such action could include requiring grantee and subgrantee staff to report memberships on</p>	<p>Concur</p>	<p>The Service is working with grantees and subgrantees to resolve the issue and provide state and county staffs with a mechanism to report waste, fraud and mismanagement to independent sources.</p>	<p>The resolution is not fully implemented. We are reviewing materials provided by grantees. We expect to have the issue fully resolved and implemented</p>

<p>boards of directors of outside organizations, reviewing large contracts and other procurement transactions for propriety, comparing the names of individuals involved in grant projects with a list of DMR or county employees, and performing site visits and formally informing employees of ways to report fraud, waste, and mismanagement to independent authorities;</p>			<p>by October 1, 2013.</p>
<p>11. Require DMR to provide support that it is complying with and implementing Chapter 30, "Internal Control," from the "Mississippi Agency Accounting Policies and Procedures Manual," per the Code of Federal Regulations' requirement;</p> <p>12. Require DMR to establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain, as required by the assurance statements for Federal financial assistance, and periodically review compliance with the safeguards;</p>	<p>Concur</p>	<p>DMR has implemented the suggested internal control policies and procedures listed on page 19 of the Draft Audit Report in accordance with the "Mississippi Agency Accounting Policies and Procedures Manual."</p>	<p>We consider this issue implemented and closed. No additional action is anticipated.</p>

<p>13. Require the State to publicly announce each land parcel considered for purchase with CIAP funds, allow ample time for public comment, and report the comments to FWS prior to issuance of the grant award;</p>	<p>Do not concur.</p>	<p>The Service administers land acquisition following federal requirements including 49 CFR 24, 43 CFR 12.71, and the draft Service Lands Chapters as appropriate. We are working with the grantees to verify that all CIAP grant recipients follow the appropriate federal and state land acquisition procedures.</p>	<p>We consider this issue closed. No additional action is anticipated.</p>
<p>14. Monitor real property purchased with CIAP funds to ensure that grantees and subgrantees do not inappropriately dispose of such property, with particular attention given to the Harbor Landing site and to acquisitions involving a potential conflict of interest.</p>	<p>Concur</p>	<p>The Service follows the disposal requirements in 43 CFR 12.71(c) which includes the requirement that the grantee request disposal instructions from the federal agency. Monitoring protocols are in place to ensure that the property continues to be used for the purpose for which it is acquired. Additionally, the grant recipient responsibilities for land acquisition, disposal and management in perpetuity were addressed in training provided to grant recipients during FY2012.</p>	<p>We consider this recommendation implemented and closed.</p>
<p>15. Require DMR to account for all revenues and expenditures related to the Harbor Landing boat storage facility beginning with the date DMR took ownership of the property.</p>	<p>Concur</p>	<p>The Service is working with DMR to resolve the issue. The DMR is compiling the necessary materials for review.</p>	<p>The resolution is not fully implemented. We expect to have the issue fully resolved and implemented by October 1, 2013.</p>
<p>16. Resolve the ineligible questioned costs of \$12,639,045 resulting from land appraisals that do not meet Federal standards before allowing further drawdowns on land acquisition grants and ensure funds totaling \$1,386,737 are put to better use;</p>	<p>Concur</p>	<p>The Service is working with grantees and subgrantees to resolve the issue. We are conducting supplemental reviews of the appraisals and taking other necessary actions, such as contracting for specialized certified review appraiser expertise.</p>	<p>The resolution is not fully implemented. We are reviewing materials provided by grantee. We expect to have the issue fully resolved and implemented by March 31, 2014.</p>
<p>17. Require grantee and subgrantees to provide evidence that appraisers are competitively</p>	<p>Concur</p>	<p>The Service has implemented this recommendation and provided supplemental guidance to all grant recipients by letter dated June 18, 2012. Service Manual Chapters are also being revised that address</p>	<p>We consider recommendation and implemented. No additional</p>

<p>selected, do not present conflicts of interest, have demonstrated the ability to complete appraisals in accordance with Federal standards, and are approved by FWS before CIAP recipients draw down funds;</p> <p>18. Require CIAP grantees and subgrantees to obtain appraisal reviews that comply with Federal appraisal standards and ensure that the reviewers are competitively selected, do not present conflicts of interest, and have demonstrated the ability to perform appraisal reviews in accordance with Federal standards; and</p> <p>19. Review appraisals and appraisal reviews obtained by CIAP grantees on a regular basis to ensure compliance with Federal appraisal standards.</p>		<p>these issues and a copy of the final policies will be provided to all grant recipients when available. Additionally, the grant recipient responsibilities for land acquisition, appraisals and other aspects of property management were addressed in training provided to grant recipients during 2012. A standard operating procedure has been implemented that requires Grant Conditional Statements that address the federal land acquisition process be included in the award letter to ensure that the recipient is aware of the documents that must be federally reviewed and approved prior to the actual land purchase. Appraisal and appraisal reviews for land acquisitions funded by CIAP are reviewed for compliance with Uniform Appraisal Standards for Federal Land Acquisition ('Yellow Book' standards) and approved by the Service prior to the actual land purchase.</p>	<p>action is anticipated.</p>
<p>20. Resolve the ineligible questioned costs of \$1,021,416 from inadequately justified sole-source procurement awards charged to F12AF70006, F12AF70028, F12AF70039, F12AF70040, F12AF70110, F12AF70115, F12AF70185, F12AF70206, F12AF70224, F12AF70232, F12AF70270, and F12AF70274.</p>	<p>Concur</p>	<p>We are working with grantees to resolve the questioned costs. The grantee has provided supplemental information. Pending the outcome of our review, we will instruct grantees and subgrantees to credit back any questioned costs that we determine are not adequately supported by documentation to justify sole-source procurement awards. For any unsupported questioned costs, we will require the grantees to submit revised Federal Financial Reports (SF-425s) showing audit adjustments for review and approval by the Service.</p>	<p>The resolution is not fully implemented. We are reviewing materials provided by grantees. We expect to have the issue fully resolved and implemented by October 1, 2013.</p>

<p>21. Require that CIAP recipients provide evidence of compliance with Federal procurement regulations, including requirements to follow grantees' and subgrantees' own procurement standards; and</p> <p>22. Develop and implement a plan to verify that CIAP recipients are not splitting procurements into smaller purchases to avoid competition thresholds.</p>	<p>Concur</p>	<p>We are working with grantees to verify that all CIAP recipients are aware of the need to follow federal guidelines as well as their internal controls and standards of operations. The grantees have provided supplemental information that is being reviewed. The Service has also provided ongoing trainings through FY2012 to CIAP grantee and subgrantee staff members to reiterate the importance of complying with Federal regulations and of following recipients' own standards.</p>	<p>The resolution is not fully implemented. We are reviewing materials provided by grantees. We expect to have the issue fully resolved and implemented by October 1, 2013.</p>
<p>23. Resolve the ineligible questioned costs of \$23,967 charged to grant F12AF70001 and \$2,229 charged to grant F12AF70148;</p> <p>24. Resolve the ineligible questioned costs of \$203,847 charged to grant F12AF70237; and</p> <p>25. Instruct DMR and IMMS staff members involved in the procurement process to follow applicable Federal regulations and the terms and conditions of CIAP grant agreements, and provide documentation to demonstrate this compliance to FWS.</p>	<p>Concur</p>	<p>We are working with grantees as they provide the necessary documentation on these questioned costs. The Service has provided training in FY2012 to CIAP grantee and subgrantee staff members to reiterate the importance of complying with Federal regulations and grant administration requirements, including the allocation and allowability of costs. For any unsupported questioned costs, we will require the grantees to submit revised Federal Financial Reports (SF-425s) showing audit adjustments for review and approval by the Service.</p>	<p>The resolution is not fully implemented. We are reviewing materials provided by grantee. We expect to have the issue fully resolved and implemented by October 1, 2013.</p>
<p>26. Resolve the ineligible questioned costs of \$107,443 charged to grants F12AF70003, F12AF70107, F12AF70109, F12AF70112, and F12AF70148; and</p>	<p>Concur</p>	<p>We are working with grantees to provide the necessary documentation on these questioned costs and prorating the cost of equipment. The Service has provided training in FY2012 to CIAP grantee and subgrantee staff members to reiterate the importance of complying with Federal regulations and grant administration requirements, including the allocation and allowability of costs. For</p>	<p>The resolution is not fully implemented. We are reviewing materials provided by grantee. We expect to have the issue fully resolved and implemented</p>

<p>27. Require DMR to prorate the cost of each piece of equipment among the projects benefiting from its use, and provide documentation to FWS evidencing proper use.</p>		<p>any unsupported questioned costs, we will require the grantees and subgrantees to submit revised Federal Financial Reports (SF-425s) showing audit adjustments for review and approval by the Service.</p>	<p>by October 1, 2013.</p>
<p>28. Resolve the unsupported questioned costs of \$254,817, the ineligible questioned costs of \$3,955 in payroll costs; 29. Resolve the \$21,000 in land appraisals erroneously charged to other Federal funds; 30. Require DMR to adjust accounting errors in a timely manner in accordance with the Mississippi Agency Accounting Policies and Procedures Manual; 31. Require DMR to determine if other CIAP expenses have been inappropriately charged to other funding sources (or vice versa) and correct any errors; 32. Establish and implement procedures to ensure that when employees charge time to more than one grant, payroll charges are adjusted to reflect the actual hours worked on those grants; 33. Enforce Federal regulations and DMR policy requiring employees to record the amount of time they worked on each project on their timesheets;</p>	<p>Concur</p>	<p>We are working with grantees and subgrantees to provide the necessary documentation on these unsupported questioned costs. The Service has provided training in FY2012 to CIAP grantee and subgrantee staff members to reiterate the importance of complying with Federal regulations and grant administration requirements, including the allocation and allowability of costs. For any unsupported questioned costs, we will require the grantees and subgrantees to submit revised Federal Financial Reports (SF-425s) showing audit adjustments for review and approval by the Service.</p>	<p>The resolution is not fully implemented. We are reviewing materials provided by grantee. We expect to have the issue fully resolved and implemented by October 1, 2013.</p>

<p>34. Resolve the unsupported indirect costs of \$69,518 charged to grants F12AF70107, F12AF70110, and F12AF70222;</p> <p>35. Require DMR to implement policies and procedures to ensure that it does not charge indirect costs to CIAP grants before entering into an indirect cost rate agreement with the appropriate Federal agency;</p> <p>36. Resolve the unsupported questioned costs of \$203,847 charged to grant F12AF70237;</p>			
<p>37. Resolve the \$43,882 in unreported program income;</p>	<p>Do not concur</p>	<p>The questioned income resulted from wastewater utility charges for ongoing monthly services to treat sewage and maintain treatment facilities and were not directly generated by the CIAP grant activities and would not constitute program income as defined in 43 CFR 12.65(b), but rather are characterized as "governmental revenues" which falls under the exception for Program Income, as defined in 43 CFR 12.65(d).</p>	<p>We consider this issue closed. No additional action is anticipated.</p>
<p>38. Provide additional guidance to State and county CIAP staff to ensure they understand the concept of program income and that they can identify, disburse, and report program income.</p>	<p>Concur</p>	<p>We agree that program income was not adequately addressed or included in BOEMRE grantee information. The Service has provided training in FY2012 to CIAP grantee and subgrantee staff members to reiterate the importance of complying with Federal regulations and grant administration requirements, including reporting program income.</p>	<p>We consider this issue implemented and closed.</p>

Appendix 5: Status of Recommendations

In response to our draft report, FWS concurred or partially concurred with 32 of our 37 recommendations and was working to implement or close them. The response included target dates and an action official for each recommendation (see Appendix 4). We consider 7 recommendations unresolved, 17 resolved but not implemented and 13 closed.

Recommendations	Status	Action Required
4, 5, 6, 7, 13, 16, 36	Unresolved	Please provide clarification within 30 days
9, 10, 15, 20, 21, 22, 23, 24, 26, 27, 28, 30, 31, 32, 33, 34, 35	Resolved but not implemented	The recommendations will be referred to the Assistant Secretary, Policy, Management and Budget for tracking of implementation.
1, 2, 3, 8, 11, 12, 14, 17, 18, 19, 25, 29, 37	Closed	No further action required.

