



Commonwealth of Massachusetts
Office of the State Auditor
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Division of Marine Fisheries - Massachusetts Red Tide Technical Assistance and Disaster Relief Grant

For the period May 11, 2009 through February 2, 2012



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In order for the Commonwealth to protect the public health of its citizens, the state's Division of Marine Fisheries (DMF) must close all shellfish beds when a concentration of saxitoxin, the red tide neurotoxin that causes paralytic shellfish poisoning, persists. A widespread Red Tide algal bloom in 2008 closed commercial shellfish beds in 29 communities, affecting individuals from 41 municipalities throughout the Commonwealth. The resulting economic effects were substantial, prompting the Governor to request federal disaster relief to aid the shellfish harvesters affected by the closures. In response, the Commonwealth was granted \$2 million through the National Oceanic and Atmospheric Administration (NOAA) to compensate shell fishermen for their 2008 losses and to develop the necessary tools to enact more accurate red tide closures, thereby promoting consumer confidence and potentially mitigating economic losses from future red tide outbreaks. The NOAA Red Tide Technical Assistance and Disaster Relief Grant (NOAA Grant) assigned responsibility for the receipt, distribution, and administrative costs to DMF management.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws and a Memorandum of Agreement with DMF, the OSA conducted an audit of the Massachusetts 2009 NOAA Grant for the period May 11, 2009¹ through February 2, 2012. The objectives of our audit were to: (1) assess DMF's accounting for grant revenues and expenses, (2) determine the appropriateness of the various health care and income subsidies provided to shell fishermen under this grant, and (3) review the administrative costs associated with the grant.

Since the award of the NOAA grant for the period May 11, 2009 through February 2, 2012, DMF has expended \$1,764,933.85 of the \$2 million awarded. Our audit found that DMF has properly accounted for all revenues and expenses under this grant. We also found that DMF properly filed the required semi-annual Interim Progress Reports on grant activity to NOAA and that all subsidies and expenses related to the grant were proper and in accordance with the terms of the grant.

¹ Although the grant was awarded on May 14, 2009 DMF got permission to begin administering the grant on May 11, 2009.

INTRODUCTION

Background

In order for the Commonwealth to protect the public health of its citizens, the Division of Marine Fisheries (DMF) must close all shellfish beds when a concentration of saxitoxin, the red tide neurotoxin that causes paralytic shellfish poisoning, persists. A widespread red tide algal bloom in 2008 closed commercial shellfish beds in 29 communities, affecting individuals from 41 municipalities throughout the Commonwealth. Shellfish closures began as early as April 11, 2008, and some beds remained closed through the end of the calendar year. Due to the geographic extent of the red tide bloom, DMF also prohibited the harvesting of most shellfish from adjacent federal waters between June 20, 2008 and July 9, 2008. The average length of closure for the 80 designated commercial shellfish fishing areas was 79.4 days.

The resulting economic effects were substantial and prompted Governor Deval Patrick to request federal disaster relief to aid the shellfish harvesters affected by the closures. In response, the Commonwealth was granted \$2 million, through the U.S. Secretary of Commerce, National Oceanic and Atmospheric Administration (NOAA). DMF was directed to develop a grant proposal outlining the methodology to be used to equitably allocate funds to commercial shellfish harvesters for lost income and to mitigate potential economic impacts of future red tide events. The proposal was submitted to the National Marine Fisheries Service on February 24, 2009 and was approved on May 14, 2009. The goal of this program is to compensate shellfish harvesters for their 2008 losses, while developing the necessary tools to enact more accurate red tide closures, thereby promoting consumer confidence and mitigating economic losses resulting from future red tide outbreaks.

DMF proposed a two-phased program. Phase one is the Lost Income Subsidy (LIS) program, which is modeled after the economic assistance plan developed for the Red Tide Assistance Program of 2006 to provide subsidies to shellfish harvesters affected by the closures. The LIS program was allocated \$1.2 million of the \$2 million grant, which was the calculated ex-vessel value² of the 2007 primary buyer sales of shellfish for the same relevant dates, areas, and species closed in 2008. The 2007 baseline was selected as it most accurately predicted income lost (due to relative proximity to the closure year) and the available economic and fishery data obtained from shellfish dealer reports.

² The ex-vessel value is the average price for an individual shellfish species harvested by a specific type of fishing gear in a specific area taking into consideration the condition of the shellfish.

The procedures DMF used to notify eligible shellfish harvesters were the same used in 2006. Notifications were mailed to licensed shellfish permit holders with applications to apply for subsidies. These shellfish permit holders were identified by DMF through its data base of permit holders. DMF also posted applications on its website for any group that may have not been included among the shellfish permit holders and wished to apply. As a result, there were certain groups such as the Nauset shellfish harvesters that were added to the eligible groups based on this procedure. All eligible groups had to provide proof of catch with documentation from sea food buyers. DMF also had an appeals process for applicants that were originally denied. DMF used the Standard Atlantic Fisheries Information System (SAFIS) reports³ to calculate the LIS for each of the eligible shellfish harvesters.

Our test of the LIS program included an examination of the approvals, appeals, and additions made to the eligible shellfish harvester groups. We also reviewed calculations for each of the groups that were disbursed grant funds. The direct subsidy portion of this program, which totaled \$1,118,653, was completed by December 31, 2009 for 263 qualified commercial shellfish harvesters. Any funds remaining from the grant when closed in March 2012 were to revert to the federal government.

In March 2011, DMF entered into a contract with the Massachusetts Fisherman's Partnership (MFP) to distribute the remaining LIS funding to qualified shellfish harvesters affected by the 2008 red tide event through its health insurance program. The MFP is the sole community provider of health insurance for fishing families in the Commonwealth of Massachusetts, and DMF has a longstanding working relationship with the MFP to distribute health insurance subsidies. Those individuals who qualified for the LIS program were also eligible for the health insurance subsidy program. The MFP contacted all 263 LIS recipients to determine whether they were interested in obtaining subsidized private health care. In April 2011, the MFP began an open enrollment for health insurance that was provided by Harvard Pilgrim Health Care. In June 2011, due to financial constraints, the MFP was no longer able to provide private health insurance, but continued to distribute health insurance subsidies to shellfish harvesters so that they could purchase health insurance through the Massachusetts Health Care Program, Commonwealth Care⁴. Many of the

³ The Standard Atlantic Fisheries Information System report is a data base of real-time commercial harvesting data maintained by The Atlantic Coastal Cooperative Statistics Program and is used by shellfish harvesters, dealers, and governmental agencies to document species caught and the impact on fisheries and quotas.

⁴ Commonwealth Care is a state-funded health insurance program for low- and moderate-income Massachusetts residents who do not have health insurance. Commonwealth Care members get free or low-cost health services

eligible applicants took advantage of these subsidies. As of the end of our audit period, DMF had paid \$103,950 of its budgeted \$111,210 to the MFP. Also, according to our calculations and conversations with agency officials, all administrative funds have been expensed with the exception of \$1,112, which is the remaining 10% of the budgeted administrative expenses owed to DMF. DMF had already paid in advance 90% of the administrative costs, leaving a balance of \$1,112 to be paid when the MFP files its final report to DMF. According to the grant provisions, this program is open-ended with no specific guidelines. The costs were to be determined by DMF and be a part of the \$2 million grant. Excess funds not spent will revert to the federal government.

Phase two of the grant, the technical assistance program, was allocated the remaining \$800,000 for the purpose of increasing the capacity of the Commonwealth's red tide monitoring program. Beyond traditional sampling and monitoring, DMF helped fund a regional cyst⁵ bed mapping program and expanded public outreach. We did not test this provision of the grant other than administrative expenses, including salaries, contracted and seasonal personnel, tools and supplies, repairs, and purchases. Our tests of 16 transactions determined that they were all authorized, approved, and paid according to the grant provisions and DMF's policies and procedures.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, the OSA conducted an audit of DMF's administration of its Red Tide Technical Assistance and Disaster Relief Grant for the period May 11, 2009 through February 2, 2012. The OSA conducted this audit in accordance with generally accepted government auditing standards. These 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 specific audit objectives included the following:

1. Examining the expenditure of grant funds consisting of the LIS, healthcare subsidy, and administrative costs associated with the \$2 million NOAA grant to DMF for the period May

through managed care health plans. There are several health plans offered by private health insurance companies to choose from, some costing more than others. Commonwealth Care is run by the Commonwealth Health Insurance Connector Authority.

⁵ A cyst is a dormant seed population that will form toxic algae that develops into red tide.

11, 2009 through February 2, 2012. NOAA grant fund disbursements as of February 2, 2012 were as follows:

Fishermen Lost Wage Reimbursement	\$1,118,652.50
Healthcare Payments for Fishermen	103,950.00
Clothing & Footwear	288.17
Contracted Faculty	338.29
Contracted Seasonal Employees	15,741.71
Contracted Student Interns	48,542.50
Engineering, Research & Scientific Services	39,230.00
Facility Infrastructure Maintenance & Repair Tools & Supplies	846.72
Fringe Benefit Cost Recoupment	41,471.71
Fuel for Vehicles	455.46
Grants to Woods Hole Oceanographic	62,757.39
Hazardous Waste Removal Services	2,550.00
Indirect Cost Recoupment	64,944.79
Information Technology Chargeback	556.50
In-State Travel & Related Expenses on Behalf of State Employees	470.60
Laboratory Supplies	74,674.40
Media Design, Editorial and Communication	15,598.73
Medical Equipment Maintenance & Repair	1,957.00
Motorized Vehicle Equipment Maintenance & Repair	633.22
Motorized Vehicle Equipment Rental or Lease	10,177.49
Navigational & Nautical Supplies	831.44
Non-Major Facility Infrastructure Maint. & Repair	28,497.39
Office & Administrative Supplies	750.49
Overtime Pay	1,341.17
Postage	2,399.21
Reimb. Travel/Other Expenses CC Special Contract/Employee	253.18
Salaries: Inclusive	126,736.99
Miscellaneous	<u>286.80</u>
Total Grant Expenses as of February 2, 2012	<u>\$1,764,933.85</u>
Unspent Funds: (Unaudited)	\$235,066.15 ⁶

2. Reviewing and evaluating DMF's compliance with certain federal laws and regulations pertaining to the NOAA grant and internal controls and grant transactions that relate primarily to accounting controls that are designed to provide reasonable assurance that:

- Grant fund LSIs were distributed to eligible commercial shellfish harvesters and accurately calculated.
- Health insurance subsidies were distributed according to the agreement with the MFP.
- Administrative expense transactions were authorized, approved, and paid according to the grant provisions.

⁶ As of February 2, 2012, \$235,066.15 of the budgeted grant funds had not yet been disbursed. The grant closes on March 31, 2012.

- Grant receipts were properly allocated when drawn.

Our audit included a review of policies and procedures established by DMF to administer the NOAA grant. Specifically, we reviewed the public notifications, mailings, appeals, and awards established by DMF to administer the NOAA grant, finding that DMF properly administered the grant and that DMF's internal control procedures were adequate for NOAA purposes. Our review included testing controls and grant payouts for the LIS and healthcare subsidies, examining administrative expenses, and reviewing DMF's drawdown of grant funds.

At the conclusion of our audit, the results of our audit were verbally communicated to DMF officials and any comments made by DMF officials were considered in the drafting of this report. DMF chose not to provide written comments to our report.

Conclusion

Our review of the policies and procedures established by DMF to administer the NOAA Red Tide Disaster Assistance and Technical Relief Grant indicated that DMF properly administered the grant and that DMF's internal control procedures were adequate for NOAA purposes. Further, we noted that LSIs were properly calculated and distributed, health care subsidies were paid for eligible applicants as agreed, administrative costs were reasonable, grant receipts were properly accounted for and allocated, and there were no questioned costs related to the NOAA grant during our audit period.