



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

August 19, 2014

The Honorable Pat McCrory, Governor
The Honorable Thom Tillis, Speaker of the House
The Honorable Phil Berger, President Pro Tempore
The Honorable Brent Jackson, Co-Chair Appropriations/Base Budget
Mr. John E. Skvarla, III, Secretary, Department of Environment and Natural Resources
Dr. Louis Daniel, Director, Division of Marine Fisheries

This letter and attached findings present the results of our financial related audit of the Department of Environment and Natural Resources, Division of Marine Fisheries, At-Sea Observer Program.

The purpose of this audit was to assist legislators in developing the 2014-15 state budget.

The objective was to answer the questions, as listed in this report, asked by legislators about Division operations and activities.

Secretary John E. Skvarla, III, reviewed a draft copy of this report. His written comments are included in the Appendix.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. 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.

To accomplish our audit objective, we gained an understanding of internal control over matters described below and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and operations.

We wish to express our appreciation to the staff of the Department of Environment and Natural Resources for the courtesy, cooperation, and assistance provided us during the audit.

If you have any questions, please do not hesitate to contact my office.

Sincerely,

A handwritten signature in black ink that reads 'Beth A. Wood'.

Beth A. Wood, CPA
State Auditor

FINDINGS

1. Is the Division's \$585 per trip estimate for the At Sea Observer Program a reasonable basis for the fiscal year 2014 budget projection?

It is difficult to determine the exact cost per trip of the At-Sea Observer Program (Program) because the Division of Marine Fisheries (Division) did not have activity-based costing information. Additionally, the Division did not document information on all observer tasks and activities¹ needed to determine the actual cost of the Program.

Based on the fiscal year 2012 financial and available observer activity information, the Division's estimate of \$585 is 3.9% higher than the auditor calculated amount of \$563 per trip for the Program.

Auditors applied the same methodology as the Division, with adjustments as needed,² to calculate the fiscal year 2014 program cost. Based on planned trips, the cost of the Program³ would be \$1,034,794.

The auditor calculation assumes the Division maintains the same ratio of full-time observer employees to contracted observers as it did in the 2012 base year. If that ratio were to change, the calculation noted above would no longer be valid.

2. What was the equipment cost spending for the Program in fiscal year 2014?

Year-to-date equipment spending for fiscal year 2014 is approximately \$2,500 as of February 28, 2014. Equipment purchases included a computer and turtle interaction monitoring equipment (pre-load sterile tags and implanters).

Major equipment purchases for fiscal years 2012 and 2013 were \$64,260 and \$300,202, respectively. Equipment purchases included trucks, boats, motors, and trailers.

According to the Division, all equipment is used solely for the Program.

3. How long do observation trips take?

On-board trips⁴ range from 6½ to 13 hours. Alternative Platform trips⁵ range from 7 to 14½ hours.

¹ Observer activities, such as the number of observation trips, are maintained and self-reported by the Division. Auditors did not audit and do not attest to the reliability of such data.

² Adjustments included staff salaries, fixed asset purchases, depreciation, and projected observation trips.

³ This cost assumes a goal of observing 10% of large mesh gill net fishing trips and 2% of small mesh gill net fishing trips. The minimum number of observation trips required is 7% and 1%, respectively. The goal and minimum percentage of trips is set forth in the Incidental Take Permit (ITP) agreement with the U.S. National Marine Fisheries Service.

⁴ On-board trips are trips where the Division observer is physically on-board the commercial fishing vessel.

⁵ Alternative platform trips include *2-Man Observer Trips* - observers on Division operated boats; and *Marine Patrol* - observations made by Marine Patrol officers who come into visual contact with commercial fishing boats using large or small mesh gill nets while conducting normal Marine Patrol operations.

FINDINGS

The amount of time needed to complete an observation trip depends upon the type of trip and other observation activity factors. Factors such as distance, boat speed, fishing gear, fishing success, and weather affect the length of the trips.

4. How much cost and time is wasted on missed trips? How big a problem is this?

On-Board Observer Trips

Due to a lack of records, the time and cost spent on missed trips could not be determined. However, the Division stated that missed trips occurred “only a handful of times” over the past 2½ years.

If an observer is able to schedule a trip and get on a fisherman’s boat, the on-board observer trips are 100% effective (i.e., the trip counts towards meeting the goal and minimum number of trips).

Alternative Platform – 2-Man Observer Trips⁶

The cost of unsuccessful⁷ 2-man observer trips:

- For 2012: 9 unsuccessful trips X \$563/trip⁸ = \$5,067.
- For 2013: 67 unsuccessful trips X \$563/trip⁸ = \$37,721.

The hours spent on unsuccessful 2-man observer trips:

- For 2012: 9 unsuccessful trips X two staff X 10 hours (average) = 180 hours.
- For 2013: 67 unsuccessful trips X two staff X 10 hours (average) = 1,340 hours.

Alternative Platform Observer trips still appear to be somewhat effective in enabling the Division to meet the minimum observer coverage requirements of the Incidental Take Permit⁹ (ITP) agreement with the U.S. National Marine Fisheries Service.

- During 2012, 70 of the 79 trips (88%) resulted in successful observations.
- During 2013, 123 of the 190 trips (65%) resulted in successful observations.

Alternative Platform - Marine Patrol⁶

The Division estimates this cost to be approximately \$435,000 in fiscal year 2014. However, auditors were not able to obtain documentation to substantiate this estimate.

Time wasted on unsuccessful trips is not applicable since the primary function of Marine Patrol trips is not observations for the At-Sea Observer Program.

⁶ Alternative platform trips include *2-Man Observer Trips* - observers on Division operated boats; and *Marine Patrol* - observations made by Marine Patrol officers that come into visual contact with commercial fishing boats using large or small mesh gill nets while conducting normal Marine Patrol operations.

⁷ An unsuccessful trip occurs when the Division makes an effort to find gill net fishing activity but is not able to locate any gill nets and, therefore, is not able to make an observation. Unsuccessful trips cannot be counted towards meeting the requirements of the ITP.

⁸ The cost per trip estimate is based on the assumptions noted in Question #1.

⁹ The ITP allows fishermen to use gill nets in waters where sea turtles may come in contact with fishing gear. Once the number of incidental contacts between fishermen and sea turtles exceeds the allowed number, the gill net fishery may be closed for the season. If the terms of the ITP are not followed, the National Marine Fisheries Service may close the waters to gill net fishermen.

FINDINGS

Marine Patrol observation attempts do not appear to be effective in enabling the Division to meet the minimum observer coverage requirements of the ITP.

- During 2012, 331 of the 1,941 trips (17%) resulted in successful observations.
- During 2013, 230 of the 1,858 trips (12%) resulted in successful observations.

5. How close is the Division to meeting the 7% minimum observer coverage target?

Large mesh gill net observation coverage minimum requirements¹⁰ were met in all areas except one.¹¹ Small mesh gill net observation coverage minimum requirements¹⁰ were met in all areas except one.¹¹

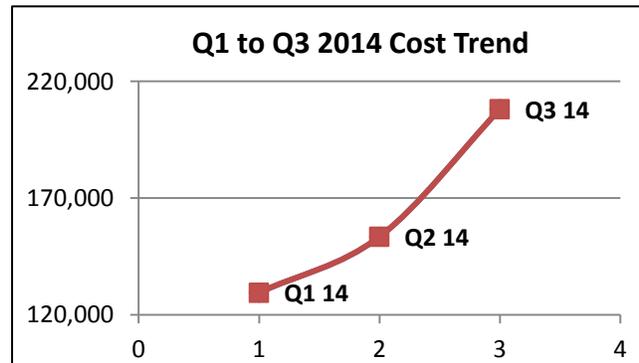
6. Is lack of manpower the reason for not meeting the 7% target?

The Division states it did not meet the 7% minimum observer coverage target in one area because it struggled to get fishermen to comply with scheduling and completing the observation trips needed to meet the target. As a result, the Division could not justify hiring the additional staff it needed to make the minimum number of observation trips required to meet the requirements of the ITP.

7. What is the Program’s spending per quarter in fiscal year 2014?

Total spending from July 1, 2013, to March 31, 2014, was \$491,258.75. Spending per quarter is as follows:

Fiscal Year Quarter	Total
Q1 14	\$ 129,586
Q2 14	\$ 153,519
Q3 14*	\$ 208,154
Total	\$ 491,259



*The increase in spending between the second and third quarters is primarily related to filling four vacant positions in January 2014

¹⁰ Coverage data for the fall 2013 season was the first and only required reporting during the period July 1, 2013, to March 31, 2014. A season is defined as the three-month period starting with March of each year.

¹¹ Based on information self-reported by the Division in the “NCDMF Seasonal Progress Report, Permit No. 16230, September 1 – November 30, 2013” report submitted to the National Marine Fisheries Service. The information in this report was not audited.

BACKGROUND

At-Sea Observer Program

- Started in 2000 to collect information about commercial and recreational catch.
- Expanded in 2010 as the result of a lawsuit. The settlement agreement:
 - Required minimum 7% observer coverage with a goal of 10% in the large mesh gill net fishery only.
 - Did not include all state waters.
 - Resulted in approximately eight positions supporting the Program.
- Granted an Incidental Take Permit from the National Marine Fisheries Service effective September 10, 2013, allowing a certain amount of sea turtle interaction.
 - Expanded minimum observer coverage requirements to both large and small mesh gill-net fisheries.
 - Expanded minimum observer coverage requirements to apply statewide.
 - 18 positions assigned to the Program.
- The Program currently operates out of three satellite offices:
 - Morehead City;
 - Wilmington;
 - Elizabeth City.

APPENDIX



North Carolina Department of Environment and Natural Resources

Pat McCrory
Governor

John E. Skvarla, III
Secretary

August 13, 2014

**The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601**

Dear Ms. Wood:

Thank you for the opportunity to review the financial related audit of the Department of Environment and Natural Resources' Division of Marine Fisheries' (Division) At-Sea Observer Program. We agree with the results of this audit and do not request an exit interview. In addition, the Division has already taken steps to improve the documentation of activities and records for the At-Sea Observer Program that were identified in the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "John E. Skvarla, III". The signature is fluid and cursive, written over a horizontal line.

John. E. Skvarla, III, Secretary
NC Department of Environment and Natural Resources

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919-807-7500

Facsimile: 919-807-7647

Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:

Bill Holmes
Director of External Affairs
919-807-7513