



National Security and
International Affairs Division

B-280775

August 28, 1998

The Honorable Benjamin A. Gilman
Chairman, Committee on International Relations
House of Representatives

The Honorable Harold Rogers
Chairman, Subcommittee on Commerce, Justice,
State, the Judiciary, and Related Agencies
Committee on Appropriations
House of Representatives

Subject: Financial and Management Practices of the Great Lakes Fishery
Commission

You expressed concern about the level of visibility and transparency (openness) of the operations of a number of international commissions, including the Great Lakes Fishery Commission (GLFC), which is the subject of this report. GLFC was established in 1955 by Convention¹ between the governments of the United States and Canada. Under the Convention, GLFC is responsible for controlling sea lamprey,² increasing productivity of fish stocks, and furthering knowledge of the Great Lakes' ecology and resources. However, most of GLFC's efforts are focused on sea lamprey. Costs for funding sea lamprey control and administrative and research activities are shared by the United States and Canada. As agreed with your office, this report provides information about certain GLFC practices and procedures.

Specifically, we have (1) identified GLFC's sources and uses of funds; (2) described GLFC's ability to reprogram, or reassign, funds; and (3) discussed

¹The "Convention on Great Lakes Fisheries Between the United States of America and Canada" was signed in 1954 and ratified by the United States in June 1955 and by Canada in October 1955. It entered into force on October 11, 1955.

²Sea lamprey are parasitic eel-like fish that attack other fish, such as lake trout, in the Great Lakes. Sea lamprey are not indigenous to the Great Lakes.

financial and managerial oversight over GLFC's activities for fiscal years (FY) 1995-97.

In completing our review, we examined financial records of GLFC and reports by its external auditor. We discussed financial management and oversight responsibilities with the State Department in Washington, D.C., and GLFC in Ann Arbor, Michigan. In addition, we reviewed GLFC's Convention and its internal financial regulations.

BACKGROUND

GLFC is composed of a U.S. and a Canadian section comprising eight commissioners overall. Each section has four commissioners who serve in a nonsalaried, part-time capacity. The U.S. commissioners are appointed by the President for 6-year terms.³ (The United States also has one alternate commissioner.) The Canadian commissioners are appointed by the Privy Council⁴ for as long as the Council wants them to serve. GLFC day-to-day operations are administered by an Executive Secretary, who is appointed by the commissioners. As of July 1998, GLFC had 10 full-time and 2 part-time staff working at its headquarters in Ann Arbor, Michigan.

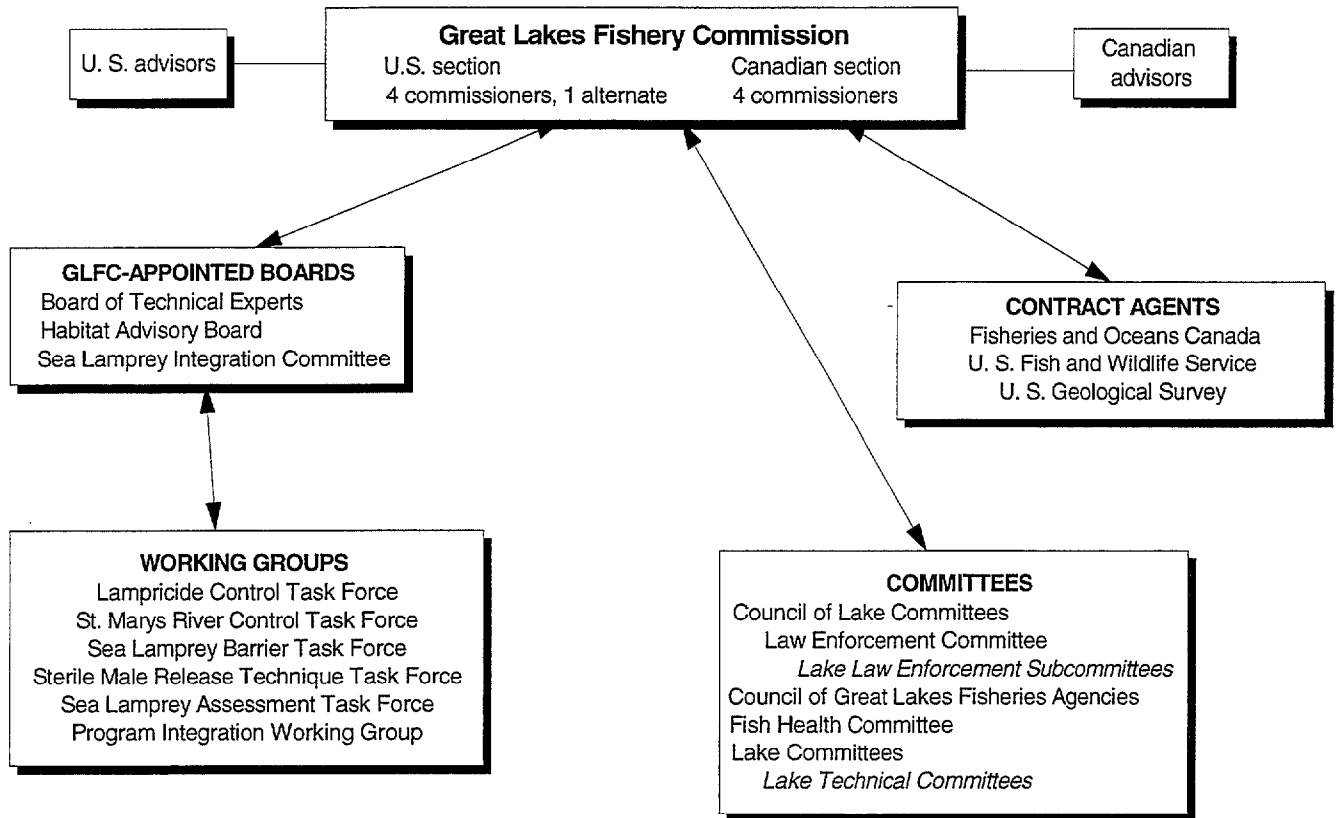
GLFC received funding of approximately \$38.3 million from the U.S. and Canadian governments for fiscal years 1995-97. It also had interest income of about \$1.2 million during that period. U.S. funding of GLFC is provided through the Department of State's appropriations. U.S. and Canadian program cost-sharing arrangements were negotiated by officials of the two governments at GLFC's first annual meeting in 1956. Cost-sharing arrangements vary by program but are fixed. For example, the United States pays 69 percent of the costs of the sea lamprey control program, but the two governments share equally the costs of common administrative support and general scientific research. The amounts of the government's respective funding are developed in annual GLFC meetings, during which the yearly budget is devised.

To accomplish its mission, GLFC provides a forum for and helps coordinate the efforts of federal, state, provincial, tribal, and private interests that affect the fish in and the ecology of the Great Lakes. GLFC also has a number of boards, working groups, and committees, made up of outside experts, that provide advice on its programs (see fig. 1).

³One of the present four U.S. Commissioners is a federal employee.

⁴The Privy Council is a body of Canadian Ministers that provide nonpartisan advice and support to the Prime Minister and Cabinet.

Figure 1: GLFC's Boards, Working Groups, and Committees



Source: GLFC.

A Board of Technical Experts made up of U.S. and Canadian fishery experts assists GLFC in managing a portion of its research activities. A Habitat Advisory Board, consisting of fishery and environmental experts, assists GLFC in addressing a wide range of habitat issues concerning fish in the Great Lakes. The Sea Lamprey Integration Committee provides expert advice on the control and management of the sea lamprey and the Great Lakes' fish stocks. The Sea Lamprey Integration Committee has five working groups, or task forces, that provide it with advice on each of the major program areas: lampricide control, Saint Marys River⁵ sea lamprey control, barriers to keep sea lamprey from entering spawning streams, sterile male lamprey release, and assessment of sea lamprey populations.

⁵The Saint Marys River is located between Lake Superior and Lake Huron.

RESULTS IN BRIEF

Funding from the U.S. and Canadian governments constituted the largest source of financing for GLFC during fiscal years 1995-97. Other revenue sources during this period included interest income, donations, and pledges. GLFC allocates about 90 percent of its annual budget to sea lamprey management and research and the remaining 10 percent to administration and general research.

GLFC's internal financial regulations provide for a significant amount of flexibility in managing its financial resources. It has used this flexibility in reprogramming funds to address funding shortages and other unanticipated requirements.

GLFC appears to have a multifaceted oversight structure, including a requirement for annual financial statement audits by an independent accounting firm. Moreover, though not required, GLFC has had regular program audits and reviews conducted both internally and externally.

SOURCES AND USES OF GLFC FUNDING

For fiscal years 1995-97, the U.S. and Canadian governments gave funds that formed the largest source of revenue for GLFC. Interest income, donations from a GLFC trust fund,⁶ and a state of Michigan grant earmarked for lamprey control constituted other sources of income.

Funding

Funding from the United States and Canada totaled about \$38.3 million from fiscal years 1995 to 1997. Table 1 shows each country's funding for this 3-year period.

⁶U.S. and Canadian trust funds were established in 1996 as separate entities under U.S. and Canadian tax codes to obtain additional funding for sea lamprey and fishery research programs. These trust funds are not included in funding listed in table 1.

Table 1: Funds to GLFC From the United States and Canada,
Fiscal Years 1995-97

Country	Fiscal Years			Total 1995-97
	1995	1996	1997	
United States	\$8,803,000	\$8,353,000 ^a	\$8,353,000	\$25,509,000
Canada	4,297,000	4,187,000	4,288,000	12,772,000
Total	\$13,100,000	\$12,540,000	\$12,641,000	\$38,281,000

Note: This table was developed from data provided by GLFC officials. GAO did not attempt to verify the data or determine that it includes all revenues from all sources.

^aAccording to GLFC officials, U.S. funds for fiscal year 1996 (\$8.35 million) were not received until fiscal year 1997, due to federal funding through continuing resolutions in that fiscal year and delayed State Department funding.

Source: GAO analysis based on GLFC's financial statements.

Interest Income

GLFC's funds are held in interest-bearing accounts. From fiscal years 1995 to 1997, interest income totaled about \$1.2 million. This amount of interest income was generated from interest on GLFC funds and current-year funds that were placed in interest-bearing accounts. For example, in fiscal year 1997, GLFC's interest-bearing account held approximately \$21 million in current-year funds and \$2.3 million in cash carried forward and other miscellaneous receipts, which earned approximately \$254,000 of interest income. Table 2 shows GLFC's cash carried forward in GLFC investment accounts and interest income for each fiscal year from 1995 through 1997.

Table 2: GLFC's Investments and Interest Income, Fiscal Years 1995-97

Sources	Fiscal years			Total FY 1995-97
	1995	1996	1997	
Investments	\$10,022,000	\$10,793,000	\$2,317,000 ^a	\$23,132,000
Interest income	541,000	436,000	254,000	1,231,000
Total	\$10,563,000	\$11,229,000	\$2,571,000	\$24,363,000

Note: GAO did not independently verify the accuracy of the figures in this table.

^aThe lower investments balance in fiscal year 1997 was due to the delay in receiving U.S. funding and the purchase of lampricide for fiscal year 1996.

Source: GAO analysis based on GLFC's financial statements.

According to GLFC's financial regulations, the income from the interest earned on these invested funds is credited to a working capital fund.

Donations and Pledges

The third source of GLFC funds is donations and pledges from public and private organizations interested in the ecology of the Great Lakes. As previously mentioned, GLFC established U.S. and Canadian trust funds, as separate entities, to receive these donations. As of April 1998, the U.S. fund had received over \$100,000 worth of in-kind goods, services, and cash. These in-kind goods and services included chemicals, and materials and services to construct sea lamprey barriers. In addition, in June 1997, the state of Michigan pledged \$3 million to GLFC over 3 years to support GLFC's initiative to control the sea lamprey in the St. Marys River.⁷ The first installment of \$1 million went to GLFC's operating account for the sea lamprey program.

Use of Funds

During fiscal years 1995 through 1997, about 90 percent of GLFC funds was allocated for sea lamprey management and research. The remaining 10 percent

⁷Michigan's pledge was intended to spur development and implementation of a sea lamprey control strategy in the Saint Marys River, which is believed to be the primary source of the sea lamprey in northern Lake Huron. Development of the strategy is a costly, difficult task due to the river's large size and flow rate.

was allocated between program management and support for various GLFC committees. The activities funded by the 10 percent include organizing conferences and meetings with Great Lakes officials to discuss research findings, publishing informational material, and financing office administration.

REPROGRAMMING ACTIVITY

GLFC's financial regulations allow it to reprogram, or reassign, money from one program to another. This gives it considerable flexibility in managing its resources.

For example, in fiscal year 1996, GLFC reprogrammed \$2.2 million to purchase lampricides with funds designated for other accounts. According to GLFC officials, the purchase was made to avoid the possibility of losing the sole source manufacturer of lampricides. GLFC officials informed us that the U.S. and Canadian governments were aware of and approved GLFC's advance lampricide purchase. In another instance in the same fiscal year, GLFC reprogrammed about \$8 million to cover all expenses due to a delay in U. S. funding.

FINANCIAL AND MANAGERIAL OVERSIGHT

GLFC receives oversight from many sources. First, any decision or activity of GLFC requires the approval of both the U.S. and Canadian sections. Second, GLFC's internal financial regulations require annual certified audits of its financial statements. Third, though not required, GLFC has had numerous performance audits and reviews of its programs since 1980. Moreover, it is subject to extensive advisory and peer review of all its research.

U.S. and Canadian Approval Required

Decisions regarding projects and programs must be approved by both sections. As a result, no program can be approved without the U.S. or the Canadian Section's agreement. This effectively gives either country veto rights over any GLFC project. Moreover, GLFC is required to hold regular meetings, at which members of its advisory committees give their opinions.

Financial Statements Are Regularly Audited

GLFC's internal financial regulations require annual audits by an independent accounting firm selected by the commissioners. Such an audit has been conducted by an independent firm yearly since at least 1986. We reviewed the auditor's certification of GLFC's financial statements for fiscal years 1995 through 1997 and observed that the auditor reported that GLFC's financial

records were fairly represented in accordance with generally accepted auditing standards.

Program Audits Were Conducted

The Convention establishing GLFC does not require performance audits. However, since 1980, GLFC has been the subject of 17 audits and reviews of its programs and operations by internal and external organizations, including 2 prior GAO audits,⁸ 2 audits by the Canadian Department of Fisheries, 2 audits by binational commissions, 1 study by an independent consultant, and 10 internal audits and reviews. Most of the audits and reviews were concentrated on the effectiveness of GLFC's sea lamprey research and control program.

The scope of our work did not include in-depth examinations of GLFC's actions taken in response to the reports' recommendations. However, in the course of our work we identified some actions GLFC has taken in response to the reports' recommendations. These included establishment of a working capital fund, appointment of a full-time research administrative officer, development of alternative methods of sea lamprey control, and establishment of a system for re-registering lampricide chemicals.

AGENCY COMMENTS

In oral comments on a draft of this letter, the Department of State agreed with its contents and said it is satisfied that GLFC's program expenditures are appropriate.

SCOPE AND METHODOLOGY

To identify the sources and uses of funds received by GLFC, we examined and analyzed GLFC's financial statements, records, policies, and the annual financial statement audits of an independent accounting firm for fiscal years 1995-97. We also held discussions on GLFC's budgets and expenditures with the State Department's Office of Marine Conservation and Chief Financial Officer, and the

⁸In July 1985 and again in March 1992, we issued two separate reports concerning the management of GLFC funds and programs: U.S.-Canadian Joint Effort Helps to Revitalize Great Lakes Fishery (GAO/NSIAD-85-106, July 8, 1985) and Great Lakes Fishery Commission: Actions Needed to Support an Expanded Program (GAO/NSIAD-92-108, Mar. 9, 1992). In our 1985 publication, we reported on GLFC's practice of carrying over unused funds and the administration of GLFC's research program. Our 1992 report addressed GLFC's strategy for implementing alternative research efforts, registering chemicals used to control sea lamprey populations, and improving the monitoring of research activities.

Executive Secretary and the Administrative Officer of GLFC in Ann Arbor, Michigan.

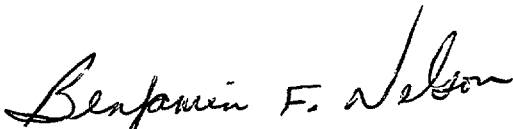
To provide information on GLFC's ability to reprogram funds, we reviewed relevant provisions of GLFC's internal financial regulations. We discussed GLFC policies and financial management practices with the State Department's Office of Marine Conservation and with GLFC's Executive Secretary and Administrative Officer.

To determine internal and external financial and managerial oversight over GLFC's activities for fiscal years 1995-97, we reviewed GLFC's Convention, operating rules and procedures, public laws, and Executive Order 11059. We obtained copies of GLFC's external independent financial auditors' reports and discussed their assessment of internal controls with GLFC officials. We also examined the processes and procedures GLFC employs when receiving, processing, and issuing payment for invoices. We did not test GLFC's internal financial controls. We identified and obtained copies of the 17 external and internal program and administrative audits and reviews, and we discussed them with GLFC officials. Moreover, we held discussions on external oversight with the State Department's Office of Inspector General and Office of Marine Conservation. However, we did not examine specific actions taken in response to the more than 214 recommendations presented in the 17 audits and reviews.

We performed our work between June and August 1998 in accordance with generally accepted government auditing standards.

We are sending copies of this letter to the Secretary of State, the U.S. commissioners to GLFC, and other interested parties. We will make copies available to others upon request.

Major contributors to this letter were Elliott C. Smith, David R. Martin, Patricia Sari-Spear, Steven D. Boyles, Syrene D. Mitchell, Mark Speight, and Rona Mendelsohn. If you have any questions concerning this letter, please call me on (202) 512-4128.



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