



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**DEFERRED MAINTENANCE,
U.S. FISH AND WILDLIFE SERVICE**

**REPORT NO. 00-I-226
MARCH 2000**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAR 10 2000

Memorandum

To: Assistant Secretary for Fish and Wildlife and Parks

From: Robert J. Williams *Robert J. Williams*
Assistant Inspector General for Audits

Subject: Audit Report on Deferred Maintenance, U.S. Fish and Wildlife Service
(No. 00-I-226)

This report presents the results of our audit of the U.S. Fish and Wildlife Service's deferred maintenance.

In accordance with the Departmental Manual (360 DM 5.3), we are requesting a written response to this report by March 13, 2000. The response should provide the information requested in Appendix 3.

Section 5(a) of the Inspector General Act (Public Law 95-452, as amended) requires the Office of Inspector General to list this report in its semiannual report to the Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

EXECUTIVE SUMMARY

**Deferred Maintenance,
U.S. Fish and Wildlife Service
Report No. 00-I-226
March 2000**

BACKGROUND

The mission of the U.S. Fish and Wildlife Service (FWS) is "to work with others to conserve, protect, and enhance fish and wildlife and their habitats for the continuing benefit of the American people." FWS accomplishes this mission through the management of 516 national wildlife refuges, 79 ecological services field stations, 66 national fish hatcheries, 48 wetland management districts with waterfowl production areas, and 50 coordination areas. FWS also operates 56 fishery resource offices, 9 fish health centers, and 7 fish technology centers. At these sites and facilities, FWS maintains buildings, roads, dikes, water control structures, and the equipment to support its wildlife management and fishery programs. In support of its maintenance program, FWS operates two types of automated systems, one of which is used to manage routine maintenance activities. The other system, established in 1982 "to enhance the Service-wide efforts in planning and budgeting for maintenance activities" (as stated in "Refuge Management Information System - MMS [maintenance management system] instructions") provides information on FWS's deferred maintenance. In fiscal years 1996 through 1998, FWS received total maintenance funding of \$93.2 million for deferred maintenance, of which \$72.9 million was for refuges and \$20.3 million was for hatcheries.

OBJECTIVE

The objective of the audit was to determine whether FWS (1) managed its deferred maintenance program in accordance with laws, regulations, and guidance and (2) maintained and used a maintenance management system that provided useful and reliable data.

RESULTS IN BRIEF

We found that FWS did not spend deferred maintenance funding solely on deferred maintenance projects and did not allocate deferred maintenance funds in accordance with its Maintenance Management System Handbook, which states that FWS should establish priorities for projects to "optimize" the use of funds made available to correct maintenance deficiencies. Instead, FWS allocated \$9.6 million of \$33.4 million of fiscal year 1998 deferred maintenance funding for costs that were not directly related to the priority of deferred maintenance projects, including expenses such as regional administrative and engineering (unrelated to deferred maintenance projects) support, small maintenance projects, and contingencies such as cost overruns. Also, FWS spent \$4.8 million of its deferred maintenance funding for fiscal years 1996 through 1998 on nonmaintenance expenses such as equipment replacement, administrative functions, and routine maintenance work.

We also found that FWS's information on its deferred maintenance needs and its estimates of its deferred maintenance costs were not reliable and/or prepared in accordance with Federal accounting standards and Department of Interior (DOI) guidance. Deferred maintenance information was not reliable because FWS had not (1) fully surveyed its assets to identify asset condition and thereby determine its deferred maintenance needs; (2) fully documented its estimated deferred maintenance costs; (3) established adequate controls to ensure compliance with Federal, DOI, and FWS deferred maintenance guidance; and (4) implemented adequate controls to ensure the reliability of deferred maintenance data. As a result, FWS may be unable to support its budget requests for deferred maintenance funding with reliable data.

RECOMMENDATIONS

We recommended that FWS establish a process for allocating deferred maintenance funds to field offices on the basis of national priorities and that the field offices discontinue the practice of allocating a fixed amount or percentage of funds for regional and engineering support, small deferred maintenance projects, and contingencies unless these projects can be justified on the basis of their relative contribution to deferred maintenance activities. In addition, we recommended that FWS establish and implement controls to ensure that deferred maintenance funding is used for its intended purpose. We also recommended that FWS implement controls to ensure that (1) condition assessments and deferred maintenance cost estimates are documented; (2) FWS complies with Federal, DOI, and its own guidance on the identification of deferred maintenance needs and the estimation of deferred maintenance costs; and (3) deferred maintenance data entered into FWS's maintenance management system are complete, current, and accurate.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL EVALUATION

In its response to the draft report, FWS concurred with five of the report's six recommendations. Based on the response, we considered Recommendation A.1 resolved and implemented and Recommendations A.3, B.1, B.2, and B.3 resolved but not implemented. Accordingly, the four unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

In its response, FWS did not concur with Recommendation A.2. Specifically, FWS agreed to use or allocate deferred maintenance funds for activities such as regional and engineering support on a project-specific basis and not to allocate a fixed amount of deferred maintenance funding to these activities. FWS, however, did not agree to discontinue allocating a fixed amount to the regions to finance small deferred maintenance projects, as we had recommended. In our comments on FWS's response to the draft report, we said that FWS needs to ensure that the highest priority deferred maintenance projects are funded before it finances less expensive and possibly lower priority projects. We requested that FWS reconsider its response to this recommendation, which is unresolved.

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INTRODUCTION

BACKGROUND

The mission of the U.S. Fish and Wildlife Service (FWS) is "to work with others to conserve, protect, and enhance fish and wildlife and their habitats for the continuing benefit of the American people." FWS accomplishes this mission through the management of 516 national wildlife refuges, 79 ecological services field stations, 66 national fish hatcheries, 38 wetland management districts with waterfowl production areas, and 50 coordination areas. FWS also operates 56 fishery resource offices, 9 fish health centers, and 7 fish technology centers. At these sites and facilities, FWS maintains buildings, roads, dikes, water control structures, and the equipment to support its wildlife management and fishery programs. As of September 30, 1998, the replacement value of these structures and equipment exceeded \$4.5 billion for refuges and \$800 million for hatcheries, according to FWS's budget justifications.

FWS officials at headquarters, regional, and field locations are responsible for maintaining FWS's structures and equipment. In support of its maintenance program, FWS operates two types of automated systems, one of which is used to manage routine maintenance activities. The other system, established in 1982 "to enhance Service-wide efforts in planning and budgeting for maintenance activities" (as stated in "Refuge Management Information System - MMS [maintenance management system] Instructions") provides information on FWS's deferred maintenance. According to Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," deferred maintenance is "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period."

In fiscal years 1996 through 1998, FWS received total maintenance funding of \$93.2 million for deferred maintenance, of which \$72.9 million was for refuges and \$20.3 million was for hatcheries. In addition, during this 3-year period, FWS received total construction funding of \$20.9 million for specific deferred maintenance projects. In its financial statements for fiscal year 1998, FWS reported a deferred maintenance backlog of about \$750 million as of September 30, 1998, with a range of plus or minus 15 percent of this amount. This estimate excluded equipment replacements.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether FWS (1) managed its deferred maintenance program in accordance with established laws, regulations, and guidance and (2) maintained and used a maintenance management system that provided useful and reliable data. The scope of our audit generally included the deferred maintenance activities of FWS that occurred during fiscal years 1996 through 1999.

Our scope included deferred maintenance projects that were reported in FWS's maintenance management system in fiscal years 1996 through 1999. To accomplish our objective, we reviewed applicable Department of the Interior (DOI) and FWS guidance, policies, and

procedures; planning, budget and expenditure documents; and maintenance management system reports. We also interviewed FWS personnel responsible for deferred maintenance activities and conducted sites visits to the FWS locations and sites identified in Appendix 1. At 25 refuge complexes and 9 hatchery complexes, which we selected primarily on the basis of the relative number and dollar value of deferred maintenance projects, we reviewed all deferred maintenance projects (1,965 refuge and 262 hatchery deferred maintenance projects), which had an estimated cost of \$198.7 million.

We conducted our audit in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. We also evaluated the systems of internal controls over deferred maintenance to the extent we considered necessary to accomplish our audit objective. We found internal control weaknesses in the procedures and systems for identifying, estimating the costs of, and documenting deferred maintenance projects and project costs. Our recommendations, if implemented, should improve the internal controls in these areas.

We also reviewed the Departmental Reports on Accountability for fiscal years 1997 and 1998, which include information required by the Federal Managers' Financial Integrity Act of 1982, and FWS's annual assurance statement on management controls for fiscal year 1998 and determined that no reported weaknesses were within the objective and scope of our audit. Although FWS reported no weaknesses related to deferred maintenance, DOI reported for fiscal year 1998 that inadequate maintenance management capability was a material weakness which impacted "most bureaus" and was a "mission critical weakness."

PRIOR AUDIT COVERAGE

During the past 5 years, the Office of Inspector General (OIG) has issued two reports and the General Accounting Office has issued one report on FWS's maintenance activities as follows:

- The OIG report "Deferred Maintenance, National Park Service, U.S. Fish and Wildlife Service, U.S. Geological Survey, Bureau of Indian Affairs, Bureau of Land Management, and Bureau of Reclamation" (No. 99-I-874), issued in September 1999, stated that the National Park Service, the U.S. Fish and Wildlife Service, the U.S. Geological Survey, the Bureau of Indian Affairs, the Bureau of Land Management, and the Bureau of Reclamation needed to implement actions to ensure that deferred maintenance information was reliable for budgetary and accounting purposes and that neither DOI nor any of the bureaus could adequately support their fiscal year 1998 deferred maintenance cost estimates (based on our review of \$542.5 million of estimated deferred maintenance costs).

- The OIG's "Testimony of Robert J. Williams, Acting Inspector General, U.S. Department of the Interior, on Facilities Maintenance at the Bureau of Land Management and the U.S. Fish and Wildlife Service Before the Subcommittee on Interior and Related Agencies, Committee on Appropriations, U.S. House of Representatives" (No. 98-T-350), dated February 1998, presented OIG's review of the two bureaus' maintenance backlogs.

The testimony specifically discussed (1) estimated deferred maintenance costs and the composition of maintenance backlogs, (2) procedures used to develop backlog estimates, (3) the reliability of the backlog data, and (4) procedures used to manage backlogs. The testimony stated that both bureaus needed to take actions to improve the reliability of their backlog data.

- The General Accounting Office's report "Deferred Maintenance Reporting, Challenges to Implementation" (No. GAO/AIMD-98-42), dated January 1998, discussed deferred maintenance activities at 11 Governmental agencies, including DOI, and the implementation of the requirements for reporting on deferred maintenance in agency financial statements. The report stated that "most agencies do not have experience generating agencywide estimates of deferred maintenance because historically they have not been required to do so." The report also stated that at the 11 agencies reviewed, some "initial steps have been taken, [but] significant work remains to be done for all agencies to effectively implement the deferred maintenance requirements promptly."

FINDINGS AND RECOMMENDATIONS

A. ALLOCATION AND USE OF DEFERRED MAINTENANCE FUNDS

FWS did not allocate or use deferred maintenance funds in accordance with FWS guidance. FWS's Maintenance Management System Handbook states that FWS should establish priorities for projects included in its maintenance management system and that it should "optimize" the use of funds made available for the correction of maintenance deficiencies. The FWS Handbook also states that deferred maintenance funds should be used only for maintenance related to existing facilities and should not be used for routine maintenance activities or for work or projects that are funded from operations or construction appropriations. However, FWS did not allocate all funding for deferred maintenance projects on the basis of project priorities and did not ensure that available funding for deferred maintenance projects was used for its designated purposes. As a result, FWS's most critical deferred maintenance projects may not have been funded, and available deferred maintenance funding may not have been used to reduce the backlog. Of \$93.2 million of maintenance funding made available for FWS's deferred maintenance projects in fiscal years 1996 through 1998, we identified funding of \$14.4 million that was allocated for or spent on nonmaintenance items or activities such as equipment replacement, administrative functions, or routine maintenance work that should have been funded by other appropriations.

Allocation of Resource Management Funds

Chapter 1, Section 1.2, of the FWS Handbook states that the primary objectives of FWS's maintenance management system are to (1) optimize the use of available funds, personnel, and facilities through effective maintenance management methods; (2) provide accurate data for maintenance program decision-making; (3) identify maintenance needs/deficiencies at all field stations; and (4) establish regional and national maintenance project priorities. Although FWS's maintenance management system enabled personnel to record the priority of maintenance projects, we found that the priority ranking of all maintenance projects had not been entered into the system. Moreover, FWS generally allocated funding on the basis of each region's relative deferred maintenance backlog rather than on the priority ranking of each region's deferred maintenance projects.¹

FWS also did not allocate deferred maintenance funds in a manner that, in our opinion, would ensure that the highest priority deferred maintenance projects were funded. Specifically, of \$33.4 million of fiscal year 1998 maintenance appropriations allocated to the regions for deferred maintenance that was included in our review, we found that funds of \$9.6 million were provided for (1) regional administrative costs, (2) engineering support that was not based on services rendered on deferred maintenance projects, (3) small deferred

¹ For refuges, deferred maintenance funding was allocated on the basis of each region's relative amount (in dollars) of the deferred maintenance backlog. Deferred maintenance funding for fisheries was distributed as follows: one-third was allocated to specific projects that had national priority and two-thirds was allocated in proportion to the hatchery operations funding in each region.

maintenance projects, and (4) contingencies. These four areas of allocation are discussed in the paragraphs that follow.

Regional Administrative Costs. The five regions reviewed allocated \$2.2 million of their deferred maintenance funding to support regional operational activities. For example, Region 1 retained 8 percent of the Region's deferred maintenance funding allocation in fiscal years 1997 and 1998 to pay administrative, public relations, and contracting expenses. Thus, in fiscal year 1997, the Region retained \$271,000 of the deferred maintenance funding allocation, and in fiscal year 1998, when the funding allocation doubled, the Region retained \$565,000. The other four regional offices retained deferred maintenance funding allocations to pay for "shared costs" (\$1.1 million) such as administrative expenses or for specific equipment replacement items (\$415,500) such as computers and vehicles for regional office activities. In two regions, deferred maintenance funds were retained and used for expenses that were not related to deferred maintenance. For example, in fiscal year 1998, Region 4 retained deferred maintenance funds of \$128,800 to pay part of the routine operational costs of the Region's Youth Conservation Corps Program at its field stations.

Engineering Support. A portion of FWS's deferred maintenance funding was allocated to regional engineering offices that provided support for deferred maintenance projects. Specifically, in fiscal year 1998, the engineering offices were allocated \$2.9 million of the deferred maintenance funding for refuges and hatcheries. However, the allocation of deferred maintenance funds for regional engineering support was not based on the level of effort or the amount of time spent on deferred maintenance projects. Instead, deferred maintenance funds were allocated on the basis of the construction costs of projects assigned to the engineers during the previous fiscal year. Thus, if regional engineers worked on the same construction project during 2 consecutive fiscal years, the engineering offices would receive deferred maintenance funding for that project in both years regardless of the amount of engineering work on the project.

"Small" Deferred Maintenance Projects. In fiscal year 1998, Region 3 allocated 52 percent of its deferred maintenance funding allocation (\$2.7 million) to refuges for small deferred maintenance projects, and Region 5 allocated 27 percent of its funding allocation (\$1.2 million) to refuges so that station managers could "select small [maintenance] projects to accomplish from the backlog list." In providing funds for small deferred maintenance projects, FWS did not ensure that the highest priority projects received funding. For example, Region 5 calculated each station's percentage of the Region's total backlog in determining the amount of deferred maintenance funds that would be allocated to each station. However, in calculating the funding distribution, the Region established a minimum amount, \$7,500 for a staffed field station and \$5,000 for field biologists, that would be distributed to each refuge. By establishing this minimum amount of funds for distribution, FWS provided some refuges with greater or lesser amounts of funding in relation to their share of the total deferred maintenance backlogs. For example, FWS officials at the Silvio O. Conte National Fish and Wildlife Refuge in Massachusetts reported that they did not have a backlog. However, under the Region's funding distribution plan, the Refuge received the minimum funding allocation of \$7,500.

Under the regional plan to distribute funds for small deferred maintenance projects, FWS also provided for a funding allocation to "minimize extra large increases for big stations to accommodate small stations." As such, some refuges with relatively large deferred maintenance backlogs did not receive funding commensurate with their needs. For example, the Patuxent National Research Wildlife Refuge in Maryland reported a deferred maintenance backlog of \$6.6 million, which, as a percentage of the Region's total funding allocation, would have resulted in a deferred maintenance funding allocation of \$108,100. However, because the Region limited the amount of funding provided to "big stations," the Refuge was allocated only \$40,000. In total, we found that 10 stations received \$126,800 less than their relative share of the total deferred maintenance backlog and that 21 stations received \$161,900 more than their relative share of the backlog. We also found that at eight refuges visited in Regions 3 and 5, where funding of \$373,100 was provided for small deferred maintenance projects, five refuges did not complete their highest priority maintenance projects. For example, one refuge in Region 5 listed a \$67,000 project to rehabilitate work space as its fiscal year 1998 highest priority deferred maintenance project. The project was not completed, even though the refuge received \$85,000 in fiscal year 1998 to finance small deferred maintenance projects.

Contingency and Routine Maintenance Costs. At three of the regions reviewed, FWS reserved deferred maintenance funds of \$395,700 for contingencies such as cost overruns and/or emergency use and for annual and/or routine maintenance. We found that these funds generally were used to pay expenses other than those related to deferred maintenance projects. For example, Region 5 allocated deferred maintenance funds of \$134,000 to pay for recurring or annual maintenance costs at several of its fish hatcheries such as rehabilitating generators and wells, and Region 3 used deferred maintenance funds of \$249,600 for items such as astroturf, microscopes, and test tubes, which, in our opinion, do not represent deferred maintenance costs.

Use of Deferred Maintenance Funds

Chapter 1 (Sections 1.3, 1.6, and 1.7) of the FWS Handbook states that deferred maintenance funds should be used only on maintenance related to existing facilities and should not be used for routine maintenance activities or for projects or work that are funded from operations or construction appropriations. Also, Statement of Federal Accounting Standards No. 6 states that deferred maintenance does not include "activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended."

However, we found that deferred maintenance funding in some cases was not spent on activities associated with deferred maintenance projects. Instead, the funds were used to finance routine maintenance activities, to acquire needed physical assets, and to supplement operating budgets. We also found that deferred maintenance funding was allocated and spent on projects which, in our opinion, did not qualify as deferred maintenance items. For example:

- One station spent deferred maintenance funds of \$3,158 for brochures for the refuge, and another station used \$1,471 to make office repairs that had not been identified as deferred maintenance needs.

- During fiscal year 1996, FWS allocated \$300,000 to the Warm Springs National Fish Hatchery in Georgia for the rehabilitation of its administration building. The original intent, according to the station manager, was to add office space to the existing laboratory building and to convert the existing office space to laboratory facilities. The station manager stated that the plan was rejected by the Region's engineering division. However, the Region did not revoke the deferred maintenance funds that had been provided to the Hatchery for this project. In June 1997, Regional officials approved the use of the deferred maintenance funds to finance a new office building that was to be situated across the street from the existing structure, and in September 1997, a contract was awarded to construct the new building.

- Region 4 officials funded two projects, at a cost of \$52,391, from the Region's deferred maintenance allotment to replace furniture, "outfit" a new office building, and replace/upgrade various equipment items.

- FWS used deferred maintenance funds to acquire replacement equipment such as computers and vehicles totaling \$2.1 million. Because the replaced items had exceeded their useful lives, these expenditures did not qualify as deferred maintenance needs.

We also found that at 17 of the 34 field stations reviewed, managers did not use the funds remaining after a deferred maintenance project was completed to pay for other deferred maintenance projects. Instead, they used the surplus funds to pay for operational and/or routine maintenance expenses such as salaries of permanent employees; materials and supplies; and transportation equipment repairs, fuel, and parts. For example:

- The station manager at the White River National Wildlife Refuge in Arkansas used the funds remaining after completion of a bridge replacement project to purchase equipment, including a circular saw, a drill, a jigsaw, and a utility trailer. The station manager also used \$27,218 of surplus funds from a \$45,000 project to purchase a new pickup truck, which was an "addition to fleet" and not a replacement for an existing vehicle.

- The station manager at the Wheeler National Wildlife Refuge in Alabama used deferred maintenance funds remaining after completion of a \$25,000 road repair project to pay for part of the cost of a used tractor trailer vehicle.

We also found that eight station managers used deferred maintenance funds to pay the salaries of permanent employees who worked on deferred maintenance projects, even though FWS officials stated that it was FWS policy to pay managers salaries from operating rather than from deferred maintenance funds. In addition, in 325 cases, FWS provided deferred maintenance funds of \$8.6 million to refuges and hatcheries based on station managers' requests for funding. Because the station managers did not specify which deferred maintenance projects were to be funded, we could not determine whether the allocated funds

were spent on deferred maintenance work, particularly at the 97 locations at which the funds were commingled with operating funds.

Field personnel were able to use the deferred maintenance funds for other purposes because FWS did not have specific reporting requirements and did not conduct management control reviews to detect and prevent the improper use of deferred maintenance funds. As a result, we found that of the \$9.7 million of deferred maintenance funds obligated during fiscal years 1996 through 1998 by the 34 stations reviewed, \$4.8 million was spent as follows: (1) \$2.3 million for nonmaintenance activities such as the purchase of a fee collection unit, exhibit replacements, and Youth Conservation Corps activities; (2) \$2.1 million for equipment replacement; and (3) \$351,935 for operational or routine maintenance work.

Recommendations

We recommend that the Director, FWS :

1. Establish a process for allocating deferred maintenance funds to field offices on the basis of national project priorities.
2. Discontinue the practice of allocating a fixed amount or percentage of deferred maintenance funds for regional management, engineering support, small deferred maintenance projects, and contingencies unless such expenses can be justified on the basis of their relative contribution to deferred maintenance activities.
3. Establish and implement controls to ensure that deferred maintenance funding is used for its designated purpose.

FWS Response and OIG Reply

In the December 17, 1999, response (Appendix 2) to the draft report from the Deputy Director, FWS concurred with Recommendations 1 and 3 and did not concur with Recommendation 2. Based on the response, we consider Recommendation 1 resolved and implemented, Recommendation 2 unresolved, and Recommendation 3 resolved but not implemented (see Appendix 3). Accordingly, Recommendation 3 will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

Regarding Recommendation 2, FWS stated that beginning in fiscal year 2000, "annual maintenance funding will be allocated to the regions to provide needed funds for small maintenance projects" and that it would issue instructions stating that "any funds needed for activities such as regional support, engineering support, or IRM [information resources management] support are to be funded and managed on a project by project basis." FWS further said that regional offices "are not authorized to use deferred maintenance funds for general overhead or contingencies."

We consider Recommendation 2 unresolved because FWS indicated that it would continue the practice of allocating a fixed amount or a percentage of deferred maintenance funding for small deferred maintenance projects. In our opinion, to achieve the most cost-effective use of funds, FWS needs to ensure that the highest priority deferred maintenance projects are funded before funds are provided for less expensive and possibly lower priority projects. Therefore, we request that FWS reconsider its response to Recommendation 2 (see Appendix 3).

General Comments on Finding

FWS also provided additional comments on the finding. FWS's comments and our replies are as follows:

Objectives and Scope

FWS Comments. FWS said that our statement that "inadequate maintenance management capability was a 'mission critical weakness' which impacted 'most bureaus' implies that FWS was among those critically impacted bureaus." FWS further noted that neither the OIG nor the General Accounting Office had identified FWS as one of the bureaus having such a "mission critical" weakness.

OIG Reply. We revised the report to state that FWS was not reported to have a mission critical weakness in its maintenance management capability. However, deficiencies identified in our audit of FWS's deferred maintenance were the same as those that contributed to mission-critical maintenance weaknesses in other bureaus.

Allocation and Use of Deferred Maintenance Funds

FWS Comments. FWS said that without information on the specific projects on which deferred maintenance funds of \$14.4 million reportedly were inappropriately spent or allocated, "it is difficult for us to identify or evaluate these projects as having been funded inappropriately."

OIG Reply. We will provide FWS with detailed information on the projects.

Use of Deferred Maintenance Funds

FWS Comments. FWS stated that under guidance in effect during fiscal years 1996 through 1998, the deferred maintenance funding of \$2.1 million for computer and vehicle replacements was "appropriate." FWS also said that although it had interpreted Federal accounting standards as providing for equipment and vehicles to be included as deferred maintenance items, it has requested clarifying guidance from DOI on whether equipment and equipment replacement are reportable deferred maintenance costs. FWS further stated that deferred maintenance standards are changing in their application and definition and that the report should be "clarified to give the reader a full appreciation of the changing nature of standards guiding deferred maintenance reporting and auditing." FWS noted that the

required level of audit review of deferred maintenance data in Federal agencies' financial statements was amended in April 1999.

OIG Reply. We agree that additional guidance on deferred maintenance, including a clarification of replacement costs, is needed. However, FWS is the only bureau in DOI to include the replacement of equipment and vehicles as deferred maintenance items. Further, Statement of Federal Financial Accounting Standards No. 6 states that maintenance "includes preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life." We interpret this definition to mean that deferred maintenance enables an item to reach its useful life and does not mean that deferred maintenance provides for the replacement of items that have reached or surpassed their useful lives. Although the level of audit review of deferred maintenance data for fiscal year 1998 financial statements was changed, the Federal standard applicable to the types of items that should be reported as deferred maintenance in fiscal year 1998 did not change.

B. DEFERRED MAINTENANCE DATA

FWS did not always produce or maintain reliable information on its deferred maintenance needs and/or estimate its deferred maintenance costs in accordance with Federal accounting standards and DOI guidance. Deferred maintenance information was not reliable because FWS had not (1) conducted surveys of all of its assets to identify asset condition and thereby determine deferred maintenance needs; (2) fully documented its estimated deferred maintenance costs; (3) established adequate controls to ensure compliance with Federal, DOI, and FWS deferred maintenance guidance; and (4) implemented adequate controls to ensure the reliability of deferred maintenance data. As a result, FWS may not produce reliable deferred maintenance data for inclusion in its financial statements and did not have sufficient reliable data to fully support its fiscal year 2000 budget requests for deferred maintenance funding.

Deferred Maintenance Guidance

The Governmentwide standard for deferred maintenance was established in November 1995, when the Federal Accounting Standards Advisory Board issued Statement of Federal Accounting Standards No. 6. Chapter 3, "Deferred Maintenance," of the Standard defines deferred maintenance as "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period"; as "the act of keeping fixed assets in acceptable condition"; and as "activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life." Chapter 3 also states that Federal agencies are required to identify and measure their deferred maintenance for financial statement reporting purposes.

DOI issued guidance in 1998 on deferred maintenance in Attachment G to DOI's "Fiscal Year 2000 Budget Request Formulation Guidance." This guidance directed the bureaus to use the condition assessment method to identify their deferred maintenance needs and described condition assessments as "a complete inventory of their constructed assets [to] identify the cost of correcting the deferred maintenance needs associated with those assets." The guidance also stated that a condition code (good, fair, or poor) should be assigned to inspected assets and defined the deferred maintenance backlog as the "unfunded or otherwise delayed work required to bring a facility or item of equipment to a condition that meets accepted codes, laws, and standards and preserves the facility or equipment so that it continues to provide acceptable services and achieves its expected life."

Appendix B of the FWS Handbook defines the maintenance backlog as "those items of maintenance and repair which cannot be corrected within 12 months from the time the deficiency was detected." Chapter 4 of the FWS Handbook further states, "Standardized inspections are necessary to determine the condition of facilities and equipment and to identify and document maintenance needs." These inspections also are to be conducted periodically.

Reliability of Data

We found that FWS's deferred maintenance data for fiscal year 1998 were unreliable because the items included in FWS's deferred maintenance listings in some cases were not supported with documentation to show that the required condition assessments had been conducted, were not supported with documented estimates of deferred maintenance costs, and did not meet the Federal or DOI definition of deferred maintenance. Specifically, we found that although FWS was required to conduct condition assessments to identify its deferred maintenance needs and to inventory asset condition, none of the 34 field stations we visited had conducted condition assessments for all of the assets in their deferred maintenance backlog. Station managers said that the only projects with detailed condition assessments, including documented cost estimates, were bridge repair or replacement projects. In fieldwork related to an audit of the deferred maintenance cost estimates of six DOI bureaus (Report No. 99-I-874), we found that only 41 of 119 FWS projects reviewed had documented condition assessments and that 73 of these 119 projects did not have documented cost estimates.

We also found that FWS included items in its deferred maintenance listing that did not meet Federal accounting standard, DOI, and/or FWS definitions of deferred maintenance, as described in the paragraphs that follow:

Habitat Rehabilitation Projects. Although Appendix D of the FWS Handbook states that habitat maintenance projects should not be included in FWS's deferred maintenance listings, we found that 33 of the 2,227 deferred maintenance projects reviewed (with a total estimated cost of \$8.8 million) were habitat maintenance or restoration projects which did not involve the maintenance of existing structures or facilities. For example:

- A deferred maintenance project at the Okefenokee National Wildlife Refuge in Georgia provided for the repair of two water structures (low hazard dams), at an estimated cost of \$6.9 million. During fiscal year 1998, Refuge managers reduced the cost estimate by \$1.9 million, to a new total of \$5.0 million, and redefined the project. As redefined, the project did not entail the repair of the water structures. Instead, the objective of the project was to establish a "4-year monitoring plan" in partnership with the U.S. Geological Survey, to remove two water structures, and to "breach the dike in numerous locations to simulate the natural riverine system."

- In Texas, the Anahuac National Wildlife Refuge's deferred maintenance backlog included five habitat rehabilitation projects that provided for the removal of oil facilities, drill pads, and roads from the Roberts Mueller Tract (\$1.2 million); old structures in Onion Bayou (\$45,000); old structures and trailers from the Middleton Tract (\$95,000); old cattle shelters from Jackson/White and Old Anahuac (\$30,000); and old oil pads and roads from Old Anahuac, Gator Marsh (\$60,000).

- In Virginia, the Mason Neck National Wildlife Refuge's deferred maintenance backlog included two habitat rehabilitation projects, with an estimated cost of \$1.2 million,

that provided for the removal of military buildings on property being transferred to the Refuge.

Exhibit Updates. Although deferred maintenance, as defined in Federal accounting standards and DOI guidance, includes the rehabilitation or repair of equipment, it does not include the modernization of items that have exceeded their useful lives or that are obsolete. At six of the field stations reviewed, we identified 12 projects, with cost estimates totaling about \$2.3 million, that provided for the replacement of assets that had exceeded their useful lives or were obsolete. For example:

- A deferred maintenance project at the Okefenokee National Wildlife Refuge in Georgia included a project that was described as "[r]eplace/update worn or inaccurate public use displays" at the visitor center (estimated cost of \$1,390,000). Refuge management stated that the existing displays were outdated and in some cases needed to be updated with new technology.

- Three deferred maintenance projects at the Patuxent Wildlife Research Refuge in Maryland provided for the refurbishing of visitor center exhibits. Descriptions for two of the projects (estimated cost of \$260,000) stated, "Rehabilitate several exhibit panels at the National Wildlife Visitor Center to educate the public about wildlife program activities and to explain the Service mission and its role in research." Refuge managers said that the project would entail updating old exhibits using current technology. A description for the third project stated, "Rehabilitate animal exhibits by having a taxidermist check animal items for bugs."

Projects for New or Upgraded Structures. Deferred maintenance guidance does not provide for projects to be classified as deferred maintenance if they significantly increase facility size (according to the FWS Handbook, deferred maintenance projects can increase an existing building's size by up to 10 percent) or if they represent a major upgrade or serve needs different from, or significantly greater than, those originally intended. However, we found that the backlog listings for the 25 refuge stations reviewed included 39 projects, with an estimated deferred maintenance cost of \$13.8 million, which provided for new facilities, the significant expansion of existing facilities, or a facility upgrade that served needs other than those of the original structure. For example:

- A deferred maintenance project at the Genoa National Fish Hatchery in Wisconsin, with an estimated cost of \$1 million, provided for the replacement of a deteriorated office, outreach, and education facility. The justification for the project stated, "Current office building is over 60 years old and inadequate to meet the needs of the hatchery staff and the visitor load the hatchery has annually." The justification also stated that the project would provide for a "new office . . . equipped with aquariums, and visitor displays depicting the hatchery's programs, and the Service's mission," features that were not included in the original facility.

- A deferred maintenance project at the Attwater Prairie Chicken National Wildlife Refuge in Texas, with an estimated cost of \$1 million, provided for the replacement of an

"old, energy inefficient, and insect infested visitor center." We found that the visitor center was a house that had not been constructed to serve as a visitor center.

- A deferred maintenance project at the Sacramento National Wildlife Refuge in California provided for the replacement of "dilapidated unsafe mobile trailer residence for fire crew, interns, volunteers, researchers, and temporary employees with [a] five-bedroom bunkhouse. Dilapidated wiring and lack of hard-wired fire alarm or sprinkler system pose [a safety hazard]." Refuge managers estimated that it would cost \$225,000 to build the bunkhouse to replace the trailers.

Completed Projects. After our site visits, station managers eliminated from their deferred maintenance backlog 515 projects, with an estimated cost of \$28.5 million, that we had identified as completed or not appropriately classified as deferred maintenance projects. For example:

- Managers at the Wichita Mountains Wildlife Refuge in Oklahoma, after our site visit, eliminated from their deferred maintenance listing 41 projects, with cost estimates totaling \$2.1 million, that had been completed in prior years. Likewise, managers at the Patuxent Research Refuge in Maryland eliminated 72 projects, with an estimated cost of \$3 million, from the Refuge's deferred maintenance backlog. The eliminated projects included work that had been completed in prior years and other projects that were the responsibility of the Refuge's tenant, the U.S. Geological Survey's Biological Research Division. The Refuge deleted 60 projects, with an estimated cost of \$2.5 million, that also were reported as deferred maintenance needs by the Geological Survey.

- During our review, managers at the Yazoo National Wildlife Refuge Complex in Mississippi deleted from their deferred maintenance listing 19 projects, having an estimated cost of \$2.7 million. One of these projects, the replacement of the office/visitor facility, had an estimated cost of \$2 million. The project is not deferred maintenance, in our opinion, because the replaced facility is a 40-year old converted shop building and the replacement structure will have features, including interpretive facilities, a conference room, and an auditorium, that are not part of the original structure.

Support for Data

We found that FWS's deferred maintenance data were not reliable because FWS's field stations had not performed or documented the performance of condition assessments to determine the status (good, fair, or poor condition) of all of FWS's assets and to identify FWS's deferred maintenance needs. Also, FWS had not required that documentation be prepared to support its estimated deferred maintenance costs; therefore, supporting documentation was not always available to determine whether estimated deferred maintenance costs were reliable. FWS also had not established adequate controls to ensure that its personnel complied with Federal accounting standard, DOI, and FWS deferred maintenance guidance. Also, although FWS's maintenance management system provided for the recording of useful data, FWS had not implemented adequate controls to ensure that

deferred maintenance data were accurate, current, and complete and safeguarded against unauthorized revision.

We also found that the field offices did not always comply with the FWS Handbook (372 FW 2), which states, "Regional Offices/field stations are responsible for data integrity, project priorities, and meeting system update schedules." Chapter 5, Section 5.1, of the FWS Handbook further requires that cost estimates entered into the maintenance management systems be adjusted for inflation. However, we found that carryover projects were not always adjusted for inflation by station management. For example, at the 25 wildlife refuges reviewed, we identified 1,282 deferred maintenance projects that were carried forward from fiscal years 1998 to 1999. However, we found that 893 (about 70 percent) of these projects were not adjusted for inflation. Although FWS has issued guidance on developing cost estimates and requires that backlog data be reviewed by all organizational levels at least once a year, we found that cost estimates, except for bridge repair and replacement projects, generally were not documented and that backlog data reviews had not detected the inclusion of inappropriate deferred maintenance items in the backlog listings.

Use of Data

FWS needs to improve the reliability of its deferred maintenance data so that it can prepare a reliable estimate of its deferred maintenance costs for financial reporting purposes. In January 1999, the Office of Management and Budget issued guidance to Federal agencies, "Amendments to OMB Bulletin No. 98-08, 'Audit Requirements for Federal Financial Statements,'" which states that for fiscal year 1998, the Office had reduced the scope of audit of deferred maintenance data reported in Federal financial statements but that it "expects to increase the level of audit assurance relating to deferred maintenance . . . in future years as the standards and criteria for reporting such information are developed."

Also, FWS needs reliable deferred maintenance cost estimates to support its budget requests for deferred maintenance funding. In budget documents for fiscal years 1997 through 2000, FWS requested total funding of \$152.6 million for 154 deferred maintenance construction projects. During our audit, we reviewed 17 of these projects to determine whether the supporting deferred maintenance cost estimates were reliable. We found that for 13 projects, FWS did not provide sufficient documentation to support the need for the projects (that is, documentation to show that condition assessments had been performed) and/or documentation on the basis for the estimated costs of these deferred maintenance projects.

Recommendations

We recommend that the Director, FWS:

1. Require that adequate documentation on condition assessments and deferred maintenance cost estimates be prepared.

2. Implement controls to ensure FWS compliance with Federal, DOI, and FWS guidance on the identification of deferred maintenance needs and the estimation of deferred maintenance costs.

3. Implement controls to ensure that deferred maintenance data entered into FWS's maintenance management system are complete, current, and accurate.

FWS Response and OIG Reply

In the December 17, 1999, response (Appendix 2) to the draft report from the Deputy Director, FWS concurred with all three recommendations. Based on the response, we consider the recommendations resolved but not implemented (see Appendix 3). Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

General Comments on Finding

FWS provided additional comments on the finding. FWS's comments and our replies are as follows:

Deferred Maintenance Data and Guidance

FWS Comments. FWS said that it disagreed with our conclusion that FWS "may not produce reliable deferred maintenance data for inclusion in its financial statements." It also said that there is a difference between Federal accounting guidance and DOI guidance on deferred maintenance and that deferred maintenance cost estimates based on the two "are significantly different in their use and purpose and in the data sets that contribute to each estimate." According to FWS, DOI guidance provides for deferred maintenance cost estimates of future funding needs that are developed in support of the budget package. FWS said that the Federal accounting standards require estimates of total costs, including all labor costs, that may not be included in DOI's deferred maintenance cost estimates. FWS also said that the report "introduces" budget estimates for fiscal year 2000, which "should be excluded from the scope of this audit as it [the audit] was to cover fiscal years 1996 through 1998."

OIG Reply. This finding pertained to FWS's deferred maintenance data that were developed for inclusion in its financial statements for fiscal year 1998. As such, we applied the applicable, Federal accounting criteria in determining whether the cost estimates were reliable. We also discussed DOI guidance on deferred maintenance, including Attachment G to DOI's "Fiscal Year 2000 Budget Request Formulation Guidance," which defines deferred maintenance and instructed the bureaus to use the condition assessment method to identify their deferred maintenance needs. We did not apply the guidance contained in other attachments, which directed the bureaus to exclude certain project costs in developing deferred maintenance cost estimates for budget formulation purposes. We believe that FWS may have prepared inaccurate financial statement deferred maintenance cost estimates in part by inappropriately using the project cost estimating criteria in the budget formulation

guidance. Also, we referred to "budget documents for fiscal years 1997 through 2000" to quantify the amount of deferred maintenance funding that FWS reported as a budgetary requirement and to illustrate the importance of developing reliable data to support funding requests for such significant expenses.

Reliability of Data

FWS Comments. FWS stated that the use of condition assessments as the basis for developing reliable deferred maintenance cost estimates has not been a long-term accepted procedure. Specifically, FWS said that "the concept of 'condition assessments' as a formal documented procedure was not uniformly applied in other fiscal years, except as the concept was defined" in the FWS's Maintenance Management System Handbook.

OIG Reply. The use of assessments to determine whether assets need repair or maintenance was a required FWS procedure for several years before fiscal year 1998 deferred maintenance cost estimates were developed. For example, Chapter 4 of the FWS Manual, which was last revised in 1992, states, "Standardized inspections are necessary to determine the condition of the facilities and equipment to identify and document maintenance needs." Although the term "condition assessment" may not have been used, FWS nonetheless recognized the need to identify and to document the condition of facilities and equipment on a periodic basis, actions that are essential to a condition assessment. Despite the guidance contained in FWS's Manual, we found that none of the 34 field stations we visited conducted "periodic inspections" to document the condition of all of the assets in their deferred maintenance backlog.

Habitat Rehabilitation Projects

FWS Comments. FWS said that "habitat rehabilitation is not an appropriate use of deferred maintenance funds; however, all of the projects cited involved modification or demolition of facilities." Discussing the Okefenokee sill project, FWS said that this project was revised to include a 2-year monitoring effort "as a precursor to a decision on partial rehabilitation of water control structures" and that two other projects cited in the report were not habitat rehabilitation but the removal of unneeded facilities that were "creating a health and safety risk for employees and visitors." Regarding these projects, FWS said that "[w]ithout the ability to use deferred maintenance funds to correct these sometimes sizeable health and safety liabilities," it will be "severely hampered in taking timely corrective actions."

OIG Reply. The three projects discussed in the report provided for the modification or removal of structures that were no longer needed (in one case) or were undesirable structures that had conveyed to FWS when the property was acquired (two cases). These projects did not involve maintenance work that had been deferred. Although funding may be needed to dismantle unsafe or unused facilities, we do not consider such projects to be deferred maintenance projects as defined in Federal accounting standards. Thus, we do not consider the habitat rehabilitation project costs to be appropriate for inclusion in FWS's financial statements for fiscal year 1998 as deferred maintenance items. We consider the

need for funding of rehabilitation projects to be an issue separate from the financial reporting of estimated deferred maintenance costs.

Support for Data

FWS Comments. FWS said that our report implies that FWS's deferred maintenance data were "not reliable" because FWS "had not performed or documented the performance of condition assessments." FWS said that it conducted periodic inspections of its assets but may not have documented the assessments or labeled the inspections as "condition assessments."

OIG Reply. The FWS Manual requires field managers to document the condition of their facilities, and as such, FWS has established the need for documentary support for its evaluation of maintenance needs. However, FWS did not have sufficient documentation to show that any type of inspection, assessment, or review had been conducted to determine the condition of its assets and the estimated cost to repair the assets. Although not referred to in the report, the General Accounting Office's "Standards for Internal Control in the Federal Government" requires Federal agencies to clearly document "all transactions and other significant events" and states that "the documentation should be readily available for examination." Thus, we do not believe that we are making FWS adhere to a standard higher than it and the General Accounting Office have established.

REFUGES AND HATCHERIES VISITED

Regions	Location
<u>Region 1</u>	
Regional Office	Portland, Oregon
Sacramento National Wildlife Refuge Complex	Willows, California
Stillwater National Wildlife Refuge Complex	Fallon, Nevada
Don Edwards San Francisco Bay National Wildlife Refuge	Newark, California
Ridgefield National Wildlife Refuge	Ridgefield, Washington
Carson National Fish Hatchery	Carson, Washington
Little White Salmon/Willard National Fish Hatchery Complex	Cook, Washington
<u>Region 2</u>	
Regional Office	Albuquerque, New Mexico
Bosque del Apache National Wildlife Refuge	Socorro, New Mexico
Wichita Mountains Wildlife Refuge	Indiahoma, Oklahoma
Tishomingo National Fish Hatchery	Tishomingo, Oklahoma
Tishomingo National Wildlife Refuge	Tishomingo, Oklahoma
Anahuac National Wildlife Refuge	Anahuac, Texas
Attwater Prairie Chicken National Wildlife Refuge	Eagle Lake, Texas
<u>Region 3</u>	
Regional Office	Fort Snelling, Minnesota
Genoa National Fish Hatchery	Genoa, Wisconsin
Minnesota Valley National Wildlife Refuge	Bloomington, Minnesota
Upper Mississippi River Wildlife and Fish Refuge	Winona, Minnesota
<u>Region 4</u>	
Regional Office	Atlanta, Georgia
Okefenokee National Wildlife Refuge	Folkston, Georgia
Wheeler National Wildlife Refuge Complex	Decatur, Alabama
White River National Wildlife Refuge Complex	DeWitt, Arkansas
Yazoo National Wildlife Refuge Complex	Hollandale, Mississippi
Mattamuskeet National Wildlife Refuge Complex	Swan Quarter, North Carolina
Hatchie National Wildlife Refuge	Brownsville, Tennessee
Tennessee National Wildlife Refuge	Paris, Tennessee
Orangeburg National Fish Hatchery	Orangeburg, South Carolina
Warm Springs National Fish Hatchery	Warm Springs, Georgia
Edenton National Fish Hatchery	Edenton, North Carolina
Piedmont National Wildlife Refuge	Round Oak, Georgia

Region 5

Regional Office

Mason Neck National Wildlife Refuge

Patuxent Research Refuge

John Heinz National Wildlife Refuge at Tinicum

Lamar National Fish Hatchery

Blackwater National Wildlife Refuge

Chincoteague National Wildlife Refuge

Great Dismal Swamp National Wildlife Refuge

Harrison Lake National Fish Hatchery

Hadley, Massachusetts

Woodbridge, Virginia

Laurel, Maryland

Philadelphia, Pennsylvania

Lamar, Pennsylvania

Cambridge, Maryland

Chincoteague, Virginia

Suffolk, Virginia

Charles City, Virginia



United States Department of the Interior

FISH AND WILDLIFE SERVICE

Washington, D.C. 20240



In Reply Refer To:
FWS/RF99-00280

Memorandum

To: Assistant Inspector General for Audits

From:  Director **DEC 17 1999**

Subject: Draft Audit Report on Deferred Maintenance, U. S. Fish and Wildlife Service (E-IN-FWS-001-98-R)

We have carefully reviewed the accuracy and adequacy of the draft report's findings and recommendations. We cannot concur with a number of the general findings of the draft report because in many instances the general findings are based on an application of present day audit standards that were not in place during the fiscal year 1996 to 1998-period of the audit. The draft report does not fully portray the evolving nature of Departmental guidelines and Federal accounting standards which have occurred over the last several years and continue to this day. We have described areas of concern in the attachment.

We do recognize that there is room for improvement in management of the Service's maintenance programs and can concur with the six recommendations in the draft report. We have been working with the Department in developing new standardized approaches to budgeting for and managing maintenance efforts and will continue to make improvements as needs are identified. Planned or in process corrective actions for each of the six recommendations of the draft audit follow:

Recommendations on allocation and use of deferred maintenance funds:

RECOMMENDATION A.1: Establish a process for allocating deferred maintenance funds to field offices on the basis of national project priorities.

Implementing Action: This recommendation has already been accommodated through a national project priority which is in place through the Department's project ranking system. This system is based upon a project's percentage of critical health and safety, critical resource protection, and critical mission emphasis. Funds to field offices are distributed based upon the project order determined by this ranking system. Since the Department's ranking process is subjective and may fail to elevate highest priority needs, we will continue to work with the Department to improve it over time.

Responsible Officials: Assistant Director, Refuges and Wildlife; Assistant Director, Fisheries

Target Date: Already completed.

RECOMMENDATION A.2: Discontinue the practice of allocating a fixed amount or percentage of deferred maintenance funds for regional management, engineering support, small deferred maintenance projects, and contingencies unless such expenses can be justified on the basis of their relative contribution to deferred maintenance activities.

Implementing Action: Beginning in FY 2000, annual maintenance funding will be allocated to the regions to provide needed funds for small maintenance projects. Instructions for use of funds will specify that any funds needed for activities such as regional support, engineering support, or IRM support are to be funded and managed on a project by project basis. Regional offices are not authorized to use deferred maintenance funds for general overhead or contingencies.

Responsible Officials: Assistant Director, Refuges and Wildlife; Assistant Director, Fisheries

Target Date: February 1, 2000

RECOMMENDATION A.3: Establish and implement controls to ensure that deferred maintenance funding is used for its designated purpose.

Implementing Action: Tracking maintenance funding by project and funding category will begin in FY 2000. Project cost accounting will be implemented in FFS which will allow identification of annual maintenance, equipment replacement, and deferred maintenance expenditures at each field station using these funds. In addition, deferred maintenance projects exceeding \$50,000 will be individually tracked in the finance system.

Responsible Officials: Assistant Director, Refuges and Wildlife; Assistant Director, Fisheries

Target Date: February 1, 2000.

Recommendations for deferred maintenance data:

RECOMMENDATION B.1: Require that adequate documentation on condition assessments and deferred maintenance cost estimates be prepared.

Implementing Action: Improved documentation and reliability of cost estimating information will be pursued in FY 2000 by addition of staff devoted to conducting condition assessments and updating of maintenance cost estimates. This expanded capability will enable condition assessment verification independent of the field station at 20 percent of all field stations each year. Applicable data fields will be added to the Real Property Inventory database and to the Maintenance Management System to document condition assessments and improved maintenance cost estimates. Several of these fields have already been incorporated into the databases. Further work will continue on an improved Cost Estimating Guide to improve consistency of cost estimates. Improved corporate data sharing will occur through implementation of an agency wide facility management information system that will be accessible to all employees through an

internal intranet site. Collectively these efforts will focus considerable attention on improved reliability and utility of maintenance data.

Responsible Officials: Assistant Director, Refuges and Wildlife; Assistant Director, Fisheries

Target Date: October 1, 2000

RECOMMENDATION B.2: Implement controls to ensure Service compliance with Federal, Department of the Interior, and Service guidance on the identification of deferred maintenance needs and the estimation of deferred maintenance costs.

Implementing Action: The Maintenance Management Handbook will be revised by the end of FY 2000 to incorporate new procedures and will be distributed to all MMS users. Guidance will also be incorporated into the database instructions to further ensure consistent and reliable implementation.

Responsible Officials: Assistant Director, Refuges and Wildlife; Assistant Director, Fisheries

Target Date: October 1, 2000

RECOMMENDATION B.3: Implement controls to ensure that deferred maintenance data entered into the Service's maintenance management system are complete, current, and accurate.

Implementing Action: Controls will be integrated into the condition assessment verification process (item B.1, above) and the MMS handbook revision (item B.2, above).

Target Date: October 1, 2000

Responsible Officials: Assistant Director, Refuges and Wildlife; Assistant Director, Fisheries

Attachment

Attachment

Specific Comments on OIG Draft Report - Deferred Maintenance
FWS (E-IN-FWS-001-98-R)

Page 2 - Last sentence in fourth Paragraph under "Objectives and Scope":

The statement that inadequate Department wide maintenance management capability was a "mission critical weakness" which impacted "most bureaus" implies that FWS was among those critically impacted bureaus. FWS has no indication from either the Office of Inspector General or the General Accounting Office that the Service is among the "most bureaus" with "mission critical weaknesses." We suggest that the introductory phrase be revised to state that neither the Service reported nor the OIG opined that the Service's deferred maintenance systems had material weaknesses. At a minimum, this introductory phrase related to the Service alone should be separate and distinct from the general or categorical conclusions stated about "most bureaus" within Interior so that this last sentence is broken into two separate sentences, expressing two separate messages.

Page 4 - "Allocation and Use of Deferred Maintenance Funds":

The last sentence states that the OIG found \$14.4 million that was allocated or spent on work that should have been funded by other appropriations. Without a table that identifies these particular, reference expenditures, it is difficult for us to identify or evaluate these projects labeled as having been funded inappropriately by the Service. Future policy deliberations could use these specific references as resource material. Otherwise we lose the value of specific information when they are reported under such general or categorical statements.

Page 7 - "Use of Deferred Maintenance Funds":

Although this section describes \$2.1 million for deferred maintenance funding for computer and vehicle replacements as inappropriate, they were appropriate under Service guidelines in effect during fiscal years 1996-1998. Also, since that time and in the absence of Departmental guidance, the Service interpreted the FASAB standards for disclosing deferred maintenance needs to include equipment and vehicles. This is based on footnote #63 to the Statement of Federal Financial Accounting Standards Number 6, "Accounting for Property, Plant, and Equipment," which states under "Disclosures" (Paragraph 83) - At a minimum, the following information will be presented for all PP&E - identification of each major class of asset for which maintenance has been deferred. The footnote #63 referring to the term "major class" states, "Major classes of general PP&E will be determined by the entity. Examples of major class include, among others, buildings and structures, furniture and fixtures, equipment, vehicles, and land."

The Service has requested clarifying guidance from the Department on whether DOI considers "equipment" and equipment replacement as a reportable entity under SSFAS #six. Until such time that other guidance is provided, the Service feels compelled to follow the SSFAS to the letter. -

This reference is but one example of categorical statements made in the report that imply Federal Accounting Standards Advisory Board standards applied uniformly to all Service decisions and management actions throughout the entire time represented during the scope of this report (FY 1996-1998). This implied conclusion is incorrect and misleading for the Service's deferred maintenance reporting for financial statement purposes. The FASAB standards governing reporting and disclosure requirements on deferred maintenance became effective in FY 1998, so it is important to segregate examples according to the fiscal year within which examples are used. Even though the Service was required to report on deferred maintenance estimates, the OMB amended its OMB Bulletin No. 98-08 to remove the requirement on Inspectors General to audit deferred maintenance information presented for FY 1998. This was done because of the need to clarify auditing requirements of SSFAS #six for the first year of its application. OMB states in its memorandum of January 25, 1999, amending OMB Bulletin No. 98-08, "These amendments reduce the scope of an audit for deferred maintenance . . . for the fiscal year ended September 30, 1998. . . . OMB expects to increase the level of audit assurance related to deferred maintenance . . . in future years as the standards and criteria for reporting such information are developed further and agencies gain experience reporting such information."

Further, FASAB published in April 1999 a statement amending the status and auditing of deferred maintenance. FASAB states in its Executive Summary, "this amendment does not modify the information to be provided to users of federal financial statements. It does, however, modify the status of that information and thus the level of its review by financial statement auditors." It goes on to explain, "the (FASAB) Board indicated deferred maintenance reporting would evolve as preparers gained experience." The net effect of this change is to remove deferred maintenance estimates from the financial statements to a lesser level of audit scrutiny to that of required supplementary information. Deferred maintenance estimates are recognized as varying widely as they exhibit not only numerical ranges that can be large, but also exhibit a wide range of acceptable parameters upon which to report. The FASAB states that removing deferred maintenance information from the finance statements to the lower status for audit as required supplementary information "was consistent with the importance of the information as well as the experimental nature of the information."

Thus, to be held by the OIG to standards that are changing in their application and definition and that are neither clarified nor qualified in this report is misleading. It implies that such standards are well defined, well understood, and well accepted at this point in time and that the Service is negligent in its application of these standards. The Service disagrees with such conclusions and recommends that such implications be clarified to give the reader a full appreciation of the changing nature of standards guiding deferred maintenance reporting and auditing. These standards are still being clarified, discussed, and evaluated throughout the government.

Page 9 - "Deferred Maintenance Data":

The last sentence states that the Service may not produce reliable deferred maintenance data for inclusion in its financial statements. The Service disagrees with this conclusion for all the reasons stated previously.

Page 9 - "Deferred Maintenance Guidance":

This section needs to segregate and explain the explicit guidance provided from OMB through the Federal Accounting Standards Board from the guidance provided to Bureaus through the Department of the Interior. The FASAB guidance governs disclosures required to estimate the future liabilities to the Service associated with deferring maintenance and Departmental guidance governs preparing the Department's deferred maintenance budget request. The Service suggests that the two estimates are significantly different in their use and purpose and in the data sets that contribute to each estimate.

The budget package are estimates of future funding needs to address the highest priority deferred maintenance needs of the Department at any particular time and, as such, is a "subset" of the total estimated cost of deferring maintenance on all major classes of general PP&E managed by the Service. Differing sets of data contribute to the budget estimate and the finance estimate for deferred maintenance needs. For example, budget packages required estimates that included capital improvements and annual maintenance, where the estimates for disclosing deferred maintenance under the FASAB standards did not. In the case of the Service, the budget estimates did not include total labor costs as Service policy prohibits using force account in estimating future budget needs. This is in accordance with long-standing budgeting practices within the Department and meets the expectations of the OMB and relevant Congressional Committees.

The FASAB standards require estimates to include total labor costs, regardless of sources of funding. Further budget estimates included costs of annual maintenance and equipment replacement, as well as reducing existing deferred maintenance. The FASAB requires estimating the total cost of deferred maintenance, including some equipment, but excludes considerations of annual maintenance costs. Thus, the two estimates or the methodologies applied to gather these estimates are not comparable at a project level and, to some degree, at the aggregate level. This section needs to be expanded to explain the differences between estimating a subset of deferred maintenance needs for the purposes of budget in comparison to estimating the total deferred maintenance liabilities for purposes of financial reporting.

Also, this section introduces budget estimates for FY 2000, that by definition, should be excluded from the scope of this audit as it was to cover fiscal years 1996 through 1998. Its applicability to this audit should be explained.

Page 10 - "Reliability of Data":

Statements regarding the reliability of estimates depend on a thorough understanding of the history of the development of standards and the continued uncertainties associated with incompletely defined standards. Statements that the examples listed do not meet Federal accounting standards, Departmental and/or Service definitions of deferred maintenance need clarification.

Also, references to "condition assessments" need to be clarified. This terminology did not come into application until the FASAB standards required disclosing estimates of future liabilities associated with deferring maintenance estimates for the first year - FY 1998. Hence, the concept of "condition assessments" as a formal documented procedure was not uniformly applied in other

fiscal years, except as the concept was defined in the Service's MMS Handbook. Guidance on what constitutes adequate condition assessments still has not been issued by the Department. This guidance will provide a methodology to be used by Bureaus in documenting future liabilities associated with deferring maintenance, as disclosed in Bureau financial statements. Thus, the draft report holds the Service to a reporting standard for condition assessments that has not yet been defined.

Page 10 - "Habitat Rehabilitation Projects"

This section properly states that habitat rehabilitation is not an appropriate use of deferred maintenance funds; however, all of the projects cited involved modification or demolition of facilities. The Okefenokee sill project was revised to include a two-year monitoring effort as a precursor to a decision on partial rehabilitation of water control structures. We acknowledge that this raises a question as to appropriateness of the monitoring effort; however, the partial rebuilding of water control structures which will likely be determined to be necessary is an appropriate deferred maintenance project. The other two projects cited, demolition of facilities at Anahuac and Mason Neck, are not habitat rehabilitation needs but are for the purpose of removing deteriorating and unneeded facilities that are creating a health and safety risk for employees and visitors. Demolition of facilities is described in Departmental budget guidance as an appropriate use of deferred maintenance funds; however, the still evolving FASAB # six guidelines are unclear on this subject. It is recommended that this be raised as an area needing clarification. Without the ability to use deferred maintenance funds to correct these sometimes sizeable health and safety liabilities, the Service will be severely hampered in taking timely corrective actions.

Page 12 - "Support for Data":

The first sentence implies that the Service's data were not reliable because the Service had not performed or documented the performance of condition assessments. The Service contends that this is not an issue of whether we performed condition assessments, but merely an issue of not documenting the assessments conducted. As mentioned above, the term "condition assessment" was not a term that was applicable during the fiscal year 1996 to 1998-period of the audit. The Service did conduct periodic inspections but they would not have been labeled as "condition assessments" simply because the terminology was not in use at the time. The Service has conducted "inspections" of real and personal property since the mid-to late-1980s. Annual examinations of such property items have yielded deferred maintenance project information that has been managed by a common database management system. This information has been routinely compiled, reviewed and used for assessing future needs and for reporting purposes. In response to newly developed Departmental and FASAB standards, data elements have been added to the Service's information systems that now capture the date of the last estimate as well as the method by which it was derived. Additionally, the Service is planning and in FY 2000 has budgeted for "conditions assessment verifications" of the data from these field condition assessments. This will ensure that objective, expert reviews of project cost and scope are an integral part of the information quality control for the Maintenance Management System of the U.S. Fish and Wildlife Service.

STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
A.1	Implemented.	No further action is required.
A.2	Unresolved.	Reconsider the recommendation, and provide an action plan for discontinuing the allocation of a fixed amount or a percentage of deferred maintenance funding to small deferred maintenance projects. The plan should include a target date and the title of the official responsible for implementation.
A.3	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
B.1, B.2, and B.3	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

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