



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

August 8, 2000

## INDEPENDENT AUDITORS REPORT

### Memorandum

To: Director, U.S. Fish and Wildlife Service

Subject: Independent Auditors Report on U.S. Fish and Wildlife Service Financial Statements for Fiscal Year 1999 (No. 00-I-620)

### SUMMARY

In our audit of the U.S. Fish and Wildlife Service's (FWS) financial statements for fiscal year 1999, we found the following:

- The principal financial statements were fairly presented in all material respects. FWS's principal financial statements consist of the Balance Sheet as of September 30, 1999 and the Consolidated Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the fiscal year ended September 30, 1999.

- Our tests of internal controls identified three material weaknesses related to the design of internal controls. Specifically, FWS (1) had not designed the interface between the Federal Finance System (FFS) and the subsidiary Federal aid grants management system to produce accurate and timely undelivered orders information, (2) did not require Federal aid grantees to submit documentation to show that grant payments were for costs actually incurred, and (3) did not have procedures to charge the Construction-in-Progress account with only FWS real property construction costs and to transfer completed projects out of the account promptly and into capitalized property or expense accounts as appropriate. FWS responded to the report on July 5, 2000 (Appendix 1) and generally concurred with the findings and recommendations to correct the material internal control weaknesses.

- Our tests of compliance with laws and regulations identified no instances of noncompliance that are required to be reported.

Our conclusions are detailed in the sections that follow.

## **OPINION ON PRINCIPAL FINANCIAL STATEMENTS**

In accordance with the Chief Financial Officers Act of 1990, we audited FWS's principal financial statements for the fiscal year ended September 30, 1999 as contained in FWS's accompanying 1999 Annual Report. These financial statements are the responsibility of FWS, and our responsibility is to express an opinion, based on our audit, on these principal financial statements.

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget Bulletin 98-08, "Audit Requirements for Federal Financial Statements," as amended. These audit standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accompanying principal financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures contained in the principal financial statements and the accompanying notes. An audit also includes assessing the accounting principles used and the significant estimates made by management. We believe that our audit work provides a reasonable basis for our opinion.

In our opinion, the principal financial statements (pages 40-45) present fairly, in all material respects, the financial position of FWS as of September 30, 1999 and its consolidated net cost, changes in net position, budgetary resources and outlays, and financing for the fiscal year ended September 30, 1999 in conformity with generally accepted accounting principles.

## **REPORT ON INTERNAL CONTROLS**

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget Bulletin 98-08.

Management of FWS is responsible for establishing and maintaining an internal control structure which provides reasonable assurance that the following objectives are met:

- Transactions are properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplementary stewardship information in accordance with Federal accounting standards.

- Assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Transactions are executed in accordance with (1) laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the principal financial statements and the supplemental statements of net cost and changes in net position and (2) any other laws, regulations, and Governmentwide policies identified by the Office of Management and Budget.

- Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of inherent limitations in any internal control structure, errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal controls over financial reporting to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In planning and performing our audit, we considered FWS's internal controls over financial reporting by obtaining an understanding of FWS's internal controls, determined whether these internal controls had been placed in operation, assessed control risks, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the principal financial statements and the supplemental statements of net cost and changes in net position and not to provide assurance on the internal controls over financial reporting. Consequently, we do not express an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control structure over financial reporting that might be reportable conditions. Under standards established by the American Institute of Certified Public Accountants and by Office of Management and Budget Bulletin 98-08, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect FWS's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the principal financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted matters concerning internal controls and their operation that we consider to be material weaknesses as defined in the preceding sentence. These material weaknesses are described in the paragraphs that follow.

#### **A. Design of Interface for Federal Aid Undelivered Orders**

FWS did not have procedures to accurately and timely update the Undelivered Orders general ledger account related to Federal aid grants to states. Federal Aid Program personnel accounted for the grants to states in a subsidiary system maintained in each FWS regional office and used it to manage the Program. The subsidiary system recorded the original entry for the amount of each new grant and disbursements of grant funds to states based on information from the Department of Health and Human Services Payment Management System on a daily basis. States accessed the Payment Management System for grant disbursements once the FWS regional offices input the grant data into the Payment Management System and authorized the personnel at Health and Human Services to begin

the disbursement process. FWS had designed an electronic interface between the Payment Management System and the official financial system (FFS), but the interface did not recognize reductions in undelivered orders resulting from grant closeouts or grant amendments. Additionally, there was a 1-month delay before Payment Management System data updated FFS. This led to additional errors in FFS when regional Program personnel tried to reconcile the subsidiary system with FFS each month because many entries recorded in the subsidiary system had not yet been recorded in FFS. When Program personnel found a missing transaction in FFS, they would initiate manual adjustments to FFS to correct what they perceived to be errors. Later, FFS would be updated with the electronic interface, which resulted in many transactions being duplicated in FFS. To identify and correct the errors, FWS, in October 1999, established a team of finance and Program personnel to reconcile FFS to the subsidiary system. This effort resulted in a net adjustment to decrease the Undelivered Orders account by \$23.9 million.

### **Recommendation**

We recommend that the Director, FWS, redesign the electronic interface between FFS and the Payment Management System to produce accurate and timely information to update the Undelivered Orders general ledger account. Also, the delay in updating FFS with the electronic interface should be eliminated, and written procedures should be developed to reconcile FFS to the subsidiary system. Management should also conduct reviews to ensure that data are accurate.

**FWS Response:** FWS concurred with this finding, stating that it has "completely redesigned" the interface program and that it is "currently being tested." FWS said the new system is scheduled for implementation in July 2000.

### **B. Documentation To Support Federal Aid State Grant Costs Incurred**

During fiscal year 1999, FWS allowed Federal aid grantees to draw down \$424 million on letters of credit for approved grant amounts without requiring all grantees to periodically submit documentation on costs actually incurred. According to the draft Grant Financial System Requirements Manual, published by the Joint Financial Management Improvement Program, an agency's grant financial management system should document the timing of grantees' cash flows, the amounts disbursed to grantees during the year, and the costs actually incurred by the grantees. Although FWS obtained documentation for the approximately 1,300 grants that were closed out during the year, it did not obtain documentation that costs were incurred prior to cash drawdowns for the approximately 3,500 grants that remained open at fiscal year-end. Consequently, FWS could not verify that the payments were for costs incurred or for advances. To provide support for the grant payments on open grants that we sampled, FWS, in a special mailing to grantees, requested grantees to confirm that the drawdowns were for costs actually incurred. The grantees verified that the drawdowns were for costs incurred.

## **Recommendation**

We recommend that the Director, FWS, develop and implement procedures for the Federal Aid Program to validate, for financial reporting purposes, that costs were incurred by all grantees prior to drawing down cash.

**FWS Response:** FWS did not agree with this recommendation, stating that it has controls to ensure that grantees withdraw funds only for costs incurred previously. FWS further said that its controls included "[m]onthly reconciliations of withdrawals with documentation of costs incurred provided to Service officials." FWS also said that the system "as a whole provides reasonable assurance that the drawdowns are for costs incurred" and that it planned to "consider additional steps to increase assurance that grantees drawdowns are for costs incurred." FWS further said it would consider the feasibility of sampling a limited number of FY [fiscal year] 2000 drawdowns to verify that "withdrawals were for costs incurred."

**OIG Reply:** We believe that as part of FWS's financial records, documentation of the fact that disbursements were used only for costs previously incurred is essential, and the actions proposed by FWS meet the intent of this recommendation.

## **C. Procedures To Ensure Accurate Construction in Progress**

The Construction-in-Progress general ledger account was overstated by \$114.5 million. The account was used to accumulate building and structure construction project costs that had not been completed as of the date of the financial statements. The overstatement occurred because FWS did not have procedures to ensure that charges to the account were reviewed promptly and that the charges were for FWS's building and structure assets (real property) that would meet FWS's \$50,000 capitalization threshold. As a result, the account contained costs of \$13.8 million that were for completed projects that had not been moved to real property accounts or that had not been expensed as appropriate; costs of \$17.9 million that were for misclassified operations, maintenance, and expendable property costs; and costs of \$82.8 million that were not for real property, such as hazardous waste cleanup costs. On December 15, 1999, FWS issued additional real property reconciliation procedures that addressed these issues.

## **Recommendation**

We recommend that the Director, FWS, ensure that the additional real property procedures are implemented as designed.

**FWS Response:** FWS stated that it had designed and implemented the real property reconciliation procedures in December 1999.

## **STEWARDSHIP AND PERFORMANCE MEASURES**

We considered FWS's internal controls over the required supplementary stewardship information (pages 23-35) by obtaining an understanding of FWS's internal controls relating to the preparation of the required supplementary stewardship information to determine whether these internal controls had been placed in operation and performed tests of these controls as required by Bulletin 98-08. However, providing assurance on these internal controls was not an objective of our audit, and accordingly, we do not provide assurance on such controls.

With respect to the internal controls related to the performance measures reported in FWS's program highlights (pages 1-21), we obtained an understanding of the design of significant internal controls related to the existence and completeness assertions as required by Bulletin No. 98-08. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and accordingly, we do not provide an opinion on such controls.

## **REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

Our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with Office of Management and Budget Bulletin 98-08.

Management of FWS is responsible for complying with laws and regulations applicable to that agency. As part of obtaining reasonable assurance about whether FWS's principal financial statements are free of material misstatement, we performed tests of FWS's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts and certain other laws and regulations specified in Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act of 1996. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations discussed in the preceding paragraph exclusive of the Federal Financial Management Improvement Act disclosed no instances of noncompliance that are required to be reported under the "Government Auditing Standards" or Bulletin 98-08.

Under the Federal Financial Management Improvement Act, we are required to report whether FWS's financial management systems were in substantial compliance with requirements for Federal financial management systems, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. To meet these requirements, we performed tests of compliance using the implementation guidance for the Federal Financial Management Improvement Act included in Appendix D of Bulletin 98-08.

The results of our tests disclosed no instances in which FWS's financial management system was not in substantial compliance with these three requirements.

## **CONSISTENCY OF OTHER INFORMATION**

We reviewed the financial information presented in FWS's program highlights (pages 1-21) and supplementary information (pages 23-35) to determine whether the information was consistent with the principal financial statements. Based on our review, we determined that the information in the overview was consistent with the principal financial statements.

## **PRIOR AUDIT COVERAGE**

We reviewed prior Office of Inspector General and General Accounting Office audit reports related to FWS's financial statements to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to FWS's financial statements or internal controls. We found that there were no reports issued by the Office of Inspector General that contained significant unresolved or unimplemented recommendations related to FWS's financial statements or internal controls. The General Accounting Office, however, issued, in February 2000, the letter "Financial Management Review of the U.S. Fish and Wildlife Service's Reported Allocation of Resources for its Refuge Program and New Assistant Regional Manager Positions." The letter stated that FWS did not use its accounting system to track the costs of the refuge program on a full-cost basis, as required by Department of the Interior policy and Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Standards." The General Accounting Office recommended that FWS identify and accumulate direct and indirect costs, distribute indirect costs, and monitor and evaluate the full cost of its outputs. FWS agreed with and, at the time of our review, was implementing the recommendation as it related to its three mission goals but not as it related to its refuge program.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

Management of FWS is responsible for the following:

- Preparing the principal financial statements and the required supplemental information referred to in the Consistency of Other Information section of this report in conformity with generally accepted accounting principles and for preparing the other information contained in the 1999 Annual Report.

- Establishing and maintaining an internal control structure over financial reporting. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control structure policies and procedures.

- Complying with applicable laws and regulations.

We are responsible for the following:

- Expressing an opinion on FWS's principal financial statements.
- Obtaining an understanding regarding the effectiveness of the internal controls based upon the internal control objectives contained in Bulletin 98-08, which require that transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplemental information in accordance with Federal accounting standards; that assets be safeguarded against loss from unauthorized acquisition, use, or disposal; and that transactions and other data that support reported performance measures be properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
- Testing FWS's compliance with selected provisions of laws and regulations that could materially affect the principal financial statements or the required supplementary information.

To fulfill these responsibilities, we took the following actions:

- Examined, on a test basis, evidence supporting the amounts disclosed in the principal financial statements.
- Assessed the accounting principles used and the significant estimates made by management.
- Evaluated the overall presentation of the financial statements.
- Obtained an understanding of the internal control structure related to safeguarding of assets; compliance with laws and regulations, including the execution of transactions in accordance with budget authority; financial reporting; and certain performance measure information reported in the Program Highlights.
- Tested relevant internal controls over the safeguarding of assets; compliance with laws and regulations, including the execution of transactions in accordance with budget authority; and financial reporting.
- Reviewed the internal controls relevant to the existence and completeness assertions for systems producing the performance measures reported in the Program Highlights.
- Tested compliance with selected provisions of laws and regulations.

We did not evaluate all of the internal controls related to the operating objectives as broadly defined in the Federal Managers' Financial Integrity Act, such as those controls related to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls necessary to achieve the objectives outlined in our report on internal controls.



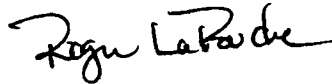
We also identified other issues that, in our judgment, were not required to be included in this audit report but that should be communicated to management. We have included these issues in a management letter that was issued separately.

Based on FWS's July 5, 2000, response, we consider Recommendations A.1, B.1, and C.1 resolved and implemented.

Since the recommendations are considered resolved and implemented, no further response to this report is required (see Appendix 2).

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) 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.

This report is intended for the information of management of FWS and the Office of Management and Budget and the Congress. However, this report is a matter of public record, and its distribution is not limited.



Roger La Rouché  
Acting Assistant Inspector General  
for Audits

*[CONTACT THE U.S. FISH AND WILDLIFE SERVICE FOR INFORMATION ON ITS FINANCIAL STATEMENTS FOR FISCAL YEAR 1999, WHICH ARE NOT INCLUDED]*



## United States Department of the Interior


FISH AND WILDLIFE SERVICE  
Washington, D.C. 20240

IN REPLY REFER TO:

FWS/DF

### Memorandum

To: Assistant Inspector General for Audits  
Office of Inspector General  
(Attn: Director of Financial Audits)

From: Director  JUL 5 2000

Subject: Comments on Draft Auditor's Report on U.S. Fish and Wildlife Service Financial Statements for Fiscal Year 1999

After reviewing the draft audit report, the Service generally concurs with the findings and recommendations regarding the three identified internal control matters. Presented below are the actions taken or planned to address each identified issue:

#### Design of Interface for Federal Aid Undelivered Orders

We agree that the interface between the Department of Health and Human Service's Payment Management System and the Service's Federal Financial System in operation in FY 1999 required improvement, and that as a result, considerable effort was required to ensure that the information on Federal Aid undelivered orders contained in Service accounting records was accurate. The interface program has been completely redesigned and is currently being tested. It is scheduled for implementation in July 2000.

#### Documentation To Support Federal Aid State Grant Costs Incurred

We do not believe it is appropriate, feasible, or required by statute or regulation to acquire documentation for 3500 Federal Aid grants to validate that costs were incurred prior to cash drawdowns. Such an approach would be time consuming and labor intensive, and would not significantly alter the risk that some cash may be incorrectly reported as reimbursements. Such a risk is already very low. Our approach is to increase the Service's assurance that drawdowns are for costs incurred without increasing the costs of administering the Federal Aid program or unnecessarily burdening grant recipients. To date there is no evidence to suggest that any grantee intentionally withdrew funds prior to incurring costs, or that systemic problems with cash advances exist.

There are numerous controls currently in place to ensure that grantees only withdraw funds for previously incurred costs. These controls include:

- Language in the Service Manual chapter on Federal Aid Program Standards for Administration that specifically states that payments to grantees are for costs incurred
- Defense Contract Audit Agency audits of Federal Aid grants that specifically address whether funds are withdrawn by grantees prior to incurring costs
- Monthly reconciliations of withdrawals with documentation of costs incurred provided to Service officials.

As noted in the audit report, the Service also sampled more than 80 FY 1999 open grants and received confirmation from all grantees (except the State of Tennessee which did not respond) that their drawdowns were for costs incurred. We also received attestations from Federal Aid program managers that the withdrawals by grantees were cost reimbursements. We recognize these measures do not validate that all withdrawals were for incurred costs. However we believe that the system, taken as a whole, provides reasonable assurance that drawdowns are for costs incurred.

We plan to consider additional steps to provide increased assurance that grantees drawdowns are for costs incurred, including:

- Adding specific language to the list of assurances provided by grantees reiterating that drawdowns are only for costs already incurred
- Issuing a policy statement to grantees that payments are for incurred expenses
- Requiring financial status reports at the end of each fiscal year for all open grants.

We will also consider the feasibility of sampling a limited number of FY 2000 drawdowns to verify that State withdrawals were for costs incurred.

#### **Procedures to Ensure Accurate Construction in Progress**

The report recognizes that in December 1999, the Service designed and implemented real property reconciliation procedures that addressed the reported overstatement error. As a result of the improvements made to the reconciliation procedures, the Service considers this issue to be resolved. However, we understand that the Office of Inspector General needs to review and monitor implementing actions conducted by the Service in FY 2000 to verify that this issue has been corrected. We will continue to work with the Office of Inspector General in its review of periodic data and supporting documentation. The data related to Construction in Progress accounts is incorporated into the Service's financial statement presentation and is available through the Hyperion financial application. The Service can provide supporting documentation of the data recorded in Hyperion, as requested.

We believe that the actions stated above accomplish the intent of the report's recommendations. If you have any questions or need more information, please contact Dave Holland, Chief, Division of Finance, at (703) 358-1742.

cc: Mr. Keith Clark, Senior Auditor, OIG

**STATUS OF AUDIT REPORT RECOMMENDATIONS**

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
A.1, B.1 and C.1	Implemented.	No further action is required.