



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

June 22, 2001

Memorandum

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

Subject: Independent Auditors Report on the U.S. Fish and Wildlife Service's
Financial Statements for Fiscal Year 2000 (No. 01-I-410)

We found that the U.S. Fish and Wildlife Service's (FWS) principal financial statements¹ for fiscal year 2000 were fairly presented in all material respects except for the recorded balance for the FWS' undelivered orders on the Consolidated Statement of Budgetary Resources for the fiscal year ended September 30, 2000. We were unable to satisfy ourselves as to the balance of the undelivered orders account for the fiscal year ended September 30, 2000 because of a material weakness in the FWS' internal controls over deb obligating undelivered orders in a timely manner. We also identified three other material weaknesses, two reportable conditions, a weakness in reporting stewardship investments in the Required Supplementary Stewardship Information, and three instances of noncompliance with laws and regulations.

Internal Controls

Material Weaknesses. We found material internal control weaknesses in the areas of undelivered orders, construction-in-progress balances, Federal Aid program grants, and capitalized equipment reconciliation procedures.

- **Undelivered Orders.** The FWS has not performed a timely and comprehensive review of its undelivered orders account. We estimate that the overstatement in undelivered orders was approximately \$23.4 million.
- **Construction-in-Progress Balances.** The FWS' construction-in-progress procedures and reconciliation controls need improvement to ensure that errors are detected and corrected in a timely manner. We determined that the FWS' quarterly and year-end reconciliation efforts have not been timely, effective, or complete.

¹The FWS' principal financial statements consist of the Consolidated Statement of Financial Position as of September 30, 2000; the Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position for the fiscal year ended September 30, 2000; and the Consolidated Statement of Budgetary Resources and the Consolidated Statement of Financing for the fiscal year ended September 30, 2000.

- **Federal Aid Program Grants.** The FWS needs to improve reporting processes used by grantees to ensure grantees provide documentation to support costs incurred for Federal Aid Program grants. We determined that the FWS allowed Federal Aid Program grantees to draw down funds without having all grantees periodically submit documentation on costs incurred.
- **Capitalized Equipment Reconciliation Procedures.** The FWS' capitalized equipment reconciliation process needs to be more effective. Specifically, the FWS adjusted the capitalized equipment general ledger control account to agree with its capitalized equipment subsidiary ledger without adequately researching why differences occurred.

Reportable Conditions. In addition to these material weaknesses, we identified two reportable conditions in the following areas:

- **Capitalized Equipment Transactions.** The FWS needs to improve its procedures for recording capitalized equipment transactions and establish adequate management controls to prevent transactions that should not be capitalized from updating the capital equipment general ledger account. We determined that the FWS had to prepare hundreds of entries to correct the transactions that were improperly recorded in the equipment account throughout the fiscal year.
- **Automated Systems Controls.** The FWS' general support systems and major applications did not meet minimum Federal information systems security standards. The FWS has a corrective action plan to address some of these issues. Until the FWS' corrective actions have been implemented, we will continue to report the control weaknesses over the FWS' general support systems and major applications as a reportable condition.

Stewardship. We considered the FWS' internal controls over Required Supplementary Stewardship Information by obtaining an understanding of the FWS' internal controls. Although we do not provide an opinion on such controls, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Stewardship information.

- **Stewardship Investments.** The FWS did not report on stewardship investments in non-Federal physical property by grantees in fiscal year 2000. In fiscal year 1999, the FWS reported on stewardship investments totaling \$191.2 million that were made by grantees for acquiring and improving lands and non-Federal physical property. The FWS' lack of reporting stewardship investments made by grantees in non-Federal physical property represents a departure from the reporting requirements.

Compliance With Laws and Regulations

The results of our tests of compliance, exclusive of the Federal Financial Management Improvement Act (FFMIA), disclosed an instance of noncompliance with the following regulation:

- The FWS is not complying with the Code of Federal Regulations to require that grantees periodically submit financial status reports.

The results of our tests of compliance with the FFMIA disclosed instances of noncompliance with the following regulations:

- The FWS is not in full compliance with OMB Circular A-130, "Security of Federal Automated Information Resources," to ensure information in automated systems is adequately safeguarded.
- The FWS is not complying with the Statement of Federal Financial Accounting Standards Number 8 to report stewardship investments made by grantees relating to non-Federal physical property.

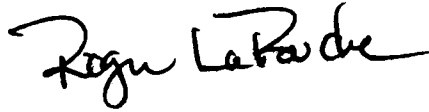
Consistency of Other Information

We found that the information presented in the Management Discussion and Analysis Section and the supplementary information sections of the FWS' Annual Report for fiscal year 2000 was consistent with the principal financial statements.

We made 19 recommendations to correct the identified weaknesses. Based on the FWS' response to the draft report (see Appendix 3 of the Independent Auditors Report), we consider 2 of the recommendations unresolved and 17 of the recommendations resolved but not implemented (see Appendix 4 of the Independent Auditors Report). The recommendations that were considered not resolved or implemented will be referred to the Assistant Secretary for Policy, Management and Budget for resolution and tracking of implementation.

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.

The attached Independent Auditors' Report is intended for the information of management of the Department of the Interior, the Office of Management and Budget, and the Congress. The report, however, is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Roger LaRade". The signature is fluid and cursive, with the first name "Roger" and last name "LaRade" clearly distinguishable.

Assistant Inspector General
for Audits

Attachment:
Independent Auditors Report

*[CONTACT THE U.S. FISH AND WILDLIFE SERVICE FOR INFORMATION ON ITS
FINANCIAL STATEMENTS FOR FISCAL YEAR 2000, WHICH ARE NOT INCLUDED.]*

Independent Auditors Report

U.S. Fish and Wildlife Service

Financial Statements

Fiscal Year 2000

We have audited the U.S. Fish and Wildlife Service's (FWS) principal financial statements for the fiscal year ended September 30, 2000. The FWS' principal financial statements consist of the Consolidated Statement of Financial Position as of September 30, 2000; the Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position for the fiscal year ended September 30, 2000; and the Consolidated Statement of Budgetary Resources and the Consolidated Statement of Financing for the fiscal year ended September 30, 2000. These financial statements are the responsibility of the FWS, and our responsibility is to express an opinion, based on our audit, on these principal financial statements.

Except as discussed in the following paragraph our audit was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States, and with the Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements." These 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, as well as evaluating the overall financial statements presentation. We believe that our audit work provides a reasonable basis for our opinion. The objective, scope, and methodology of our work are discussed in Appendix 1

Opinion on Principal Financial Statements

We were unable to satisfy ourselves as to the recorded balance for the FWS' undelivered orders on the Consolidated Statement of Budgetary Resources for the fiscal year ended September 30, 2000. Nor were we able to satisfy ourselves as to the balance by other auditing procedures. The uncertainty over the September 30, 2000 balance resulted from a material weakness in the FWS' internal controls over deobligating undelivered orders in a timely manner. This weakness is addressed in our report on the FWS' internal controls.

In our opinion, except for the qualification discussed in the preceding paragraph, the principal financial statements audited by us present fairly, in all material respects, the Consolidated Statement of Financial Position as of September 30, 2000; the Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position for the fiscal year ended September 30, 2000; and the Consolidated Statement of Budgetary Resources and the Consolidated Statement of Financing for the fiscal year ended September 30, 2000 in conformity with generally accepted accounting principles.

As discussed in Note 11 to the financial statements, the FWS changed its accounting for appropriations of trust and special receipt revenues in accordance with new guidance from the Department of the Treasury.

The FWS has not presented its investment in non-Federal physical assets as required by the Statement of Federal Financial Accounting Standards Number 8, Supplementary Stewardship Reporting. The Federal Accounting Standards Advisory Board has determined this information is necessary to supplement, although not required to be part of, the principal financial statements. This matter is discussed in the Stewardship and Performance Measures section of this report.

Our audit was conducted to form an opinion on the principal financial statements taken as a whole, and our opinion relates only to the principal financial statements. The supplemental financial and management information contained in the FWS' Annual Report is presented for additional analysis and is not a required part of the principal financial statements. We applied certain limited procedures, including discussions with management on the

methods of measurement and presentation of this information, to ensure compliance with the OMB guidance and consistency with the financial statements. We found that the management information presented in the FWS' Annual Report is consistent with the principal financial statements. This information, however, has not been subjected to the auditing procedures applied in our audit of the principal financial statements, and accordingly, we express no opinion on it.

Report on Internal Controls

In planning and performing our audit, we considered the FWS' internal controls over financial reporting by obtaining an understanding of the internal controls, determining whether these internal controls had been placed in operation, assessing control risks, and performing tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the principal financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in Bulletin 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls, and accordingly, we do not express an opinion on the internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, 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 the FWS' ability to record, process, summarize, and report financial data consistent with the assertions made by management in the 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. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

We did note, however, certain matters involving the internal controls and their operation that we consider to be material weaknesses or reportable conditions.

Material Weaknesses

Our review identified four conditions that we believe to be material weaknesses which are summarized in the paragraphs that follow.

A. Undelivered Orders

The FWS needs to perform timely and comprehensive reviews of its undelivered orders account. Although the regional offices have conducted reviews and, in many cases, have made entries to correct invalid obligations, these reviews were not comprehensive.

During the audit, we also found the following:

- The FWS has not provided adequate oversight to ensure that each region reconciles Federal Aid Program grant data in the Federal Aid Information Management Systems (FAIMS) to data in the Federal Financial System (FFS). During fiscal year 2000, the FWS established procedures requiring each region to reconcile the two systems on a monthly basis. This procedure, however, was not uniformly followed. Region 5, for example, submitted only one reconciliation report in 15 months. Further, on February 1, 2001, when the Region submitted the report, it identified 112 reconciling items totaling \$17.5 million. (Subsequently, the FWS Finance Center researched the reconciling items in the Region's report and found that there were substantially fewer reconciling items for a lesser amount than originally reported.)
- Currently, it takes the National Business Center (NBC), an organization which is contracted to perform fiscal activities for the FWS, from 45 days to 6 months to correct differences in the FFS because:
 - Regions were not providing complete and accurate information to the NBC to record the entries in the FFS to correct differences.
 - The NBC was not following up with the regions and informing the FWS management when regions did not provide complete documentation.

As a result, we were not able to satisfy ourselves as to the balance of the undelivered orders recorded on the Consolidated Statement of Budgetary Resources for the fiscal year ended September 30,

2000. Our review estimated that the most likely error was an overstatement in undelivered orders of \$23.4 million.

Recommendations

We recommend that the FWS:

1. Train regional and Division of Finance personnel in regard to undelivered orders, and ensure that the training:
 - a. Emphasizes the need for performing periodic reviews of undelivered orders.
 - b. Emphasizes the need for retaining workpapers to verify the validity of obligations.
 - c. Provides examples that show reasons why obligations may not be valid.
2. Ensure undelivered orders reviews and Federal Aid grant reconciliations are performed in a timely and comprehensive manner.
3. Establish procedures to ensure that the regions report necessary corrections to the undelivered orders balances on a monthly basis.
4. Report a material internal control weakness relating to the FWS' need to improve procedures for performing comprehensive reviews of its undelivered orders account balance in the FWS Fiscal Year 2001 Federal Managers' Financial Integrity Act report to the Department of the Interior unless all corrective actions have been completed by September 30, 2001.

The FWS Response: The FWS agrees with this finding. The FWS is planning on providing (1) additional guidance, with respect to performing undelivered orders reviews, in its year-end closing procedures and (2) training for field level managers and employees.

The FWS plans to strengthen year-end guidance pertaining to the review of undelivered orders. The FWS believes that greater focus on timely reviews of the undelivered orders balance is necessary. For Federal Aid, the FWS conducted a workshop, which reconciled 90 percent of the differences between the Federal Financial System (FFS) and the Federal Aid Information Management System (FAIMS). The remaining 10 percent of the differences will be reconciled by June 30, 2001. The workshop also drafted improved policies and procedures for promptly

reconciling discrepancies between the FFS and FAIMS. The FWS will implement a Servicewide quarterly review process for undelivered orders that remain unchanged for a year.

The FWS plans on conducting undelivered orders review training for regional and Division of Finance personnel. The FWS is concerned that the criteria used in the training for assessing the validity of undelivered orders is still being refined and decisions on when to adjust the undelivered orders balance is often subjective. The FWS plans on participating in the Finance Officers' Partnership task group to address undelivered orders issues.

B. Construction-in-Progress Account

The FWS needs to improve its reconciliation procedures for the construction-in-progress account in order to detect and correct errors in a timely manner. In response to our 1999 financial statement audit, the FWS established additional reconciliation procedures to address the problems. We found, however, that the FWS' quarterly and year-end reconciliation efforts have not been timely or complete. As a result, the construction-in-progress general ledger account was overstated. The FWS made adjusting entries to correct the account balance, including transferring:

- \$40 million to the buildings account for completed construction projects.
- \$34.7 million to the structures account for completed projects.
- \$24.2 million to the operating expenses account.

The overstatements have occurred because the FWS has not provided oversight to ensure reconciliations are being done promptly or completely. Additionally, the FWS has not designed procedures to ensure that only costs for capitalized projects are included in the construction-in-progress account. In fact, the FWS uses the construction-in-progress account to record all project costs, including those that it knows will be written off to operating expense. This causes an extensive reconciliation process.

Recommendations

We recommend that the FWS:

1. Develop oversight procedures to ensure that the quarterly reconciliations are performed and reviewed promptly.

2. Implement procedures to ensure that only costs for capital projects are recorded in the construction-in-progress account.

3. Report a material internal control weakness relating to the FWS' need to improve its procedures for ensuring accurate construction-in-progress balances in its fiscal year 2001 Federal Managers' Financial Integrity Act report to the Department of the Interior unless the corrective actions are completed by September 30, 2001.

The FWS Response: The FWS agrees with this finding and recommendations. The FWS is developing strengthened guidance for reconciling the construction-in-progress account to the property records. The FWS has committed to perform two construction-in-progress reconciliations per year. The FWS is also investigating system changes to minimize recording expense transactions in the Construction Work-in-Progress account.

The OIG Reply: The FWS' response to investigate rather than investigate and implement system changes to minimize recording expense transactions in the construction-in-progress account does not satisfy the intent of the second recommendation. We therefore consider this recommendation unresolved.

**C. Processes Used by
Grantees to Document
and Support Costs
Incurred for Federal Aid
Program Grants**

The FWS needs to improve reporting processes used by grantees to ensure grantees provide documentation to support costs incurred for Federal Aid Grants. The FWS doesn't require its grantees to submit annual financial status reports. Instead the FWS requires the submission of the financial status report 90 days after the close out of the grant. The FWS needs this information annually to properly reconcile grant expenditures and to ensure the expenses were recorded in the appropriate accounting period. As a result, the FWS had to record a high level adjustment to correct the estimated overstatements in the accounts payable and related accounts. Further, the FWS is not in compliance with 43 CFR 12.81 (b) , which requires grantees to report on the status of funds at least annually.

The Federal Financial Assistance Improvement Act of 1999 requires that agencies implement a system by May 20, 2001 that allows grantees to electronically apply for and report on the use of funds. We found that the FWS was working with the Department and other Federal agencies to develop and implement a system as required. The system, when implemented, should simplify reporting processes for grantees and should provide the necessary support.

Recommendations

We recommend that the FWS:

1. Ensure that electronic procedures are implemented to support that grantees cash drawdowns are either for costs that were previously incurred or for advances.
2. As an interim step, require that grantees submit financial status reports annually to comply with 43 CFR 12.81(b). The FWS should then use this information to calculate year-end grant expense accruals.
3. Report a material internal control weakness relating to grantees not providing sufficient documentation to support costs incurred for the FWS' Federal Aid Program grants in its Fiscal Year 2001 Federal Managers' Financial Integrity Act report to the Department of the Interior unless the corrective actions are completed by September 30, 2001.

The FWS Response: The FWS agrees with this finding and will implement electronic processes being developed by the Interagency Electronic Grants Committee (IAEGC) as soon as they are available. The FWS has been working with the Department and other Federal agencies as part of the IAEGC to develop and implement electronic processes to streamline reporting processes for grantees. The actions planned by IAEGC, when implemented, should simplify reporting processes for grantees, streamline reconciliation steps for financial reporting purposes, improve the FWS' financial management practices, and meet OMB reporting requirements.

The FWS will require annual financial status reports from grantees at the end of the grant year. The FWS will not receive financial status reports from the grantees at the end of the fiscal year but will receive the reports on the anniversary dates of the grants. The FWS will select a methodology to calculate year-end grant expense accruals that will satisfy year-end financial reporting requirements.

**D. Capitalized
Equipment
Reconciliation
Procedures**

The FWS needs to improve its procedures for reconciling capitalized equipment. The FWS adjusted the equipment general ledger control account to agree with its subsidiary ledger without adequately researching why differences occurred. Reconciling items were not adequately researched due to time constraints and the labor-intensive manual processes. There were not enough

common data elements in the Federal Financial System and the capital equipment subsidiary system to perform an electronic reconciliation. To bring the general ledger into balance with the subsidiary ledger for fiscal year 2000, the FWS added \$8.1 million to the equipment account and reduced its operating expense by the same amount. The FWS also subtracted \$4.7 million from the general ledger equipment account and increased its operating expense account by that amount.

Recommendations

We recommend that the FWS:

1. Implement procedures to identify the nature and cause of all differences between the capitalized equipment general ledger control account and the subsidiary ledger prior to making any adjustments.
2. Establish common transaction data elements in the FFS and the capitalized equipment subsidiary system to help ensure that the majority of reconciling items can be reconciled in a timely manner.
3. Report the lack of a capitalized equipment reconciliation between the general and subsidiary ledger as a material internal control weakness in the Fiscal Year 2001 Federal Managers' Financial Integrity Act report to the Department of the Interior unless the corrective actions are completed by September 30, 2001.

The FWS Response: The FWS recognizes the need to improve the accuracy of recording capital equipment transactions and the procedures to reconcile the Federal Financial System and the property systems. The FWS will establish a working group comprised of representatives of Finance and Contracting and General Services personnel to prepare guidelines for identifying and documenting the nature of differences between the equipment general ledger control account and the subsidiary ledger and to establish common transaction data elements for the Federal Financial System and the FWS personal property files. If it is determined that existing systems cannot effectively be modified to include additional common data elements, the FWS will consult with the Department concerning replacement systems.

Reportable Conditions

E. Procedures for Recording Capitalized Equipment Transactions

The FWS needs to improve its procedures for recording capitalized equipment transactions. Specifically, the FWS has not trained its staff to properly code non-capital equipment transactions or established controls to prevent recording non-capital equipment in the equipment general ledger. Although the FWS established a reconciliation process to correct these transactions after-the-fact, improvements are needed when the transactions are recorded. The established process resulted in the FWS' need to research and prepare manual voucher entries for 762 transactions to correct the coding errors that occurred throughout fiscal year 2000.

Recommendations

We recommend that the FWS:

1. Ensure that additional training is provided for remote data entry personnel to ensure transactions are properly recorded at the time the transactions are entered into the system.
2. Ensure that front-end computer system edits and controls are designed to ensure that transactions are properly processed at the time the transactions are entered into the system.

The FWS Response: The FWS agrees with this finding. The FWS plans to train personnel to record transactions properly. The training will be based on the procedures and guidance developed by the FWS task force established to address capitalized equipment reconciliation. The FWS task force will also evaluate whether the computer systems can be modified to include front-end edits to ensure transactions are properly recorded. If it is determined that existing systems cannot effectively be modified to include front-end edits and controls, the FWS will consult with the Department concerning replacement systems.

F. FWS Needs Improved General Controls Over Its Automated Systems

The FWS' general support systems and major applications did not meet minimum Federal information systems security standards. Office of Management and Budget Circular A-130, "Management of Federal Information Resources," Appendix III, "Security of Federal Automated Information Resources," requires that adequate security be provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications. To ensure information is adequately safeguarded, the FWS needs to:

- **Appropriately assign responsibility for security.** The FWS regional offices/installations did not have appropriate individuals responsible for information technology security. For example, at Region 2 the responsible official for the Ecological Services' LAN and e-mail server was a biologist even though Region 2 has an IRM official. The FWS has identified numerous information systems security control weaknesses for the Ecological Services' LAN and e-mail server. The standards require that information technology managers be knowledgeable about information technology security matters. We do not believe that a biologist is the appropriate person to be responsible for correcting these issues or to have the security responsibility for these general support systems. Additionally, FWS identified information system security weaknesses for the Facility Management Information System including the lack of a security officer. In this instance a computer specialist was assigned the responsibility for security. It is an internal control weakness to have a computer specialist who is responsible for systems analysis, programming, or equipment operation and maintenance also responsible for the security of the systems because there isn't sufficient separation of duties. Also, the computer specialist reports to an individual who is responsible for these activities, which is an internal control weakness since the specialist would need to be able to override the manager's decisions.
- **Develop systems and applications security plans.** The FWS reported that 5 of the 9 general support systems and 2 of the 3 major applications did not have security policies and procedures, risk assessments, and contingency plans. These policies, procedures, practices, and plans are the basis for security plans; therefore, we believe that it is unlikely that security plans existed.

The FWS management did not hold information resources personnel or other personnel, such as system owners, accountable for ensuring Federal minimum security controls were in place and operating effectively for the FWS' general support systems and major applications.

Additionally, although the FWS identified material weaknesses in the areas of risk assessments and contingency planning for its general support systems and major applications, the FWS did not report to the Department's Chief Information Officer that it had an overall information systems security control weakness. The FWS did not report this weakness because the FWS had developed

action plans to correct the weaknesses; however, the plans were not scheduled for completion until after fiscal year 2000. Until the corrective actions have been implemented, we will continue to report the control weaknesses over the FWS' general support systems and major applications as a reportable condition. Additionally, we will report these weaknesses as a reportable condition in our report on compliance with laws and regulations related to our audit of the FWS' fiscal year 2000 financial statements.

Recommendations

We recommend that the FWS:

1. Assign appropriate individuals security responsibility at each of its installations.
2. Develop security plans for each general support system and major application.
3. Hold information resources personnel and other personnel accountable for developing and implementing adequate security over the FWS' general support systems and major applications.

The FWS Response: The FWS agrees with this finding and recommendations. The FWS will:

- Prepare a compilation of each FWS installation together with a documented assignment of security responsibility for each site; list the site and the person assigned responsibility, accompanied by a formal assignment of security responsibility to that individual based on an analysis of the appropriate nature of assigning such responsibility to the individual. The FWS will secure Departmental waivers where needed.
- Identify all general support systems and major applications; identify which systems and applications do not have security plans; work with the managers of the systems and applications to review security controls and training and correct weaknesses; and work with the managers to develop or update security plans.
- Develop a multi-year Management Control Review cycle for general support systems and major applications in accordance with 270 FW 4, "IRM Reviews".

Stewardship and Performance Measures

We considered the FWS' internal controls over the Required Supplementary Stewardship Information by obtaining an understanding of the FWS' internal controls, determining whether these internal controls had been placed in operation, assessing control risks, and performing tests of controls as required by OMB Bulletin 01-02. Our review was not of sufficient scope to provide assurance on these controls. Accordingly, we do not provide an opinion on such controls. We have, however, applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Stewardship Information. In applying these limited procedures, we believe that the FWS' lack of reporting Stewardship investments made by grantees in non-Federal physical property represents a material departure from the reporting requirements in the Statement of Federal Financial Accounting Standards Number 8, Supplementary Stewardship Reporting.

With respect to internal controls related to performance measures reported in the FWS' Annual Report, we obtained an understanding of the design of the significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance over internal controls over reported performance measures, and accordingly, we do not provide an opinion on such controls

G. Stewardship Investments

The FWS has not reported on stewardship investments in non-Federal physical property made by grantees in fiscal year 2000, as required by the Statement of Federal Financial Accounting Standards Number 8, Supplementary Stewardship Reporting. In fiscal year 1999, however, the FWS reported on stewardship investments of \$191.2 million that were made by grantees for acquiring and improving non-Federal physical property. The FWS' lack of reporting stewardship investments made by grantees in non-Federal physical property in fiscal year 2000 represents a departure from the reporting requirements.

Recommendation

We recommend that the FWS report on stewardship investments funded through grants for non-Federal physical property.

The FWS Response: The FWS disagrees with this finding. The FWS maintains that the intent for reporting stewardship investments is to identify funds that are directed toward or result in maintaining or enhancing the national productive capacity. Using this definition the FWS believes that its grant programs, which include investments, to acquire and improve non-Federal physical property do not qualify as stewardship investments.

The OIG Reply: The FWS asserts that the intent for reporting stewardship investments is to identify funds that maintain or enhance national productive capacity. However, the definitions of “stewardship investments” and “non-Federal physical property” contained in the Statement of Federal Financial Accounting Standards Number 8, Supplementary Stewardship Reporting do not support FWS’ position. We therefore consider this recommendation unresolved.

Report on Compliance With Laws and Regulations

Management of the FWS is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance as to whether the FWS’ financial statements are free of material misstatement, we performed tests of the FWS’ compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to the FWS.

As discussed in the internal control finding C, the FWS is not in compliance with the Code of Federal Regulations (43 CFR), Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Part 12.81(b), which stipulates that grantees will report on the status of funds using the SF-269, Financial Status Report--Long Form, or SF-269A, Financial Status Report--Short Form. This matter is discussed as a material weakness with recommendations in our report on internal controls.

Under the FFMIA, we are required to report whether the FWS financial management systems substantially comply with: (1)

Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level. To meet our reporting requirements, we performed tests of compliance with the FFMIA section 803(a) requirements. The results of our tests disclosed instances described below where the FWS' financial management system did not substantially comply with applicable Federal accounting standards and Federal financial system requirements.

- The FWS was not complying with Federal accounting standards regarding stewardship investments for fiscal year 2000. The Statement of Federal Financial Accounting Standards Number 8, Supplementary Stewardship Reporting, establishes standards for reporting on the Federal Government's stewardship over certain resources and responsibilities, including stewardship investments. The standard identifies stewardship investments as "Non-Federal Physical Property—grants provided for properties financed by the Federal Government, but owned by the state and local governments." This matter is discussed as a finding with recommendations in the preceding Stewardship and Performance Measures section of this report.
- The FWS was not in full compliance with Federal financial system requirements. Office of Management and Budget Circular A-130, "Management of Federal Information Resources," Appendix III, "Security of Federal Automated Information Resources," requires that adequate security be provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications. We noted certain matters, which indicate that the FWS was not complying with Office of Management and Budget Circular A-130, Appendix III, "Security of Federal Automated Information Resources." These matters are discussed as a reportable condition with recommendations in our report on internal controls.

The results of our tests disclosed no instances in which the FWS' financial management system did not substantially comply with the United States General Ledger at the transaction level.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do express such an opinion.

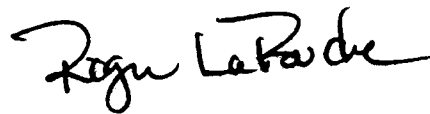
PRIOR AUDIT COVERAGE

We reviewed prior Office of Inspector General and General Accounting Office audit reports related to the FWS' financial statements to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to the FWS financial statements or internal controls. The results of this review are in Appendix 2.

We made 19 recommendations addressing the weaknesses that we identified. Based on the FWS' May 18, 2001 response (Appendix 3) to the draft audit report, we consider 2 recommendations unresolved and 17 recommendations resolved but not implemented. Accordingly, the recommendations that are not resolved or implemented will be referred to the Assistant Secretary for Policy, Management and Budget for resolution and tracking of implementation.

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 the Department of the Interior, 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 Rouche
Assistant Inspector General
for Audits
February 14, 2001

Objective, Scope, and Methodology

Management of the FWS is responsible for the following:

- Preparing the principal financial statements and the required supplementary information in conformity with generally accepted accounting principles and for preparing the other information contained in the Annual Report for fiscal year 2000.
- 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 the FWS' principal financial statements.
- Obtaining an understanding of the internal controls based on the internal control objectives contained in OMB Bulletin 01-02, which require that transactions be properly recorded, processed, and summarized to permit the preparation of the principal financial statements and the required supplementary 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 the FWS' 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 principal financial statements.

- Obtained an understanding of the internal control structure related to safeguarding 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 annual report.
- 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.
- 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 by 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 needed to achieve the objectives outlined in our report on internal controls.

PRIOR AUDIT COVERAGE

We reviewed prior Office of Inspector General and General Accounting Office audit reports related to the FWS' financial statements to determine whether these reports contained any unresolved or unimplemented recommendations that were significant to the FWS' financial statements or internal controls. We found two reports issued by the Office of Inspector General that contained significant unimplemented recommendations related to the FWS' financial statements or internal controls:

➤ “Deferred Maintenance, U. S. Fish and Wildlife Service,” Report No. 00-I-226, issued March 10, 2000. Funding for the FWS deferred maintenance projects was not spent solely on the FWS' highest priority deferred maintenance projects. Of the \$93.2 million available in fiscal years 1996 through 1998 for deferred maintenance, \$4.8 million was spent on non-maintenance expenses such as equipment replacements, administrative functions, and routine maintenance. In addition, the FWS needed to improve the reliability of its deferred maintenance data. The deferred maintenance data prepared for the FWS' fiscal year 1998 financial statements were not reliable because the FWS failed to survey all of its assets to determine its deferred maintenance needs, had not fully documented its estimated deferred maintenance costs, and had not established adequate controls over deferred maintenance data. To correct these deficiencies, the OIG recommended that the FWS ensure that deferred maintenance funds are allocated to field offices on the basis of priority and that the FWS implement controls over the expenditure of deferred maintenance funding and controls over deferred maintenance data. All recommendations are resolved, and three recommendations are implemented.

➤ “Miscellaneous Receipts, U. S. Fish and Wildlife Service,” Report No. 00-I-50, issued November 9, 1999. This review of 46 refuges operated by the FWS revealed that 5 refuges charged unauthorized fees for the mitigation of damages associated with oil and gas exploration and then arranged for the fees to be retained for refuge use. At the 46 FWS refuges visited or contacted, the FWS set fees for the use of refuge resources that provided a reasonable return to the Government. However, five refuges in Louisiana and Texas assessed fees of more than \$32.8 million during fiscal years 1990-1998, depositing only \$26 million into U.S. Treasury accounts, as required by law. At the five refuges, the FWS directed exploration companies to deposit fees of \$1.5 million into accounts maintained by the Fish and Wildlife Foundation, to remit fees of \$5.1 million into the refuges' contributed funds accounts, and to pay fees of about \$200,000 to vendors and grantees. The refuges used the fees for expenses such as employee salaries, marine-related equipment and repairs, computers, research grants, travel, fuel, a vehicle, and lumber. In addition, the OIG questioned the FWS' retention of about \$21.3 million from fiscal years 1990 through 1998 for the costs of administering economic uses on the refuges because the FWS had not determined the amount of its administrative expenses in accordance with the Provisions of the Refuge Revenue Sharing Act. The Office of the Solicitor, the OIG, and the FWS reached resolution in August 2000. The FWS is taking action to implement the recommendations.



United States Department of the Interior

FISH AND WILDLIFE SERVICE
Washington, D.C. 20240

IN REPLY REFER TO:

FWS/DF

MAY 18 2001

Memorandum

To: Regional Audit Manager - Central Region
Acting Office of Inspector General

From: Director *Michael D. Jones*

Subject: Draft Independent Auditors Report on the U.S. Fish and Wildlife Service's Financial Statements for FY 2000

The opportunity to review and comment on the subject draft report is sincerely appreciated. In this review, the Service reiterates its general agreement with the report. Suggestions for revising the paraphrased Service responses are provided, as well as more detailed information on actions taken or planned to implement OIG recommendations. The Service disagrees with the findings on compliance with laws and regulations and the bases for our conclusions are set forth. The Service also requests revisions be made to the report on prior audit coverage in order to improve the accuracy of Appendix 2.

Report on Internal Controls

The Service generally agrees with the draft report on internal controls and with the presentation of the Service's response to these findings. The Service would like to see the final report continue to use the same format as the draft, whereby the sections entitled, "FWS Response," are retained. However, the Service highlights below a few specific changes to the text of select responses to clarify the paraphrased response of the Service.

It should also be noted that both the OIG and the Service reached a jointly held understanding regarding the reporting of certain findings as material internal control weaknesses. As explicitly mentioned in the draft report, recommendations for reporting specified findings to the Department of the Interior as material internal control weaknesses will remain open to further consideration until September 30, 2001. The need to carefully consider which weaknesses to report as material control weaknesses in response to the Federal Managers' Financial Integrity Act (FMFIA) requirements, arises due to the different definitions of material weaknesses used in both the FMFIA and the financial statement audit processes and the different time periods for each process. The status of the corrective actions taken by the Service will be reviewed at the end of FY 2001 to determine whether the findings should be reported as material weaknesses under the FMFIA.

Undelivered Orders

The Service agrees with the finding and with the recommendations. To clarify the Service's response, the following revisions to the text are suggested:

- **OIG Finding** - First bullet: the last sentence should be revised to read: "(Subsequently, the FWS Finance Center researched the reconciling items in the Region's report and found there were substantially fewer reconciling items totaling less than \$3 million.)"
- **FWS Response** - The second paragraph should be revised to acknowledge that the Service has: (1) continued its comprehensive review of UDO discrepancies between the Federal Aid Information Management System (FAIMS) and the Service's financial system (FFS); (2) improved the monthly FAIMS/FFS reconciliation process; and (3) implemented a quarterly review process for UDO's that remain unchanged for a year.

To timely address remaining Federal Aid differences, the Service has taken the following actions:

- Staff from the Federal Aid headquarters and Regional offices conducted a workshop in March 2001 to reconcile remaining differences between FFS and FAIMS. During the workshop, nearly 200 differences between the systems were identified, all of which are differences that predate the revised interface and reconciliation processes implemented in FY 2000. Of the total, 90 percent of the discrepancies were reconciled at the workshop and the remaining 10 percent are currently being researched.
Target Date: June 30, 2001.
- Improved policies and procedures for timely reconciling and correcting monthly discrepancies between FAIMS and FFS were drafted at the workshop. The document identifies actions required to improved oversight of monthly reconciliations of the two systems, establishes monthly time lines for reconciliation, and assigns responsibility to appropriate officials.
Target Date: June 30, 2001.

Construction-in-Progress

The Service agrees with the finding and with the recommendations. Below are detailed actions being taken by the task force established specifically for addressing this finding:

- **Develop improved reconciliation procedures** - The Service is currently developing strengthened guidance for reconciling the Construction Work-in-Progress (WIP) account to internal property records. The guidance provides timeframes, definitions, duties and responsibilities.
Target Date: May 18, 2001

- Implement procedures for recording capital projects in the WIP account - The Service is investigating system changes to minimize recording expense transactions in the WIP account.
Target Date: June 30, 2001

Processes Used by Grantees to Document and Support Costs Incurred For Federal Aid Program Grants

The Service agrees with the finding and with the recommendations. Below are detailed actions taken or being planned to implement the recommendations:

- The Chief, Division of Federal Aid will prepare a policy for the Director's signature requiring recipients of Federal Aid multi-year grants to submit annual financial status reports (SF-269's) at the end of each grant year. (Recipients of single-year grants are already required to submit SF-269's within 90 days of the end of the grant year.)
Target Date: July 1, 2001.
- The Chief Division of Federal Aid, in consultation with the Division of Finance, will develop an accrual process for unbilled grant expenses based on an analysis of recipient spending patterns for various types of grants for use in accruing grant expenses at FY 2001 yearend.
Target Date: September 1, 2001.

Capitalized Equipment Reconciliation Procedures and Procedures for Recording Capitalized Equipment Transactions

The Service recognizes the need to improve the accuracy of the initial recording of capitalized equipment transactions and the procedures used to reconcile and correct errors in FFS and Service property systems. To establish revised Service policies and procedures, the Assistant Director-Business Management and Operations will establish a workgroup consisting of representatives from the Divisions of Contracting and General Services and Finance and Regional Property Officials to evaluate current processes and property systems. The workgroup will develop specific procedural guidance to be followed in identifying and correcting the causes of errors. The workgroup will evaluate existing property systems to determine if existing systems meet legal and functional requirements. If it is determined that existing systems cannot readily be modified to include additional common data elements and improved edits, the Service will consult with Departmental officials on the availability of replacement systems.

Target Date: December 30, 2001

Pending the completion of the workgroup's effort, the Service will:

- provide specific guidance to all Regional Offices on the importance of the correct use of budget object classes (BOC); and
 - direct that training be conducted by Regional Offices for both administrative and property officers and that this training emphasize the correct use of BOCs.
- Target Date: July 31, 2001.

Improved General Controls Over Automated Systems

The Service agrees with these findings and with the recommendations. Below is the Service's action plan to implement the three recommendations. These actions will be taken under the leadership of the Division of Information Resources Management on behalf of the Service.

- Assign appropriate individuals security responsibility at each of its installations - The Service will: prepare a compilation of each Service installation together with a documented assignment of security responsibility for each site; list the site and the person assigned responsibility, accompanied by a formal assignment of security responsibility to that individual based on an analysis of the appropriate nature of assigning such responsibility to the individual. The Service will secure Departmental waivers where needed.
Target Date: November 30, 2001
- Develop security plans for each general support system and major application - The Service will: identify all general support systems (GSS) and major applications; identify which GSS and major applications do not have security plans; work with owners and managers of GSS and major systems to review their security controls and training, and to correct weaknesses; and, work with system owners and managers to develop or update security plans.
Target Date: February 22, 2002
- Hold information resources personnel and other personnel accountable for developing and implementing adequate security over FWS' general support systems and major applications - The Service will develop a multi-year Management Control Review (MCR) review cycle for GSS and major applications in accordance with 270 FW 4, "IRM Reviews".
Target Date: November 30, 2001

Report on Compliance with Laws and Regulations

Accounting Standards Governing Stewardship Investments

The intent of the Statement of Federal Financial Accounting Standards 8 (SSFAS #8) for reporting Stewardship Investments is to identify funds provided by Federal agencies to grant recipients that are directed toward or result in maintaining or enhancing the national productive capacity. The Service's interpretation of this standard is that it does not report under this standard as none of the three target investment areas mentioned in SSFAS #8 – land purchases, research and development (R&D), and human capital (training) – apply to Service grant programs. The OIG agrees with the Service that SSFAS #8 does not apply to Service grants regarding two of the three target investments, that is R&D and training. The Service continues to believe that there is no basis to conclude that purchases of lands made with funds provided in part by Service grants for the expressed purposes of conservation contributes to maintaining or enhancing national economic productivity.

OMB Circular A-130 Governing Security for Automated Information Systems

The Service acknowledges that the recommended improvements to general controls are needed as discussed in the report on internal controls; however, the Service believes that it has otherwise substantially implemented the requirements of Transmittal 3 of OMB Circular A-130, which was applicable to FY 2000 operations. For your consideration, the Service has: assigned responsibility for security; issued Servicewide guidelines governing the acceptable use of Service IT systems; initiated risk assessment procedures to identify acceptable levels of risk for Service systems; provided security training opportunities for all employees; developed a basic incident response capability for security issues; instituted continuity of operations plans and contingency plans for Y2K initiatives; and, certified and accredited general support systems and major applications consistent with DOI guidelines.

Prior Audit Coverage

Appendix 2 describes the status of three prior audits. To improve the accuracy of Appendix 2, the Service requests the OIG consider the following updated information and changes for the three audit reports mentioned:

- Deferred Maintenance, FWS, Report No. 00-I-226 - In the response to the final report, the Service clarified its intended implementing action for the recommendation the OIG considered unresolved. In the OIG's May 18, 2000, memorandum to the Assistant Secretary for Policy, Management and Budget, the OIG considered all recommendations resolved and three recommendations implemented. Therefore, please delete the last three sentences and replace them with: "All recommendations are resolved, and three recommendations are implemented."
- Miscellaneous Receipts, FWS, Report No. 00-1-50 - Please add the following sentences: "The Office of the Solicitor, OIG, and FWS reached resolution in August 2000. FWS is taking action to implement the recommendations."
- 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, Report No. GAO/AIMD-00-84R - The Service disagrees that there are any unresolved or unimplemented recommendations from this audit. The Department's response to the U.S. General Accounting Office's (GAO) final presentation and briefing materials described our implementation of GAO's recommendation. The information we have regarding the Office of Financial Management's (PFM) tracking list indicates that PFM is not tracking any open recommendations from this audit. Please delete all references to this GAO audit report in your report.

The Service appreciates your considerations concerning our comments. If you have any questions or need more information, please contact the Assistant Director - Business Management and Operations directly by calling (202) 208- 4888.

STATUS OF AUDIT RECOMMENDATIONS

Finding/ Recommendation Reference	Status	Action Required
B.2 and G	Unresolved.	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 resolution.
A.1, A.2, A.3, A.4, B. 1, B.3, C.1, C.2, C.3, D.1, D.2, D.3, E.1, E.2, F.1, F.2, and F.3	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be forwarded to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. The target dates and titles of the officials responsible for implementation should be provided to the Office of Financial Management.