United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

December 23, 2003

Memorandum

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

From: Roger La Rouche Roger La Rouche
Assistant Inspector General for Audits

Subject: Management Issues Identified During the Audit of the U.S. Fish and Wildlife Service's Fiscal Year 2003 Financial Statements
(Report No. C-IN-FWS-0023-2004)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the U.S. Fish and Wildlife Service's (FWS) financial statements as of September 30, 2003 and for the year then ended. In conjunction with its audit, KPMG noted certain matters involving internal control and other operational matters that should be brought to management's attention. These matters, which are discussed in the attached letter, are in addition to those reported in KPMG's audit report on FWS's financial statements (Report No. C-IN-FWS-0078-2003) and do not constitute reportable conditions as defined by the American Institute of Certified Public Accountants.

The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. If you have any questions regarding KPMG's letter, please contact me at (202) 208-5512.

The legislation, as amended, creating the Office of Inspector General, (5 U.S.C.A. App. 3) requires semiannual reporting to Congress on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented. Therefore, this report will be included in our next semiannual report.

Attachment

cc: Assistant Secretary for Fish, Wildlife and Parks
Chief Financial Officer, U.S. Fish and Wildlife Service
Director, Office of Financial Management
Audit Liaison Officer, Fish, Wildlife and Parks
Audit Liaison Officer, U.S. Fish and Wildlife Service
Focus Leader for Management Control and Audit Followup,
Office of Financial Management

Suite 2700
707 Seventeenth Street
Denver, CO 80202

October 31, 2003

The Director of United States Fish and Wildlife Service and the
Inspector General of the U.S. Department of the Interior:

We have audited the financial statements of the U.S. Fish and Wildlife Service (the Service) for the year ended September 30, 2003, and have issued our report thereon dated October 31, 2003. In planning and performing our audit of the financial statements of the Service, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

Our consideration of internal control over financial reporting identified the following reportable conditions:

Reportable Condition That is Considered to be a Material Weakness

- Processes, controls, and financial reporting related to property, plant, and equipment

Other Reportable Conditions

- Controls and processes related to financial reporting
- Controls, processes, and allocations in the statement of net cost
- Application and general controls over financial management systems
- Reconciling transactions within the Service as well as with other Department of the Interior components
- Controls, processes, and financial reporting related to capital equipment

During our audit we noted other matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Financial Management Structure, Policies, and Oversight

The Service is a complex and decentralized organization in which many parties participate in accounting and financial reporting. The Division of Financial Management, under the Assistant Director for Business Management, is responsible for preparing the annual accountability report, which presents the financial statements, management's discussion and analysis, required supplementary stewardship information, and required supplementary information.

During our audit, we noted that the financial management environment of the Service is not operating as effectively and efficiently as necessary to fully support the Service's mission. Also, the Chief Financial Officer (CFO) and the Division of Financial Management (DOFM) have some difficulty in obtaining certain information necessary to prepare accurate and complete financial statements in a timely manner. In addition, there is a misunderstanding within the Service as to who is ultimately responsible for financial reporting. Specifically, we noted the following:

- *Leadership structure* – The CFO and his staff appear to have some difficulty in providing an effective level of oversight in planning, prioritizing, and executing certain financial management practices within the Service.
- *Service policies* – Service policies may not be sufficient to allow regions and programs to execute accounting transactions and provide necessary information to the DOFM for financial reporting.
- *Accounting infrastructure* – Certain critical accounting functions are being performed outside the direct oversight and direct knowledge of the CFO, including certain environmental liability analysis, statement of net cost allocations, processing of receipts and payments, and tracking and recording of real property and capital equipment.
- *Financial management oversight in field offices* – Field accounting personnel report to the regional directors and often perform a variety of additional non-accounting duties creating priority conflicts.

Given the decentralized control environment that the Service has adopted to support its mission and objectives, Service senior management must ensure that all personnel, including program personnel, who perform accounting functions fully comply with OMB Circular No. A-123, *Management Accountability and Control*. OMB Circular A-123 states that "management controls are the organization, policies, and procedures used by agencies to reasonably ensure that…reliable and timely information is obtained, maintained, reported and used for decision making." Furthermore, "Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective management controls."

The Service does not have adequate communication amongst regions and programs and the CFO and DOFM regarding the roles, responsibilities, and authority for accounting and financial reporting. Also, Service policies may not be sufficient to allow regions and programs to execute accounting transactions and provide necessary information to the DOFM for financial reporting. As a result, the CFO does not have the authority to compel program personnel to comply with financial management practices, and provide financial information needed to prepare financial statements in a timely, accurate, and complete manner. Consequently, instructions and prioritization of responsibilities must be issued by the Director's office.

Recommendations

The Service should reevaluate its accounting and financial reporting resources and organizational structure to ensure that information is available to prepare accurate and complete financial statements in a timely manner and that personnel are accountable for financial reporting. This evaluation should do the following:

- Clearly define the role, responsibility, and authority of the DOFM, including the CFO, with regard to accounting and financial reporting.
- Ensure accountability within the Service for accounting and financial reporting.

- Update and communicate accounting and financial reporting policies to provide sufficient information to regions and programs as to responsibilities and timelines for accounting and financial reporting that allow for appropriate review by the CFO and DOFM.
- Provide training to program officials regarding accounting and financial reporting.
- Improve and enforce controls to ensure that accounting information processed by the regions and field offices is complete, accurate, timely and in accordance with the Service's policy.
- Establish a prioritization management process within the Service for decision-making and resource allocation purposes. This prioritization management process would assist the Director, Deputy Director, Regional Directors, and Assistant Directors in determining, assessing, and monitoring the implementation of the Director's mission goals and objectives in a more efficient and effective manner.

Management Response

Partially agree. The Service continues to improve financial management practices each year. In fact, within the Department, the Service is a leader in the daily execution of many financial management responsibilities. However, the CFO and senior management officials realize that financial management improvements are an evolving process with incremental gains each year. This evolving process is not just within the Fish and Wildlife Service or the Department of the Interior, it is government-wide. We feel within the Service that these incremental improvements will eventually lead to a cohesive financial management system, under the umbrella of the Department of the Interior. As KPMG has indicated, the Service is a highly complex organization with more than 700 field organizations and eight Regional Offices. In addition, the average staff size of Service field entities is approximately six employees. In almost all cases, these employees do not have a financial background. They were hired based on their education and experience in natural resource programs. Therefore, financial management and internal control activities are only one of many priorities that field managers must routinely address.

In mid-fiscal year 2003 (this year's audit), as a part of the Service's ongoing efforts to improve financial management activities and communications, the position of Regional Chief Financial Officer (RCFO) was established for each Regional Office. As a result, the Service's Regional components have become accountable and increasingly aware of the critical nature of financial management in their daily routines and many organizations are now balancing the financial management needs of the Service with other pressing mission critical priorities. Again, it should be noted that this "balancing" is an evolutionary process, with the expectation of incremental progress. Since the RCFOs have only been in existence for less than a year, Regional field entities are realizing that their RCFOs are becoming the focal point for financial matters within each Region. The RCFOs report directly to the Regional Director's Office through their Deputy Regional Director. This reporting relationship also allows for improved communications and sharing of critical information between the Director, Deputy Director, and the Service's Chief Financial Officer on financial matters since the Director has line authority over the Regional Directors and the Service's Chief Financial Officer.

In fiscal year 2004, as a result of the lessons learned from the preceding three years of KPMG audits, the Service is leading many financial management improvement actions in the areas of Property, Plant, and Equipment, EDP Control improvements, eliminations, and FFMIA system requirements and accounting standards. These critical improvement actions will result in a reduced number of audit findings and allow the Service managers to focus attention on mission-related functions rather than taking corrective actions as a result of audit findings.

Grants

Code of Federal Regulations (43 CFR), *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, Part 12.81(b) requires grantees to submit Financial Status Reports, including the Standard Form (SF) 269 to report the status of funds for all nonconstruction grants and for construction grants. The Code states that the Federal agency may prescribe the frequency of the report for each project or program; however, the report will not be required more frequently than quarterly. If the Federal agency does not specify the frequency of the report, it should be submitted annually. A final report is required upon expiration or termination of grant support.

The Code also states that when reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of the grant.

In fiscal year 2003, the Service issued questions and answers regarding reports that stated that:

> "The Regional Director will not approve any subsequent grants or amendments submitted by the grantee for the grant program in which the report(s) is overdue until the delinquent report(s) has been received or an extension request has been approved. The effective date for such grants and amendments held pending compliance with reporting requirements will be the date the delinquent report(s) is received by the Division or the date an extension request is approved. Incomplete or inaccurate reports will not be accepted as being compliant with reporting requirements. When imposed, this penalty shall become effective on the day after the original due date.
>
> The Regional Director shall stop all payments to the grantee for the grant program in which the report(s) is overdue until the delinquent report(s) has been received or extension request has been approved. In addition, the Regional Director will not approve any subsequent grants or amendments submitted by the grantee for the grant program in which the report(s) is overdue until the delinquent report(s) has been received by the Division or the date an extension request is approved. The effective date for such grants and amendments held pending compliance with reporting requirements will be the date the delinquent report(s) is received by the Division or the date an extension request is approved. Incomplete or inaccurate reports will not be accepted as being compliant with reporting requirements. When imposed, this penalty shall become effective on day 181 after the 12-month grant agreement anniversary date or the grant agreement ending date."

During our test work, we noted that the Service did not receive SF-269 Financial Status Reports in a timely manner. We noted five instances in our sample of 30 items in which the states did not request filing extensions and submitted the SF-269s past the 90-day timeframe. The Service continued to make payments on these grants without the required SF-269. We also noted one instance in which the Service could not locate the SF-269 and had to request the document from the state.

While the Division of Federal Aid has made efforts to request reports from states after they become delinquent, it has not performed sufficient monitoring to ensure states submit required SF-269 Financial Status Reports in a timely manner. SF-269 Financial Status Reports are used to properly record grant expenses in the Federal Aid Information Management System (FAIMS) and to help ensure expenses are recorded in the proper accounting period. Receipt of SF-269s also triggers deobligation of funds at the close of grants. Failure to receive reports in a timely manner could result in a misstatement of the Service's financial statements.

Recommendation

The Division of Federal Aid should implement its policy regarding financial status reporting requirements related to grants to ensure that SF-269 reports are obtained and entered into FAIMS in a timely manner.

Management Response

Agree. The Federal Assistance Program has made significant progress in securing timely financial status reports from grantees. In May 2003, the Director issued guidance to State Fish and Wildlife agencies to inform them of their reporting requirements and to outline actions the Service may take to resolve delinquent reports. The Service is working with the States in implementing this new policy and is developing new tools that may be used by the Service and grantees to improve performance and results. In July 2003, the Service introduced a new monitoring tool in FAIMS that will tell grantees in advance when reports are due. This report is available on the Internet and identifies a due date for all reports. Several sections of this report flag reports due in 30 days or less; due in 31 to 60 days; due in 61 to 90 days; and due in 91 days or more. In the past, FAIMS reports only identified delinquent reports which were past due. This new tool, used in combination with other monitoring tools that already exist in FAIMS, enhances the capability of the Service to monitor the status of grant reports on a regular basis and to work with individual grantees prior to reporting deadlines to ensure their compliance.

Investment in Non-Federal Physical Property

Region 4 reported obligations as opposed to expenditures for investment in nonfederal physical property. Nonfederal physical property results from grants provided for properties financed by the Federal government, but owned by the state and local governments. Region four had several persons involved in reporting stewardship information and in response to auditor inquiries had difficulty determining the source of figures reported in the annual report. It does not appear that the instructions from the Washington office were clearly understood and implemented. We did not note this issue in other regions.

Recommendation

The Division of Federal Aid should ensure instructions for reporting stewardship investments are clearly communicated and implemented. Specifically, Region 4 should ensure these instructions are accurately implemented and that appropriate personnel are in place to report such information to the Washington office.

Management Response

Agree. The Division of Federal aid has followed-up and corrected the finding. The Washington Office will provide updated guidance to all regions. Additional training and monitoring will be provided for Region 4.

Credit Card Transactions

The Service has provided government-wide purchasing cards in order to streamline acquisition and payment procedures and reduce the administrative burden associated with traditional and emergency purchasing of supplies and services. In conjunction with the issuance of these cards, the Service published guidance and instructions on the card's utilization through 301 FW6: Purchase Cards. This policy sets forth restrictions on the use of the cards as well as certain internal control procedures such as timely and complete reconciliation of billing statements by cardholders and approving officials or supervisors. This prescribed reconciliation process is as follows:

- At the end of each monthly billing cycle, the cardholder is responsible for reconciling the information on his/her statement of account. The cardholder should:
  - Enter the appropriate accounting classification in the accounting code block.
  - Provide a description for each purchase.
  - Sign the statement, indicate the date the statement was received, and attach all supporting documentation.
  - Complete Form 3-181 and forward the package to the approving official within three working days of receipt.
- After ensuring that cost structures are identified for all items acquired, the approving official will review, certify, and sign the reverse side of each cardholder's monthly statement of account.

We tested a sample of 45 cardholders for completion of timely reconciliations of monthly credit card statements as well as whether or not receipts supported individual purchases for Service business. Our test work revealed the following exceptions:

- Five instances in which the credit card statements could not be provided by the cardholder
- Seven instances in which the credit card statements were not reviewed and signed by the cardholder
- Five instances in which the credit card statements were not reviewed and signed by the supervisor
- Seventeen instances in which the credit card statement reviews were not performed timely within five days of receipt of the statement or not dated
- Two instances in which receipts were missing for purchases

- One instance in which the receipt amount did not agree to the credit card statement

However, we noted no purchases that were unallowable or for non-Service business.

Purchasing cards have fewer inherent controls than normal purchasing mechanisms, and the completion of reviews is in part dependent on the cardholder. Failure to comply with credit card policies can create an environment left open for abuse or unauthorized use of the Service's funds.

The Service has an audit function in which cardholders are randomly selected for detailed reviews on a monthly basis. However, we noted inconsistent audit guidelines. For example:

- Four regions randomly select cardholders, while one region reviews 100% of cardholders each month and one other region reviews only exception reports from the EAGLS system.
- Three regions randomly select 3% of cardholders for audit, one region selects 5%, and another region selects 9%.
- All regions review delinquency reports, ATM transactions, and airline and rental car charges.
- Three regions review purchases over $2,500 for those cardholders with warrant authority.

Recommendations

The Service should:

- Continue to communicate with cardholders and approving officials as to their responsibilities under the purchasing card program, including reconciliation requirements;
- Issue violation warnings to cardholders and approving officials for exceptions identified in this and other audits and use administrative procedures to enforce the credit card policies; and,
- Consider developing consistent audit guidelines for use by all regions.

Management Response

Partially agree. To mitigate inherent risks in the credit card program, the Service designed a series of layered compensating controls which are in addition to those required by Departmental policies. The focus of Service controls is to limit risks to the Government by preventing and detecting waste, fraud, and abuse, taking appropriate actions when waste, fraud, or abuse occur and ensuring employees pay credit card bills promptly. Ensuring compliance with Departmental policy is an objective of the Service's control system, but it is outweighed by the Service's focus on results.

The Service has active coordinators and managers overseeing the program, and providing support to cardholders and their reviewing officials. Initiatives used to support Service cardholders and reviewing/approving officials include:

- Requirement for the issuance of purchase orders for all transactions exceeding the micro-purchase threshold
- A national website for purchase cardholders and administrative officials with Service policies and procedures

- Administrative conferences conducted by Regions to address proper use of the charge card
- Mandatory training at the National Conservation Training Center for contracting officers on purchase cards
- Information and educational materials for supervisors and cardholders including brochures and a wallet-sized checklist of do's and don'ts
- Online purchase card refresher training
- Workshops for supervisors and managers
- E-mail announcements to administrative officials alerting them to purchase card issues

The Service will consider a more standard approach to the sampling conducted by Regions.

Acceptance Dates

The Service's methodology for estimating general accounts payable as of September 30, 2003 is based on data in the Federal Financial System (FFS), specifically keyed off the acceptance date or "date received." This date should reflect the date on which payment becomes due on goods or services received by the Service. If the acceptance date is incorrect, the Service's estimate for general accounts payable may be misstated.

Our test work over 90 disbursements made in fiscal years 2001, 2002 and 2003 revealed the following:

- Twenty instances of invoices where the acceptance date recorded on the invoice was not the date on which payment becomes due on goods or services received by the Service.
- Seven instances where the date entered into FFS did not correspond to the acceptance date recorded on the invoice.
- Five instances where no stamp was placed on the invoice or the stamp containing the "goods/services received" date was not completed.
- One invoice where the acceptance date was a range of dates.

During our audit, the Service had not issued consistent guidance to regions and field personnel regarding coding acceptance dates. In September 2003, the Service issued guidance on acceptance dates.

Recommendation

The Service should implement its guidance on acceptance dates to ensure consistent and accurate data is input into FFS. The Service should also implement periodic audits of acceptance dates to support the accounts payable estimation methodology.

Management Response

Agree. The Division of Financial Management has prepared a desktop guide providing detailed definitions of acceptance date and other dates to be entered into FFS for goods and services obtained by the Service. The Service also plans to sample transactions to determine whether their acceptance dates are correct as part of the accounts payable estimation process.

Land Records System

The Division of Realty is responsible for acquiring Service land and maintaining records, including acquisition cost and acreage, in its Land Records System (LRS), a subsystem of the Real Property Management Information System (RPMIS). LRS is used to generate the annual Land Report at year-end. This report is used to adjust the land account on the balance sheet and report stewardship acreage in the Required Supplementary Stewardship Information (RSSI) section of the Service's annual report.

Our test work over 45 stewardship land samples revealed two instances of data entry errors in which acreage and/or cost was not entered correctly in LRS as follows:

- Transaction # 1013533006A, nine acres and $12,300
- Transaction # 4013522184A, seven acres

The Service does not have adequate controls in place to ensure data entered into LRS is accurate and complete. Specifically, management review was not in place over the LRS or the stewardship land report to detect errors. As a result, RSSI and land may be misstated.

Recommendation

The Service should ensure adequate controls are in place to record data in LRS accurately and completely.

Management Response

Agree. The Service will review its current controls and make necessary changes to improve the quality of data entered into LRS.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Service's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended for the information and use of Service management, Department of the Interior's management, Department of the Interior's Office of Inspector General, Office of Management and Budget, the General Accounting Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP