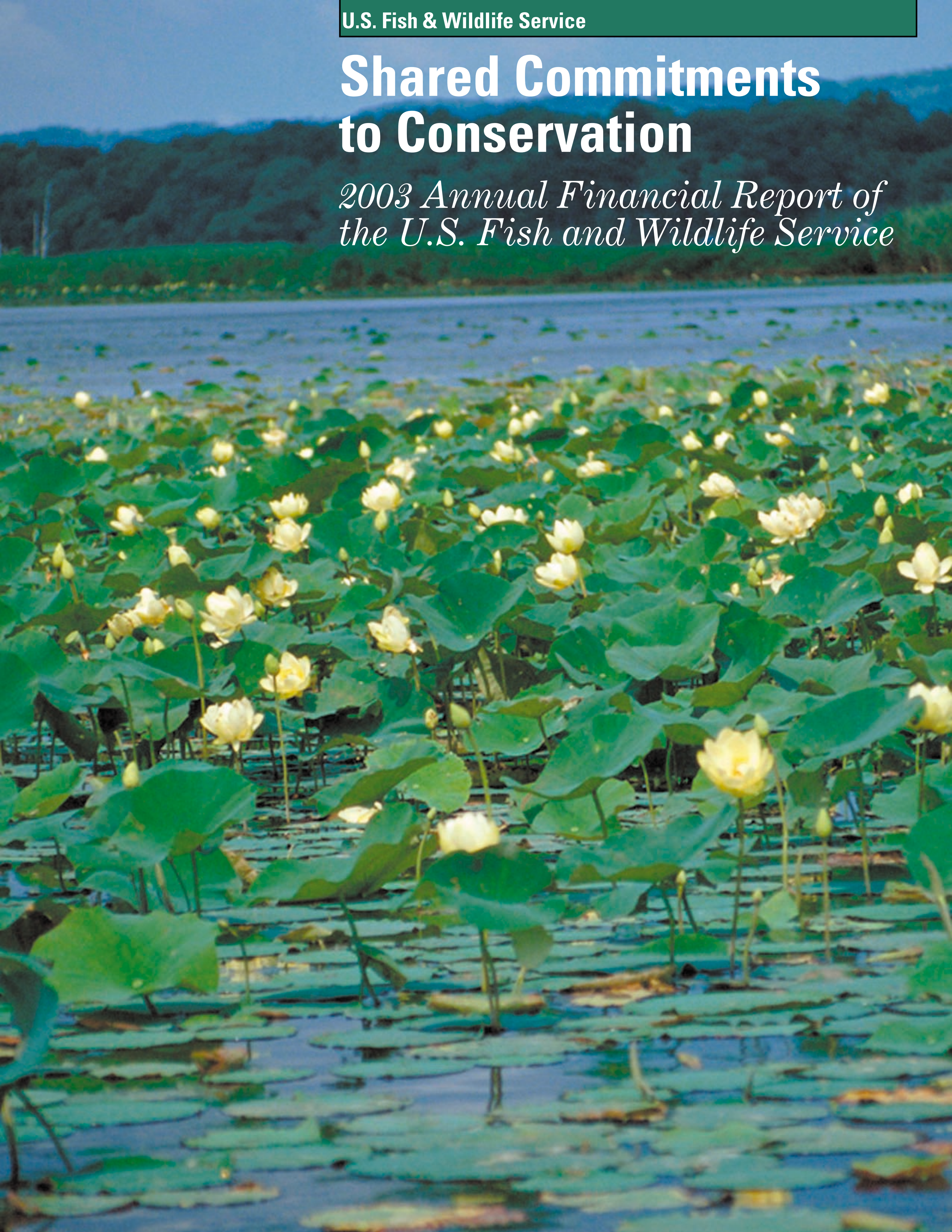
U.S. Fish & Wildlife Service

Shared Commitments to Conservation

2003 Annual Financial Report of the U.S. Fish and Wildlife Service




Front Cover Photo Credit: Upper Mississippi River NWFR, Iowa/USFWS

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The United States Fish and Wildlife Service

Mission and Organization

As an asset of tremendous environmental, recreational, and economic importance, this Nation's fish and wildlife resources represent a vital part of our natural heritage - one that is facing increasing pressures every day. For this reason, the mission of the U.S. Fish and Wildlife Service (Service) grows more complex and critical every day. As the Service continues to look for new and better ways to conserve, protect, and enhance fish and wildlife and their habitat, its major responsibilities remain focused on migratory birds, endangered species, certain marine mammals, and freshwater and anadromous fish.

Mission

The Service's mission is working with others to conserve, protect, and enhance fish, wildlife, and plants and their habitats for the continuing benefit of the American people

Communities and people throughout the United States have a strong commitment to fish and wildlife resources today. Many communities realize tremendous economic benefits from tourism and visitors that come specifically to enjoy watching and pursuing fish and wildlife. Hunting and fishing remain strong components of community culture all along the great river systems of the Nation. Americans value and respect their natural resource heritage.

The Service has the privilege of being the primary agency responsible for the protection, conservation, and renewal of these resources for this and future generations. We accept this responsibility and challenge with optimism and resolve to pass along to future generations of stewards a fish and wildlife resource heritage that is as strong or stronger than when it was entrusted to us.

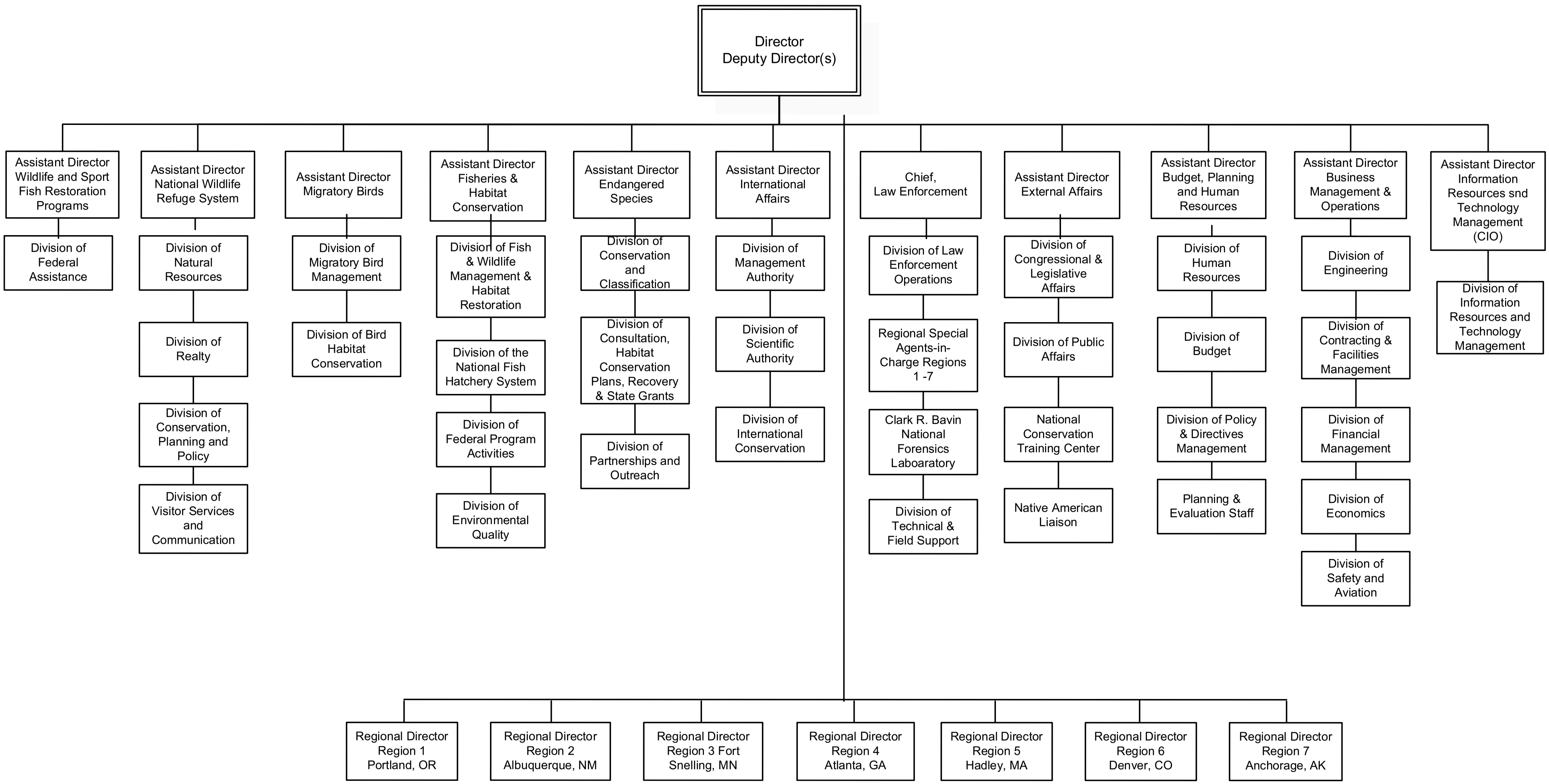
The Service employs approximately 8,000 personnel and is supported by a volunteer force of approximately 36,000 citizens. Although the Service is headquartered in Washington, D.C., over 80 percent of the workforce is located in local communities across the Nation at over 700 field stations supported by seven regional offices. As a result of our community level of involvement, the majority of Service employees has routine contact with the public.

Organization

As shown in the accompanying organization chart, the Directorate of the Service is comprised of the Director, two Deputy Directors, ten Assistant Directors, and one Chief of Law Enforcement, all located in Washington, D.C., and seven Regional Directors, located throughout the United States. Service headquarters is located in Washington, D.C. and Arlington, Virginia, with field units in Denver, Colorado, and Shepherdstown, West Virginia. Regional Offices are located throughout the United States. Region 1, located in Portland, Oregon, serves California, Hawaii, Idaho, Nevada, Oregon, and Washington, as well as the Trust Territories of the Pacific. Region 2, located in Albuquerque, New Mexico, serves Arizona, New Mexico, Oklahoma and Texas. Region 3, located in Minneapolis, Minnesota, serves Indiana, Illinois, Iowa, Michigan, Minnesota, Missouri, Ohio, and Wisconsin. Region 4, located in Atlanta, Georgia, serves Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee, as well as Puerto Rico and the Virgin Islands. Region 5, located in Hadley, Massachusetts, serves Connecticut, Delaware, Maine, Massachusetts, Maryland, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Virginia, Vermont, and West Virginia, and the District of Columbia. Region 6, located in Denver, Colorado, serves Kansas, Montana, North Dakota, South Dakota, Nebraska, Colorado, Utah and Wyoming. Region 7, located in Anchorage, Alaska serves the entire state of Alaska.

In the Department of the Interior, the Service's Director reports to the Assistant Secretary for Fish and Wildlife and Parks and has direct line authority over staff at Service headquarters and the seven regional offices. Assistant Directors provide policy, program management and administrative support to the Director. Regional Directors guide policy and program implementation through their field structures and coordinate activities with Service partners.

United States Fish and Wildlife Service Organization



Craig Koppie/USFWS

Management's Discussion and Analysis

Strategic Goals & Performance

Four mission goals drive the Service's Strategic Plan and support its core mission:

- Mission Goal 1, Sustainability of Fish and Wildlife Populations;
- Mission Goal 2, Habitat Conservation: a Network of Lands and Waters;
- Mission Goal 3, Public Use and Enjoyment;
- Mission Goal 4, Partnerships in Natural Resources.

The alignment of the Service's programs and activities to these four mission goals represents a new approach to improve the integration, coordination, and management of Service mission delivery.

Under Mission Goal 1, Strategic Goal 1.2 entitled, "Imperiled Species," the Service set a goal in FY 2003 to stabilize or improve 40 percent or 320 of 792 threatened or endangered species populations listed for a decade or more. Also, the Service planned to delist 4 species (including the Columbia white-tailed deer) due to recovery under the Endangered Species Act (ESA) and targeted 4 species at risk for which listing could be precluded due to conservation agreements. Final analyses for species anticipated for delisting in FY 2004 and 2005 are being examined to reach our cumulative target for FY 2006. As of September 30, 2003, the Service achieved the following results (FY 2002 goals and results are provided for comparison purposes):

Annual Performance Measures	2003 Plan	2003 Results	2002 Plan	2002 Results
# of species stable or improving	320	332	347	320
# of species delisted due to recovery	4	2	3	1
# species at risk for which listing is made unnecessary	4	3	3	3

Achievement of this mission goal is largely dependent on the contributions of our partners, and is also dependent on the success of other environmental protection efforts and natural fluctuations in environmental conditions affecting the status of listed species. Service resources are increasingly being directed toward the greatest recovery challenges. For example, the increasing frequency and severity of water shortages due to development and/or drought pose especially difficult challenges for stabilization of many aquatic species. In addition, providing for greater stakeholder involvement in the recovery planning process has required additional resources and time.

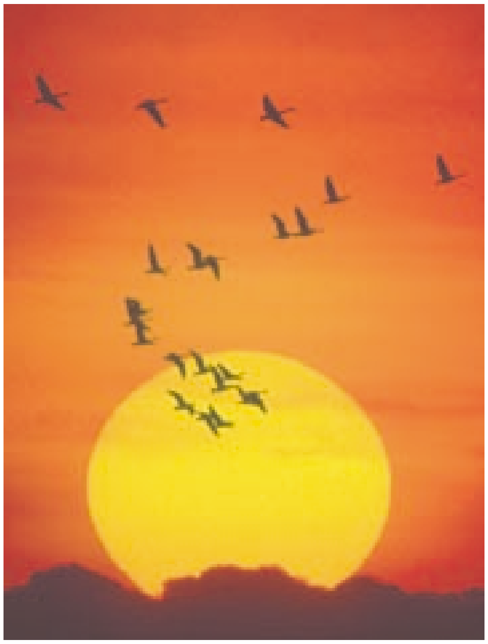
Under Mission Goal 2, Strategic Goal 2.1 entitled, "Habitat Conservation on Service Lands," the Service set two targets in FY 2003 to meet the identified habitat needs of Service lands. The first target was to ensure that 3,581,891 acres in the National Wildlife Refuge System (NWRS) were managed and enhanced. The second target was to restore 98,398 acres in the NWRS. Both of these targets were exceeded. As of September 30, 2003, the Service achieved the following results (FY 2002 goals and results are provided for comparison purposes):

Annual Performance Measures	2003 Plan	2003 Results	2002 Plan	2002 Results
# of acres annually managed/enhanced	3,581,891	3,755,818	3,256,000	3,460,765
# of acres of restored refuge habitat	93,898	114,302	191,326	79,987

Mission Goal 3 recognizes the public benefit that Americans enjoy from experiencing fish, wildlife and their habitat. Under strategic goal 3.2 entitled, "Opportunities for Participating in Conservation on Service Lands," the Service set two performance targets. The first was a long-term target to restore the number of volunteer participation hours to 1997 levels (1,335,738 hours). An interim objective of 1,295,115 hours was established for FY 2003. The second target was to foster 19 new friends groups. The Service was able to exceed both of these goals. As of September 30, 2003, the Service achieved the following results (FY 2002 goals and results are provided for comparison purposes):

Annual Performance Measures	2003 Plan	2003 Results	2002 Plan	2002 Results
# of volunteer participation hours	1,295,115	1,595,229	1,359,995	1,298,445
# of new friends groups	19	20	107	113

Tim McCabe/USFWS



Geese, Upper Midwest

Tracy Brooks/USFWS

Gray Wolf

State and Territorial agencies are integral to the successful conservation of fish and wildlife resources. Grant programs assisting States and Territories provide effective delivery and tracking of grants. Under Mission Goal 4, and Strategic Goal 4.3 entitled, "Sport Fish and Wildlife Restoration Grants Management," the Service set three targets to improve grant management: (1) 46% of draft audit reports due are delivered to States within 60 days of completion of the audit, (2) 54% of Corrective Action Plans (CAP) are written within 120 days of completion of the audit, (3) 70% resolution of audit findings are completed within 180 days of issuing the CAP.

In FY 2003, 13 of 29 (45%) draft audit reports due to States within 60 days of completion of the audit were completed. Also 13 of 22 (59%) Corrective Action Plans were established within 120 days of audit completion. Finally, 29% of audit findings were resolved within 180 days of the issuance of a CAP. Most of the audit resolution delays beyond 180 days resulted from negotiated agreements with States to extend the deadlines for corrective actions. (These are newly established goals, and there are no comparative measures available for FY 2002.)

Data Verification and Validation

The Service is committed to ensuring that those who use the Service's reported performance information to make decisions can do so with the confidence that the data is reliable and valid. Over the last few years, the Service has made progress in developing essential processes to support data verification methods used by the four major program areas in determining data quality. In that regard, the Service has standardized data definitions, identified data sources, and determined data reliability and validity for all goals and measures.

Data Validity

The goals directly measure the results that the organization hopes to achieve in the delivery of the core components of the mission. Data collected is relevant and presents an accurate picture of the performance of the organization toward achieving the goals. Performance data for goals are obtained by existing data collection processes and are supported by program information management systems. To a large degree, the Service must rely on the quality assurance/quality controls in place at the primary data source to ensure data accuracy.

Management Controls and Legal Compliance

The Service is dedicated to maintaining the integrity and accountability in all programs and operations. Management assesses its systems of management, administrative and financial controls to ensure that:

- programs achieve their intended results;
- resources are used consistent with the Service's mission;
- resources are protected from waste, fraud and mismanagement;
- laws and regulations are followed; and,
- reliable and timely information is maintained, reported, and used for decision-making.

The Service assesses the adequacy of its management controls through continuous monitoring and periodic evaluations, consistent with Office of Management and Budget Circular A-123 and the Federal Managers' Financial Integrity Act. Each year, the Service identifies specific management control assessments planned for the fiscal year. The results from these internal reviews as well as results in certain final audit reports issued primarily by the Office of Inspector General and the U.S. General Accounting Office are considered in the development of the Service's annual assurance statement on management controls. The statement also considers information obtained from the knowledge and experience management has gained from the daily operation of programs and systems of accounting and administrative controls. The statement informs the Department of the effectiveness of the Service's management controls, and includes information about any pending and new Service-only material weaknesses and corrective actions.

In FY 2003, management control reviews were conducted in administrative, program, and information technology areas. No material control weaknesses were identified. Corrective actions for the non-material control weaknesses are monitored until completion.

Financial Highlights

The Service's Sport Fish Restoration Account (SFRA) makes grants available to States to restore, conserve, manage, protect, and enhance sport fish resources and coastal wetlands, and also to enhance public use and benefits from sport fish resources. The source of funding for the SFRA is the Aquatic Resources Trust Fund (ARTF), which receives revenues through excise taxes levied on the sale of fishing tackle and equipment, and certain motorboat and small engine gasoline, and interest earned on invested trust funds. In addition to the SFRA, the ARTF funds the Boating Safety Account, which provides funding for boating safety programs conducted by the U.S. Coast Guard, and also coastal wetlands initiatives conducted by the Corps of Engineers. Title 26 of the U.S. Code, Section 9602 designates the Department of the Treasury as manager of the ARTF, with overall responsibility for the fund's accounting and investment activities. The ARTF is presented in the Service's financial statements in accordance with the requirements of Statement of Federal Financial Accounting Standards Number 7, Accounting for Revenue and Other Financing Sources, and also Statement of Federal Financial Accounting Concepts Number 2, Entity and Display, which requires trust funds that finance multiple programs to be reported by the entity with the preponderance of fund activity.

Service Financial Performance
In FY 2003, the Service continued to improve the quality and timeliness of its financial information. Through enhancements to reporting processes and the expanded use of web-based technology, the Service is processing payments more efficiently and has improved its rate of compliance with Departmental and Federal payment processing requirements. The Service's challenge remains to process, in a more timely and efficient manner, financial information received from over 700 field offices.

Improving Financial Transaction Processes and Results
In FY 2003, the Service continued to improve its transaction processing performance levels. The Service maintained an accounts receivable delinquency rate far below the Federal Government average. Less than one percent of our open accounts were delinquent as of the end of FY 2003, compared with the Federal Government average of approximately six percent. The Service also had a delinquency balance of one percent at the end of FY 2002.

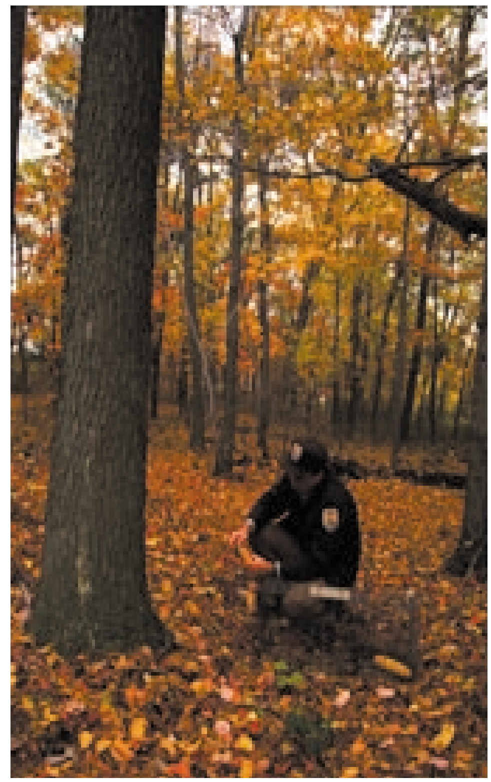
The Service paid its vendors on time 98 percent of the time, paying only $34,463 in late payment penalties during FY 2003. This represents a significant improvement over FY 2002 when the Service paid $56,081 in late payment penalties.

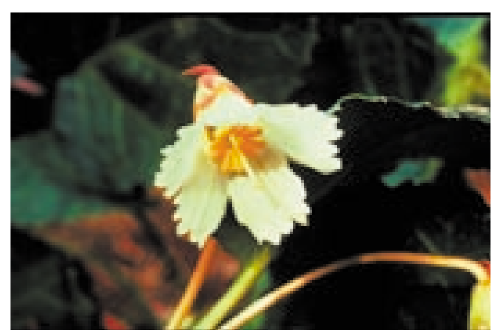
Similar progress was made in the Service's efforts to disburse funds through electronic funds transfer (EFT). In FY 2003, 95 percent of the Service's payments were accomplished through EFT. This continues the improvement trend over recent years. In FY 2002 the Service achieved an 88.7 percent EFT payment rate, and in FY 2001 it had an 84.2 percent rate.

Improving Cost Recovery and Practices
General Operations is the budgetary designation for the Service's national and regional executive management offices, administrative support functions, and key fixed operating costs. When the Service enters into reimbursable agreements with other Federal, State and private entities, it is required to charge its customers and partners amounts to offset an appropriate share of these operating costs. To improve the recovery of General Operations costs from reimbursable work, the Service overhauled its national "cost recovery" policy, restructured its indirect cost rate structure and eliminated policy provisions that allowed indirect cost recovery to be waived by the Regional Directorate. These changes have resulted in a significant increase in the total amount of costs recovered for General Operations as well as a notable decrease in the number of reimbursable agreements exempted from indirect cost recovery. In FY 2003, approximately $9.2 million was recovered, down slightly from the $9.4 million recovered in FY 2002. In both years the cost recovery amounts were well above the levels achieved prior to the policy change. For FY 2001 and 2000 , recovery amounts were $7.3 and $5.9 million respectively.

Improving the Accuracy and Timeliness of Financial Information
The President's Management Agenda, Government Wide Initiatives, Improved Financial Performance section, challenges agencies to provide accurate and timely financial information. During FY 2003, the Service implemented several new policies and processes designed to improve the accuracy and timeliness of its financial reporting and information. The Service received a qualified opinion on its FY 2002 annual financial statements due to inadequate documentation of its property records. In response, during FY 2003 the Service validated the existence of over 40,000 Service-owned assets. The Service's real property file was further reviewed to determine correct accounting categories, and appropriate documentation was obtained to support accounting treatment for the records. The Service also implemented a comprehensive accounting policy for


Glen Rathbun/USFWS
West Indian Manatee, Florida


Hollingsworth/USFWS
Lacassine NWR, Louisiana


J.D. Pittillo/USFWS
Oceonee Bells

USFWS Photo

Alaska Salmon

David Hall/USFWS

Snowy Egret

Gary M. Stolz/USFWS

Butterfly on Thistle

its property, plant and equipment and its stewardship assets.

The Service improved its personal property system by automating depreciation calculations based on appropriate useful lives and acquisition dates.

Under Office of Management and Budget (OMB) guidance, the Service implemented a policy that requires Service offices to use the Dun and Bradstreet Universal Numbering system (DUNS) to identify Federal vendors. The policy addresses a Federal government-wide weakness in reconciling business transactions between Federal agencies, and also facilitates the collection of delinquent vendor payments.

The Service established a web-based data query tool that provides easier access to timely information from the Service's accounting system. Program managers and analysts are now able to query and obtain up-to-date information electronically from the system on a daily basis.

As part of the President's Management Agenda and under OMB guidance, the Service instituted quarterly financial statements and an accelerated reporting schedule.

Limitations of the Financial Statements

The Principal Financial Statements have been prepared to report the financial position and results of operations of the Service, pursuant to the requirements of 31.U.S.C. 3515(b). The statements have been prepared from the books and records of the Service in accordance with prescribed formats. The statements are different from the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The financial statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity, and that liabilities reported in the financial statements cannot be liquidated without legislation providing resources to do so.

Analysis of Financial Statements

The Service produces audited annual financial statements that summarize its financial activity and financial position. The Principal Financial Statements include: (1) Consolidated Balance Sheet; (2) Consolidated Statement of Net Cost; (3) Consolidated Statement of Changes in Net Position; (4) Combined Statement of Budgetary Resources; and (5) Consolidated Statement of Financing. The notes accompanying the financial statements provide additional detail and context concerning the information presented in the financial statements.

Budgetary Resources

The Service obtains most of its funding from enacted appropriations. In FY 2003, the Service's appropriations budget was approximately $2.09 billion, which includes an $8.5 million rescission. The total budgetary resources available for use in FY 2003 are approximately $2.84 billion. This includes budget authority, unobligated balances as of the beginning of the year, net transfers of budget authority, spending authority from offsetting collections, and a $49.9 million rescission of balances. In FY 2002, the Service's appropriations budget and total available budgetary resources were $2.0 billion and $2.7 billion, respectively.

Earned Revenue

In addition to budgetary appropriations, the Service obtains funding to support its programs from reimbursable agreements, where the Service receives compensation for services it provides to other Federal agencies and public entities. The Service also earns revenues from fees and collections relating to its various programs. In FY 2003, the Service recognized over $173 million in earned revenues, compared with $158 million in FY 2002.

Expenses

The Service's cost of operations before earned revenue in FY 2003 was approximately $2.2 billion, compared with $1.9 billion in FY 2002. This represents an increase of almost 14% and reflects the Service's increased funding for FY 2003. Table 1 is an analysis of expenses by Service Mission Goal. The large FY 2003 increase in the reported cost of operations relating to Mission Goal 4, Partnerships in Natural Resources, is

Table 1 (dollars in thousands)

Service Mission Goal	Amount of FY 2003 Expenses	Percentage of FY 2003 Expenses	Amount of FY 2002 Expenses, As Restated	Percentage of FY 2002 Expenses
Sustainability of Fish and Wildlife Populations	$ 652,969	29.9%	$ 609,640	31.7%
Habitat Conservation: A Network of Lands and Water	784,387	36.0%	899,294	46.7%
Public Use and Enjoyment	183,560	8.4%	175,392	9.1%
Partnerships in Natural Resources	560,148	25.7%	241,719	12.6%
Total	$ 2,181,064	100.0%	$ 1,926,045	100.0%

largely due to a decision by the Service to strategically realign costs associated with the Service's Federal Assistance and other grant programs to that mission goal. The realignment more accurately reflects the Service's commitment to supporting and strengthening partnerships with Tribal Governments, states, local governments and others in their efforts to conserve and enjoy fish, wildlife, plants and habitats.

Assets
The largest portion of reported assets, approximately 46%, is Treasury securities held by the Service representing invested amounts from the Federal Aid in Wildlife Restoration Fund (approximately $453 million), and the Aquatic Resources Trust Fund (approximately $1.4 billion). As of September 30, 2002, approximately $499 million was held in the Wildlife Restoration Fund, and about $1.4 billion was included in the ARTF, representing about 46% of Service assets. Although the Department of the Treasury is responsible by statute for the balances in the ARTF, it is presented on the Service's financial statements in accordance with the requirements of the Statement of Federal Financial Accounting Concepts Number 2, Entity and Display.

The Service's Fund Balance with Treasury, as of September 30, 2003, is approximately $1.3 billion, or approximately 32% of Service assets. The portion of this balance available to the Service at any point in time depends on the terms of the Service's appropriation language, and other applicable statutes. As of September 30, 2002, the Service's fund balance with Treasury was also about $1.3 billion, or 32% of total assets.

The Service's investment in property, plant and equipment (PP&E), net of accumulated depreciation, is approximately $862 million, or approximately 21% of Service assets. As of September 30, 2002, the Service's net PP&E was $846 million, also representing about 21% of Service assets.

As explained in the Financial Highlights section, the Service performed a comprehensive review of its real property files to validate the existence of recorded assets and place them in the appropriate accounting category. This effort resulted in a restatement of the PP&E balance as of September 30, 2002 reflecting an $89.8 million decrease in real property.

The Service does not report stewardship property, such as national wildlife refuges and waterfowl production areas in its financial statements. The Service also excludes from its reports heritage assets, such as land, buildings and structures recognized for their ecological, cultural, historical and scientific importance. Stewardship and heritage assets are not recognized as having an identifiable financial value that can be quantified on financial statements. In accordance with the requirements of Statement of Federal Financial Accounting Standards Number 6, Property, Plant and Equipment, purchases of these assets are considered expenses of the accounting period they are acquired.

Liabilities and Net Position
The largest portion of Service liabilities, approximately $390 million as of September 30, 2003, consists of amounts owed to the U.S. Coast Guard and the Corps of Engineers from the ARTF. As of September 30, 2002, the Service's ARTF liability to these agencies amounted to $371 million. These liabilities are reported in Service financial statements in accordance with the requirements of Statement of Federal Financial Accounting Concepts Number 2, Entity and Display.

The Service has approximately $122 million in unfunded liabilities to the public, which cannot be paid until funds are appropriated by Congress in future periods. These liabilities consist primarily of unfunded annual leave, and the Service's actuarial Federal Employee Compensation Act liability. Table 2 is a summary of Service unfunded liabilities as of September 30, 2003 and 2002.

Table 2

Unfunded Liabilities (dollars in millions)	2003	2002
Federal Employees Compensation Act	$62	$59
Environmental Cleanup	$12	$15
Unfunded Annual Leave	$46	$42
Other	$2	$3
Total	$122	$119

The Service's Net Position consists of two components: (1) Unexpended Appropriations, and (2) Cumulative Results of Operations. The Unexpended Appropriations account reflects spending authority made available to the Service by Congressional appropriation that the Service has not yet used. Cumulative Results of Operations reflects the net results of the Service's operations over time. The Service's Net Position as of September 30, 2003, is approximately


David Haggard/USFWS

Bald Eagles, Reelfoot NWR, Tennessee

$3.41 billion, of which approximately $498 million is unexpended appropriations. As of September 30, 2002, the Service's net position was $3.36 billion, with $478 in unexpended appropriations.

Gene Whitaker/USFWS

Praying Mantis

Hollingsworth/USFWS

Armadillo

George Gentry/USFWS

Black Skimmer, Ding Darling NWR, Florida

Gary M. Stolz/USFWS

Giraffes in African Sunset

Principal Financial Statements

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidated Balance Sheet
As of September 30, 2003 and 2002

(dollars in thousands)		2003		2002 As Restated (Note 14)
ASSETS (Note 2)				
Intragovernmental Assets:				
Fund Balance with Treasury (Note 3)	$	1,276,656	$	1,275,327
Investments, Net (Notes 4 and 11)		1,870,014		1,864,212
Accounts and Interest Receivable, Net (Note 5)		21,596		23,888
Other				
Advances and Prepayments		755		1,505
Total Intragovernmental Assets		3,169,021		3,164,932
Cash (Note 3)		116		116
Accounts and Interest Receivable, Net (Note 5)		10,832		5,594
General Property, Plant & Equipment, Net (Note 6)		862,436		845,602
Other				
Advances and Prepayments		271		493
TOTAL ASSETS	$	4,042,676	$	4,016,737
LIABILITIES (Note 8)				
Intragovernmental Liabilities:				
Accounts Payable	$	12,191	$	12,341
Other				
Accrued Payroll and Benefits		16,927		19,566
Advances and Deferred Revenue		681		19,587
Deferred Credits		6		12,968
Aquatic Resources Trust Fund Amounts Due to Others (Note 11)		389,762		371,122
Other Liabilities		1,926		0
Total Intragovernmental Liabilities		421,493		435,584
Public Liabilities:				
Accounts Payable		69,159		69,109
Federal Employees Compensation Act Liability		62,153		59,032
Environmental Cleanup Costs		12,352		15,195
Other				
Accrued Payroll and Benefits		57,614		69,002
Deferred Credits		1,430		1,903
Contingent Liabilities		0		275
Advances and Deferred Revenue		6,292		7,629
Other Liabilities		21		15
Total Public Liabilities		209,021		222,160
TOTAL LIABILITIES		630,514		657,744
Commitments and Contingencies (Notes 8 and 9)				
Net Position				
Unexpended Appropriations		498,236		478,161
Cumulative Results of Operations		2,913,926		2,880,832
Total Net Position		3,412,162		3,358,993
TOTAL LIABILITIES AND NET POSITION	$	4,042,676	$	4,016,737

The accompanying notes are an integral part of these statements

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidated Statement of Net Cost
For the Years Ended September 30, 2003 and 2002

(dollars in thousands)	2003	2002 As Restated (Note 14)
Sustainability of Fish and Wildlife Populations		
Cost -Services Provided to the Public	$ 599,277	$ 561,964
Revenue Earned from the Public	16,492	15,426
Net Cost of Services to the Public	582,785	546,538
Cost - Services Provided to Federal Agencies	53,692	47,676
Revenue Earned from Federal Agencies	51,934	47,479
Net Cost of Services Provided to Federal Agencies	1,758	197
Net Cost of Operations	584,543	546,735
Habitat Conservation		
Cost -Services Provided to the Public	726,876	847,910
Revenue Earned from the Public	34,553	33,270
Net Cost of Services to the Public	692,323	814,640
Cost - Services Provided to Federal Agencies	57,511	51,384
Revenue Earned from Federal Agencies	56,153	50,857
Net Cost of Services Provided to Federal Agencies	1,358	527
Net Cost of Operations	693,681	815,167
Public Use and Enjoyment		
Cost -Services Provided to the Public	173,326	168,552
Revenue Earned from the Public	4,330	3,863
Net Cost of Services to the Public	168,996	164,689
Cost - Services Provided to Federal Agencies	10,234	6,840
Revenue Earned from Federal Agencies	9,857	6,802
Net Cost of Services Provided to Federal Agencies	377	38
Net Cost of Operations	169,373	164,727
Partnerships in Natural Resources		
Cost -Services Provided to the Public	560,119	241,697
Revenue Earned from the Public	17	2
Net Cost of Services to the Public	560,102	241,695
Cost - Services Provided to Federal Agencies	29	22
Revenue Earned from Federal Agencies	29	20
Net Cost of Services Provided to Federal Agencies	0	2
Net Cost of Operations	560,102	241,697
Total		
Cost -Services Provided to the Public	2,059,598	1,820,123
Revenue Earned from the Public	55,392	52,561
Net Cost of Services to the Public	2,004,206	1,767,562
Cost - Services Provided to Federal Agencies	121,466	105,922
Revenue Earned from Federal Agencies	117,973	105,158
Net Cost of Services Provided to Federal Agencies	3,493	764
Net Cost of Operations	$ 2,007,699	$ 1,768,326

The accompanying notes are an integral part of these statements

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2003 and 2002

(dollars in thousands)		2003		2002 As Restated (Note 14)
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$	478,161	$	465,476
Budgetary Financing Sources				
Appropriations Received, General Funds		1,072,465		1,006,867
Appropriations Transferred In/Out		84,346		51,135
Appropriations-Used		(1,130,272)		(1,044,397)
Other Adjustments		(6,464)		(920)
Total Budgetary Financing Sources		20,075		12,685
Ending Balance - Unexpended Appropriations	$	498,236	$	478,161
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances, as restated (Note 14)	$	2,880,832	$	2,676,958
Budgetary Financing Sources				
Appropriations-Used		1,130,272		1,044,397
Royalties Retained		2,909		891
Transfers In/Out without Reimbursement		143,939		138,135
Non-Exchange Revenue:				
Tax Revenue		659,217		656,923
Donations and Forfeitures of Cash and Cash Equivalents		4,163		4,090
Other Non-Exchange Revenue		49,747		49,396
Other Budgetary Financing Sources		1,909		9,919
Other Financing Sources				
Imputed Financing from Costs Absorbed by Others (Note 10)		44,277		39,971
Transfers In/Out without Reimbursement		4,360		28,478
Total Financing Sources		2,040,793		1,972,200
Net Cost of Operations		(2,007,699)		(1,768,326)
Ending Balance - Cumulative Results of Operations	$	2,913,926	$	2,880,832

The accompanying notes are an integral part of these statements

U.S.Department of the Interior
U.S. Fish and Wildlife Service
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2003 and 2002

(dollars in thousands)	2003	2002
Budgetary Resources:		
Budget Authority:		
Appropriations Received	$ 2,089,609	$ 1,973,956
Net Transfers, Current Year Authority	(99,275)	(51,180)
Unobligated Balance:		
Beginning of Fiscal Year	730,861	635,113
Net Transfers, Unobligated Balance, Actual	(4,700)	(18,915)
Spending Authority From Offsetting Collections:		
Earned		
Collected	138,815	132,432
Receivable From Federal Sources	2,713	(719)
Change in Unfilled Customer Orders		
Advance Received	(32,119)	(2,225)
Without Advance From Federal Sources	(5,537)	616
Recoveries of Prior Year Obligations	75,403	67,413
Permanently Not Available (Note 12)	(58,458)	(784)
Total Budgetary Resources	$ 2,837,312	$ 2,735,707
Status of Budgetary Resources:		
Obligations Incurred:		
Direct	$ 2,140,323	$ 1,878,382
Reimbursable	126,136	126,464
Total Obligations Incurred	2,266,459	2,004,846
Unobligated Balance:		
Apportioned	569,286	728,263
Unobligated Balance not Available	1,567	2,598
Total Status of Budgetary Resources	$ 2,837,312	$ 2,735,707
Relationship of Obligations to Outlays:		
Obligations Incurred	$ 2,266,459	$ 2,004,846
Obligated Balance, Net, Beginning of Fiscal Year	1,066,316	973,321
Obligated Balance, Net, End of Fiscal Year:		
Accounts Receivable	31,124	28,411
Unfilled Customer Orders From Federal Sources	45,414	50,951
Undelivered Orders	(1,194,780)	(1,036,631)
Accounts Payable	(93,485)	(109,048)
Less: Spending Authority Adjustments	(72,579)	(67,310)
Outlays:		
Disbursements	2,048,469	1,844,540
Collections	(106,697)	(130,207)
Subtotal	1,941,772	1,714,333
Less: Offsetting Receipts	(62,743)	(65,949)
Net Outlays	$ 1,879,029	$ 1,648,384

The accompanying notes are an integral part of these statements

U.S. Department of Interior
U.S. Fish and Wildlife Service
Consolidated Statement of Financing
For the Years Ending September 30, 2003 and 2002

(dollars in thousands)	2003	2002 As Restated (Note 14)
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 2,266,459	$ 2,004,846
Less: Spending Authority From Offsetting Collections/Adjustments	(179,276)	(197,517)
Obligations Net of Offsetting Collections and Adjustments	2,087,183	1,807,329
Less: Offsetting Receipts	(62,743)	(65,949)
Net Obligations	2,024,440	1,741,380
Other Resources:		
Transfers In/Out Without Reimbursement	4,360	28,478
Imputed Financing From Costs Absorbed by Others	44,277	39,971
Net Other Resources Used to Finance Activities	48,637	68,449
Total Resources Used to Finance Activities	2,073,077	1,809,829
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(194,831)	(101,367)
Resources That Fund Expenses Recognized in Prior Periods	(50)	(166)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Offsetting Receipts Not Part of the Net Cost of Operations	28,169	31,173
Resources That Finance the Acquisition of Assets	(51,706)	(97,909)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	2,231	8,515
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(216,187)	(159,754)
Total Resources Used to Finance the Net Cost of Operations	1,856,890	1,650,075
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	3,343	5,158
Decrease in Environmental and Disposal Liability	(2,843)	(31,612)
Other	5,264	8,738
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	5,764	(17,716)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	34,872	32,930
Components of Net Cost of Operations Related to Transfer Accounts Where Budget Amounts are Reported by Other Federal Entities (Note 13)	110,400	100,257
Other	(227)	2,780
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	145,045	135,967
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	150,809	118,251
Net Cost of Operations	$ 2,007,699	$ 1,768,326

The accompanying notes are an integral part of these statements

Notes to Principal Financial Statements as of September 30, 2003 and 2002

Note 1 Summary of Significant Accounting Principles

A. Reporting Entity

The United States Fish and Wildlife Service (Service) is a Bureau within the Department of the Interior (Department), which is a cabinet-level agency of the Executive Branch of the Federal Government. The Service is responsible for conserving, protecting, and enhancing fish, wildlife and plants and their habitats for the continuing benefit of the American people. Authority over money, or other budget authority made available to the Service, is vested in the Service's Director, who is responsible for administrative oversight and policy direction of the Service. Accounts are maintained which restrict the use of money (or other budget authority) for use consistent with the purposes and the time period authorized. These accounts also provide assurance that obligations do not exceed authorized amounts.

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the Service as required by the Chief Financial Officers Act of 1990, as amended by the Reports Consolidation Act of 2000, and the Government Management Reform Act of 1994. The financial statements have been prepared from the Service's books and records in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09, dated September 25, 2001, as required for fiscal year (FY) 2003 and 2002. Furthermore, the financial statements have been prepared in accordance with the Service's accounting policies summarized in this note.

The books are kept, and these financial statements have been prepared in accordance with generally accepted accounting principles (GAAP), as prescribed by the Federal Accounting Standards Advisory Board (FASAB), recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish GAAP for the Federal Government under Rule 203 of the AICPA's Code of Professional Conduct. The financial statements reflect both accrual and budgetary accounting transactions. Under the accrual accounting method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting principles, by contrast, are designed to recognize the obligation of funds according to legal requirements, which may be prior to the occurrence of accrual based transactions. The recognition of budgetary accounting transactions facilitates compliance with legal constraints and controls over the use of Federal funds. The accounts are maintained in accordance with the Department of Treasury's (Treasury) U.S. Standard General Ledger.

The financial statements have been prepared from the books and records of the Service except for certain amounts relating to the Aquatic Resources Trust Fund (ARTF), which were provided by the Department of the Treasury. Title 26 of the U.S. Code, Section 9602 designates the Department of the Treasury as manager of the ARTF, with overall responsibility for the fund's accounting and investment activities. Although the Secretary of the Treasury is responsible by statute for the balances in the ARTF, it is presented on the Service's financial statements in accordance with the requirements of Statement of Federal Financial Accounting Concepts (SFFAC) Number 2, Entity and Display. SFFAC Number 2 requires trust funds that finance multiple programs to be reported by the entity with the preponderance of fund activity. This is also consistent with OMB guidance for financial reporting, which cites Statement of Federal Financial Accounting Standards Number 7, Paragraph 87, as applying to the ARTF. In FY 2003 the Sport Fish Restoration Account (SFRA) received approximately 75% of the ARTF transfers.

The financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so. Intragovernmental assets and liabilities arise from transactions with other Federal agencies.

The Service maintains accounts in three separate budgetary categories:

1. Resource Management – This category includes expenditure accounts arising from Congressional appropriations or other authorizations to spend general revenues. The principal resource management accounts are:
    a. Resource Management, Operating
    b. Resource Management, Federal Infrastructure Improvement
2. Grant Programs – The Service administers 14 budgetary accounts for grant programs established under specific trust agreements and statutes. The major categories of grant programs are:
    a. Sport Fish Restoration
    b. Federal Aid in Wildlife Restoration
    c. Other grant programs:
        - Wildlife Conservation (two budgetary accounts)
        - North American Wetlands Conservation
        - State Wildlife Grants
        - Tribal Wildlife Grants
        - Landowner Incentive
        - Cooperative Endangered Species Conservation Fund
        - Private Stewardship Grants
        - Multinational Species Conservation Fund (four budgetary accounts)
3. Other Funds – The Service also administers various other budgetary accounts, including:
    a. Miscellaneous Permanent Appropriations - These funds are receipt funds earmarked by law for a specific purpose, and do not require appropriation language to use the receipts. These funds include:
        - Operations/Maintenance - Quarters
        - Lahontan Valley and Pyramid Lake Fish and Wildlife Fund
        - Other Miscellaneous Appropriations
    b. Construction
    c. Land Acquisition
    d. Contributed Fund Account
    e. Commercial Salmon Fishery Capacity Reduction
    f. Migratory Bird Conservation Account
    g. Recreation Fee Demonstration Program

C. Fund Balance with Treasury and Cash

The Service maintains all cash accounts with Treasury except for the imprest fund accounts. The funds with Treasury include appropriated, special receipt, and trust funds, which are available to pay current liabilities and outstanding obligations. Cash receipts and disbursements of the Service are processed by Treasury, and the Service's accounts are reconciled with those of Treasury on a regular basis.

D. Investments in Treasury Securities

The Service invests funds from the Federal Aid in Wildlife Restoration Fund (Treasury Symbol 14X5029), the Multinational Species Conservation Fund (Treasury Symbol 14X1652), and the Aquatic Resources Trust Fund (Treasury Symbol 20X8147) in Federal Government securities that include marketable Treasury securities and non-marketable par value or non-marketable market-based securities issued by the

Federal Investment Branch of the Bureau of Public Debt. Par value securities are special issue bonds or certificates of indebtedness that bear interest determined by legislation or the Treasury. Market-based securities are Treasury securities that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. The Service intends to hold these investments until maturity. Investments are valued at cost and adjusted for amortization of premiums and discounts, if applicable. The premiums and discounts are recognized as adjustments to interest income, utilizing the straight-line method. No provision is made for unrealized gains or losses on these securities. Interest on investments is accrued as it is earned.

The investments reported by the Service for ARTF (Treasury Symbol 20X8147) are managed by Treasury (see Note 1.B.). Although the Service has advisory authority for ARTF investment decisions, the Treasury has legal responsibility for investing ARTF funds. Consistent with authorizing legislation and Treasury fiscal investment policies, the Secretary of the Treasury invests such portion of the ARTF balance deemed by the program agencies not necessary to meet current withdrawals to cover program and related costs as defined by law. Such investments are in non-marketable par value or non-marketable market-based securities as authorized by legislation and are issued and redeemed by the Federal Investment Branch of the Bureau of Public Debt, in the Department of Treasury. These securities are held in the name of the Secretary of Treasury for the ARTF and interest in investments is accrued as it is earned. The premiums and discounts are recognized as adjustments to interest income, utilizing the effective interest method. Although funds collected and deposited in the ARTF in any one fiscal year are available for investment during the same fiscal year collected, they are not available for obligation that same year. Thus, the use of such funds collected from a prior fiscal year is restricted until the following fiscal year. Note 4 provides additional information on Service and ARTF investments.

E. Accounts, Interest and Taxes Receivable

Receivables represent amounts owed to the Service by other Federal agencies and the public, (with the exception of amounts owed to the ARTF and reported by the Service), and include accounts receivable, interest receivable and taxes receivable. Accounts receivable primarily arise from the provision of goods and services or from the levy of fines and penalties resulting from the Service's regulatory responsibilities. Taxes receivable consist entirely of tax receipts owed to the ARTF, which serves as the funding source for the SFRA, one of two trust funds maintained by the Service. Interest receivable consists primarily of amounts earned but not yet received from Service investments and ARTF investments reported by the Service. An allowance for doubtful accounts is maintained to reflect uncollectible receivables from the public. The allowance amount is estimated based on an average of prior year write-offs and an analysis of outstanding accounts receivable. Federal accounts receivable are considered to be fully collectible.

F. Operating Materials and Supplies

Operating materials and supplies consist of items such as lumber, sand, gravel, and other items purchased in large quantities which will be consumed in future operations. Operating materials and supplies are accounted for based on the purchase method. Under this method, operating materials and supplies are expensed when purchased.

G. Property, Plant and Equipment (PP&E)

General Property, Plant and Equipment consist of that property which is used in Service operations. General PP&E includes buildings, structures, facilities and equipment used in the operation of wildlife refuges, fish hatcheries, wildlife and fishery research centers, waterfowl production areas, and administrative sites. Capitalized buildings and structures have a cumulative acquisition cost of $50,000 or more. Buildings and structures are reported in the financial statements based on legal ownership. Buildings are comprised of facilities owned by the Service, such as houses, garages, shops, schools, laboratories, and other buildings. Structures and facilities owned by the Service include powerhouses and pumping plants, structural and general service facilities systems (e.g., drainage, plumbing, sewer, ventilating, water or heating systems), ground and site improvements (e.g., roads and roadways, fences, parking areas, sidewalks, sprinkler systems, yard drainage systems, or yard lighting systems), bridges and trestles, dams and dikes, waterways and wells. Capitalized costs include materials, labor, and overhead costs incurred during construction, attorney and architect fees, and building permits. Permanent improvements to stewardship land, including earthen structures, such as canals, dikes, levees, and dirt roads, are not capitalized. Depreciation of buildings and other structures is recorded using the straight-line method based on an estimated useful life of 10 to 40 years. Note 6 provides additional information on the Service's general PP&E.

Capitalized Equipment consists of those assets, other than buildings or other structures, which have an estimated useful life of greater than one year and an initial acquisition cost of $25,000 or more. Depreciation of equipment is recorded using the straight-line method based on the estimated useful life of the respective assets of 5 to 20 years.

Construction Work in Progress (CWIP) is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. Costs are transferred out of CWIP when they meet the criteria for capitalization.

Stewardship Property, Plant and Equipment. SFFAS No. 6, "Accounting for Property, Plant and Equipment," established various categories to stewardship PP&E including stewardship land and heritage assets. A portion of the Service's stewardship lands have been reserved for wildlife refuges while the remainder is managed for multiple use. Heritage assets are assets with historical, cultural, or natural significance. In accordance with Federal accounting standards, the Service assigns no financial value to the stewardship lands or heritage assets it administers in its financial statements. Acquistion costs for stewardship assets, and any permanent improvement to these assets are expensed in the accounting period incurred. The Required Supplementary Stewardship Information (RSSI) section of this report provides additional information concerning stewardship land and heritage assets.

Internal Use Software is capitalized at cost if the acquisition cost is $100,000 or more. For commerical off-the-shelf software the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install, and implement software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The estimated useful life for calculating amortization of software is 2 to 5 years using the straight-line method.

Leases. The Service also leases PP&E for its operations. All of the Service's leases are considered operating leases in which the Service does not assume the risks of ownership of the PP&E. Note 9 provides additional information on the Service's operating leases.

H. Seized and Forfeited Property

Property seized by or forfeited to the Service consists primarily of wildlife and wildlife products. A smaller number of non-wildlife property items, such as guns, ammunition or forensic evidence, is also seized by or forfeited to the Service. The Service is responsible for safeguarding seized and forfeited property from the time of seizure through the final disposition of the property. Methods of disposing of seized and forfeited property include retaining the property in the Service for educational purposes, transferring the property to other Federal entities, returning the property to the owner, or disposing of the property through destruction, sale, donation or other methods authorized by law. Property for which a legal market exists is reported at appraised value or at values received at auction. Property that cannot be legally sold (e.g., all or parts of migratory birds, bald and golden eagles, endangered or threatened species, marine mammals, and species listed on Appendix I to the Convention on International Trade in Endangered Species) is classified as "non-marketable" and has no legal value. Note 7 provides additional information on seized and forfeited property.

I. Liabilities and Contingencies

A liability for Federal accounting purposes is a probable and measurable outflow or other sacrifice of resources as a result of past transactions or events. Intra-governmental liabilities arise from transactions with other Federal agencies. Liabilities Not Covered by Budgetary Resources result from the receipt of goods or services, or the occurrence of events, for which budgetary resources are not available. A liability cannot be paid absent appropriation of funds by Congress, and there is no certainty that such budgetary resources will be provided. The Federal Government, acting in its sovereign capacity, can abrogate those liabilities that arise for reasons other than through contracts.

Liabilities of the ARTF are the amount of funds resulting from the original budget authority for a fiscal year less the draw down of cash transferred during that same fiscal year.

Contingent liabilities relate to conditions, situations, or circumstances where the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The Service recognizes contingent liabilities when a future outflow or other sacrifice of resources is both measurable and probable.

J. Revenues and Other Financing Sources

Appropriations. The Service receives the majority of the funding needed to support its programs through appropriations. The Service receives annual, multi-year, and no-year appropriations that may be used within statutory limits for operating expenses and capital expenditures. Additional amounts are obtained through reimbursements for services provided to public entities and other Federal agencies in accordance with reimbursable agreements. Receipts from reimbursable agreements are recognized as revenues when earned, and may be used to offset the cost of operations, including indirect costs. The Statement of Budgetary Resources presents information about the resources appropriated to the Service.

Exchange and Non-Exchange Revenue. The Service classifies revenues as either exchange or non-exchange revenue. Exchange revenues derive from transactions in which both the Service and the other party receive value. These revenues are presented in the Consolidated Statement of Net Cost. Non-exchange revenues result from donations to the government and from the government's sovereign right to demand payment, including fines for violation of environmental laws. These revenues are not considered as reductions of the cost of the Service's operations and are reported on the Consolidated Statement of Changes in Net Position. Significant funding is made available to support Service programs from tax revenues, which are recognized when earned. These tax revenues emanate from excise taxes, collected from manufacturers of equipment used in hunting, fishing, sport shooting on ranges, and on motorboat fuels, which are deposited into either the Wildlife Restoration Fund or the ARTF.

Imputed Financing Sources. In certain instances, operating costs of the Service are paid from funds appropriated to other Federal agencies. As an example, the Office of Personnel Management, by law, pays certain costs of retirement programs and certain legal judgments against the Service are paid from the Judgment Fund maintained by Treasury. When costs identifiable to the Service and directly attributable to the Service's operations are paid by other agencies, the Service recognizes these amounts as operating expenses and recognizes the imputed financing source on the Consolidated Statement of Changes in Net Position to indicate the funding of Service operations by other Federal agencies.

Aquatic Resources Trust Fund information is presented in the Service's financial statements in accordance with the requirements of Statement of Federal Financial

Concepts Number 2, "Entity and Display". The sources of funding for the ARTF include excise taxes levied on the sale of fishing tackle and equipment and certain motorboat and small engine gasoline, and interest earned on invested trust funds. These funds are used to make grants available to states for support projects that restore, conserve, manage, protect, and enhance sport fish resources and coastal wetlands and projects that provide for public use and benefit from sport fish resources. The ARTF also provides funds for boating safety programs conducted by the U.S. Coast Guard and costal wetlands initiatives conducted by the U.S. Army Corps of Engineers. The Appropriations Act of 1951 authorized amounts equal to revenues credited during the year to be used in the subsequent fiscal year. This inflow is recorded as permanent appropriations to remain available until expended.

Deferred Revenue. Unearned revenue is recorded as deferred revenue until earned.

K. Personnel Compensation and Benefits

Annual, Sick and Other Leave. Annual leave is accrued as it is earned. The accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave, future funding sources will be used. Sick leave and other types of non-vested leave are expensed as taken. Accrued benefits are included in Intra-governmental Liabilities as accrued payroll and benefits.

Federal Employees Worker's Compensation Program. The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor.

The FECA liability consists of two components. The first component is based on actual claims paid by Labor but not yet reimbursed by the Service. The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical and miscellaneous costs.

Federal Employees Group Life Insurance (FEGLI) Program. Most Service employees are entitled to participate in the FEGLI program. Participating employees can obtain various options of term life insurance. The Office of Personnel Management (OPM) administers this program and is responsible for reporting of liabilities.

Retirement Programs. Service employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) defined-benefit pension plans. FERS went into effect January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. FERS offers a savings plan to which the Service automatically contributes 1 percent of basic pay and matches employee contributions up to 4 percent of basic pay. Employees hired prior to January 1, 1984 could elect to either join FERS and Social Security, or remain in CSRS. The Service contributes an amount equal to 1 percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional 4 percent of basic pay. For the year ended September 30, 2002, FERS employees could contribute up to 12 percent of their gross earnings to the plan. For the year ended September 30, 2003, FERS employees could contribute up to 13 percent of their gross earnings to the plan. CSRS employees were limited to a contribution of 8 percent of their gross earnings to the plan for the year ended September 30, 2003, and 7 percent for the year ended September 30, 2002, and receive no matching contribution from the Service.

The Service is not responsible for and does not report CSRS or FERS assets, accumulated plan benefits, or liabilities applicable to its employees. The Office of Personnel Management (OPM), which administers the plans, is responsible for and reports these amounts.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. Statement of Financing

The Statement of Financing is used to reconcile budgetary data with proprietary data. It articulates the relationship between net obligations derived from an entity's budgetary accounts and the net cost of operations derived from the entity's proprietary accounts by identifying and explaining key differences between two numbers.

N. Reclassifications

The Service has reclassified certain balances to conform to the FY 2003 presentation.

Note 2 Asset Analysis

The assets reported in the financial statements include unrestricted entity assets, restricted entity assets, and non-entity assets. Unrestricted entity assets are currently available for use by the Service. Restricted entity assets are not currently available for use by the Service, pending authorization by Congress. Non-entity assets are held by the Service or the ARTF with no authority for use by the Service, and will be transferred to other agencies at a future date. They include assets to be transferred to the Job Corps program and also ARTF amounts scheduled for transfer to the U.S. Coast Guard and the Corps of Engineers. Non-entity assets also include estimates of future transfers of current ARTF funds to these two agencies. The following chart summarizes the Service's non-entity, restricted entity, and unrestricted entity assets as of September 30, 2003 and 2002 (dollars in thousands):

September 30, 2003	ENTITY	RESTRICTED	NON ENTITY	2003
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	$ 1,254,583	$ 22,073	$ 0	$ 1,276,656
Investments, Net	733,847	622,522	513,645	1,870,014
Accounts and Interest Receivable, Net	21,323	273	0	21,596
Other				
Advances and Prepayments	755	0	0	755
Total Intragovernmental Assets	2,010,508	644,868	513,645	3,169,021
Cash	116	0	0	116
Investments	0	0	0	0
Accounts and Interest Receivable, Net	10,832	0	0	10,832
Loans and Interest Receivable, Net	0	0	0	0
Inventory and Related Property	0	0	0	0
General Property, Plant & Equipment, Net	862,436	0	0	862,436
Other				
Advances and Prepayments	271	0	0	271
TOTAL ASSETS	$ 2,884,163	$ 644,868	$ 513,645	$ 4,042,676

September 30, 2002	ENTITY	RESTRICTED	NON ENTITY	2002 As Restated
ASSETS				
Intragovernmental Assets:				
Fund Balance with Treasury	$ 1,254,692	$ 20,635	$ 0	$ 1,275,327
Investments, Net	751,207	620,027	492,978	1,864,212
Accounts and Interest Receivable, Net	23,615	273	0	23,888
Other				
Advances and Prepayments	1,505	0	0	1,505
Total Intragovernmental Assets	2,031,019	640,935	492,978	3,164,932
Cash	116	0	0	116
Investments	0	0	0	0
Accounts and Interest Receivable, Net	5,594	0	0	5,594
Loans and Interest Receivable, Net	0	0	0	0
Inventory and Related Property	0	0	0	0
General Property, Plant & Equipment, Net	845,602	0	0	845,602
Other				
Advances and Prepayments	493	0	0	493
TOTAL ASSETS	$ 2,882,824	$ 640,935	$ 492,978	$ 4,016,737

Note 3 Fund Balance with Treasury and Cash

The fund balance with Treasury as of September 30, 2003 and 2002 is as follows (dollars in thousands):

Fund Balances by Fund Type		2003		2002
General Fund	$	477,336	$	539,074
Special Fund		768,531		691,150
Trust Fund		29,353		42,074
Other Fund Types		1,436		3,029
Total Fund Balance with Treasury by Fund Type	$	1,276,656	$	1,275,327

Status of Fund Balance with Treasury		2003		2002
Unobligated				
Available	$	282,089	$	461,976
Unavialable		215,904		226,410
Obligated Not Yet Disbursed		778,663		586,941
Total Status of Fund Balance with Treasury	$	1,276,656	$	1,275,327

Service cash as of September 30, 2003 and 2002 is as follows:

(dollars in thousands)		2003		2002
Imprest Fund		116		116
Total Cash	$	116	$	116

Note 4 Investments

Investments in non-marketable market-based Treasury securities consist of various bills purchased through the Federal Investment Branch of the Bureau of Public Debt. The invested funds consist of excise tax receipts from the Federal Aid in Wildlife Restoration Fund (Treasury Symbol 14X5029), ARTF (Treasury Symbol 20X8147), and the Multi-National Species Conservation Fund (Treasury Symbol 14X1652). Outstanding investments in Treasury securities as of September 30, 2003 and 2002 total (dollars in thousands):

2003	Investment Type	Cost	Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure
U.S. Treasury Securities					
14X5029	Non-Marketable, market-based	$ 453,752	$ (1,083)	$ 452,669	$ 453,944
14X1652	Non-Marketable, market-based	1,054	0	1,054	1,054
Total Entity		454,807	(1,083)	453,723	454,998
ARTF 20X8147	Non-Marketable, market-based	1,418,171	(2,359)	1,415,812	1,416,278
Total Non-Entity		1,418,171	(2,359)	1,415,812	1,416,278
Total U.S. Treasury Securities		1,872,978	(3,443)	1,869,535	1,871,276
Accrued Interest		479	0	479	0
Total Investments		$ 1,873,457	$ (3,443)	$ 1,870,014	$ 1,871,276

2002 As Restated	Investment Type	Cost	Amortized (Premium)/Discount	Investments, Net	Market Value Disclosure
14X5029	Non-Marketable, market-based	$ 500,673	$ (1,881)	$ 498,792	$ 501,692
Total Entity		500,673	(1,881)	498,792	501,692
ARTF 20X8147	Non-Marketable, market-based	1,363,976	847	1,364,823	1,386,341
Total Non-Entity		1,363,976	847	1,364,823	1,386,341
Total U.S. Treasury Securities		1,864,649	(1,034)	1,863,615	1,888,033
Accrued Interest		597	0	597	0
Total Investments		$ 1,865,246	$ (1,034)	$ 1,864,212	$ 1,888,033

Note 5 Accounts, Interest, and Taxes Receivable, Net

Accounts and interest receivable consist of amounts owed the Service by other Federal agencies and the public and are recognized primarily when the Service performs reimbursable services or sells goods. Accounts receivable also includes those funds, including taxes receivable, to be deposited in the ARTF. Interest receivable consists of monies earned but not yet received and primarily derive from investments disclosed in Note 4. Accounts and interest receivable as of September 30, 2003 and 2002 consist of (dollars in thousands):

ACCOUNTS RECEIVABLE FROM FEDERAL AGENCIES	**September 30, 2003**	**September 30, 2002**
Accounts Receivable from Federal Agencies		
Current	$ 20,053	$ 20,550
1 - 180 Days Past Due	628	2,053
181 - 365 Days Past Due	78	179
Over 1 Year Past Due	208	776
Total Billed Accounts Receivable - Federal	20,967	23,558
Unbilled Accounts Receivable	629	330
Total Accounts Receivable - Federal	$ 21,596	$ 23,888
ACCOUNTS RECEIVABLE FROM THE PUBLIC		
Accounts Receivable from the Public		
Current	$ 10,841	$ 4,640
1 - 180 Days Past Due	66	810
181 - 365 Days Past Due	21	94
Over 1 Year Past Due	361	594
Total Billed Accounts Receivable - Public	11,289	6,138
Unbilled Accounts Receivable	12	0
Unbilled Interest Receivable	0	0
Total Accounts Receivable - Public	11,301	6,138
Allowance for Doubtful Accounts	(469)	(544)
Total Accounts Receivable - Public Net of Allowance	$ 10,832	$ 5,594
Change in Allowance for Bad Debts - Public		
Allowance for Doubtful Accounts, Beginning	544	490
Additions	0	54
Deletions	(75)	0
Allowance for Bad Debts - Public	$ 469	$ 544

Note 6 General Property, Plant and Equipment (PP&E), Net

General PP&E owned by the Service as of September 30, 2003 and 2002 consists of the following (dollars in thousands):

	Acquisition Cost	Accumulated Depreciation	Net September 30, 2003
Land	$ 10,570	$ 0	$ 10,570
Buildings	501,563	140,161	361,402
Structures and Facilities	448,735	189,111	259,624
Construction in Progress			
Construction in Progress - General	114,420	0	114,420
Equipment, Vehicles, and Aircraft	265,787	150,436	115,351
Internal Use Software			
In Development	1,069	0	1,069
Total Property, Plant, and Equipment	$ 1,342,144	$ 479,708	$ 862,436

	Acquisition Cost	Accumulated Depreciation	Net September 30, 2002, As Restated
Land	$ 12,781	$ 0	$ 12,781
Buildings	485,593	127,789	357,804
Structures and Facilities	436,191	166,686	269,505
Construction in Progress			
Construction in Progress - General	99,139	0	99,139
Equipment, Vehicles, and Aircraft	243,244	136,871	106,373
Total Property, Plant, and Equipment	$ 1,276,948	$ 431,346	$ 845,602

Refer to Note 14 for Restatement

Note 7 Seized and Forfeited Property

Seized and forfeited property is recorded in case files maintained in the Service's Law Enforcement Management Information System (LEMIS 2000). The Service does not assign a financial value to, or recognize for purposes of its financial statements, property seized by or forfeited to the Service that cannot be sold due to legal restrictions. Such property is typically wildlife or wildlife parts which can be donated to schools, aquaria, museums, or zoos for educational or scientific purposes or destroyed. Seized or forfeited property that can be sold legally is valued by individual agents based on their best professional estimate, through declarations, or through evaluating fair market value.

Values of property seized by or forfeited to the Service reported below are not accrued on the financial statements as the property held by the Service cannot be legally sold and, therefore, does not have marketable value. Seized and forfeited property cases and estimated values, including additions and dispositions, are displayed below as of September 30, 2003 and 2002 (dollars in thousands):

2003	Balance 10/1/02		Additions		Dispositions		Balance 9/30/03	
	# Cases	Market Value	# Cases	Market Value	# Cases	Market Value	# Cases	Market Value
Seized Property								
Wildlife	935	$ 4,700	1,640	$ 1,102	1,561	$ 3,126	1,014	$ 2,676
Non-Wildlife	150	$ 24	181	$ 186	130	$ 8	201	$ 202
Forfeited Property								
Wildlife	928	$ 4,698	930	$ 856	854	$ 2,883	1,004	$ 2,671
Non-Wildlife	150	$ 24	131	$ 176	81	$ 0	200	$ 202

2002	Balance 10/1/01		Additions		Dispositions		Balance 9/30/02	
	# Cases	Market Value	# Cases	Market Value	# Cases	Market Value	# Cases	Market Value
Seized Property								
Wildlife	1,600	$ 1,882	969	$ 4,709	1,634	$ 1,891	935	$ 4,700
Non-Wildlife	147	$ 55	91	$ 20	88	$ 51	150	$ 24
Forfeited Property								
Wildlife	0	$ 0	1,062	$ 4,847	134	$ 149	928	$ 4,698
Non-Wildlife	0	$ 0	187	$ 24	37	$ 0	150	$ 24

Note 8 Liabilities

Liabilities are claims against the Service by other Federal and non-Federal entities for measurable past transactions or events. Certain types of liabilities are not covered by budgetary resources and require Congressional action before budgetary resources can be provided. Service liabilities as of September 30, 2003 and 2002 are as follows (dollars in thousands):

2003	Covered by Budgetary Resources Current	Covered by Budgetary Resources Non-Current	Not Covered by Budgetary Resources Current	Not Covered by Budgetary Resources Non-Current	Total 2003
Intragovernmental Liabilities:					
Accounts Payable	$ 12,191	$ 0	$ 0	$ 0	$ 12,191
Other					
Accrued Payroll and Benefits	3,970	0	4,457	8,500	16,927
Advances and Deferred Revenue	681	0	0	0	681
Deferred Credits	0	0	6	0	6
ARTF Amounts Due to Others	0	0	0	389,762	389,762
Other Liabilities	0	0	0	1,926	1,926
Total Intragovernmental Liabilities	16,842	0	4,463	400,188	421,493
Public Liabilities:	0	0	0	0	0
Accounts Payable	69,159	0	0	0	69,159
Federal Employees Compensation Act Liability	0	0	0	62,153	62,153
Environmental Cleanup Costs	0	0	0	12,352	12,352
Other					
Accrued Payroll and Benefits	11,959	0	0	45,655	57,614
Deferred Credits	0	0	0	1,430	1,430
Advances and Deferred Revenue	6,292	0	0	0	6,292
Other Liabilities	0	0	0	21	21
Total Public Liabilities	87,410	0	0	121,611	209,021
Total Liabilities	$ 104,252	$ 0	$ 4,463	$ 521,799	$ 630,514

(continued)

2002	Covered by Budgetary Resources Current	Covered by Budgetary Resources Non-Current	Not Covered by Budgetary Resources Current	Not Covered by Budgetary Resources Non-Current	Total 2002
Intragovernmental Liabilities:					
Accounts Payable	$ 12,341	$ 0	$ 0	$ 0	$ 12,341
Other					
Accrued Payroll and Benefits	7,102	0	4,309	8,155	19,566
Advances and Deferred Revenue		19,587	0	0	19,587
Deferred Credits	0	0	12,968	0	12,968
ARTF Amounts Due to Others	0	0	0	371,122	371,122
Total Intragovernmental Liabilities	19,443	19,587	17,277	379,277	435,584
Public Liabilities:					
Accounts Payable	69,109	0	0	0	69,109
Federal Employees Compensation Act Liability	0	0	0	59,032	59,032
Environmental Cleanup Costs	0	0	0	15,195	15,195
Other					
Accrued Payroll and Benefits	26,691	0	0	42,311	69,002
Deferred Credits	0	0	0	1,903	1,903
Contingent Liabilities	0	0	0	275	275
Advances and Deferred Revenue	7,629	0	0	0	7,629
Other Liabilities	0	0	0	15	15
Total Public Liabilities	103,429	0	0	118,731	222,160
Total Liabilities	$ 122,872	$ 19,587	$ 17,277	$ 498,008	$ 657,744

Environmental Cleanup Liabilities

The Service operates its environmental cleanup program in accordance with the requirements of the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act and cleanup regulations established by the Environmental Protection Agency. Environmental liabilities for the Service are associated with the costs of remediating hazardous waste and landfills existing within units of the National Wildlife Refuge System (NWRS) and the National Fish Hatcheries System (NFHS). The Service believes that a reasonable estimate of the Service's potential costs of remediating contamination on Service lands ranges between approximately $12.4 million and $93.1 million as of September 30, 2003. The estimated range of potential costs as of September 30, 2002 was between $15.2 million and $89 million. In accordance with accounting principles generally accepted in the United States of America, the Service has recorded $12.4 million and $15.2 million as a liability as of September 30, 2003 and 2002, respectively, in its financial statements. The cost range represents the total estimated cost that may be borne by the Service for cleanup on Service lands, based on information available to the Service at this time. Liability estimates are based on accounting definitions of liability, as distinct from legal liability. As such, these estimates may not be construed as an indication that the Service would admit or would be determined to be legally liable for any or all of such costs. These cases include sites on lands obtained by the Service through donation, acquisition or transfer from other agencies. Cost estimates are based on site investigations and the expected degree and type of contamination probable and reasonably possible at these sites. Where possible, cost estimates are included for conducting site investigations and for conducting monitoring actions needed to assess the efficacy of cleanup. The Service's methods for estimating these liabilities include quotes from private firms or government agencies that have worked on the sites, projected planning figures based on related projects, and best engineering judgment.

Contingent Liabilities

There are two claims pending Judicial or Administrative action against the Service for which payments have been deemed probable. However, the amount or range of potential loss cannot be estimated and the Service has not accrued any liability in FY 2003. The Service estimates a range of potential liabilities for other claims where the likelihood of an unfavorable outcome is reasonably possible, of between $1.63 million and $2.43 million. The following tables present accrued and potential liabilities related to estimated cleanup costs and contingent liabilities (dollars in thousands):

Accrued Liabilities		
	2003	2002
Estimated Cleanup Cost	12,352	15,195
Contingent Liabilities	0	275
Total Environmental and Contingent Liabilities - Accrued	$ 12,352	$ 15,470

Additional Potential Liabilities				
	2003		2002	
	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range
Estimated Cleanup Cost		93,092		88,982
Contingent Liabilities	1,630	2,430	400	500
Total Environmental and Contingent Liabilities - Potential	$ 1,630	$ 95,522	$ 400	$ 89,482

Note 9 Operating Leases

Most of the Service's leased facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. The Service includes the estimated rental payments to GSA in the table that follows. For Federally-owned facilities, the Service generally does not execute an agreement with GSA; however, the Service is normally required to give 120 to 180 days notice if it intends to vacate. For non-Federally owned property an occupancy agreement is generally executed, according to standard contract principles. Estimates for real property leases are based on space budget figures provided to the OMB through Fiscal Year 2006. Estimates for FY 2007 and FY 2008 are based on an annual inflation factor of three percent.

The estimates for personal property represent the cost of leasing GSA vehicles. The current lease costs are based on the vehicles leased by the Service from GSA as of July 2003. The Service's estimates are based on an annual inflation factor of three percent.

The aggregate estimates for the Service's: (1) future payments due under non-Federal or noncancellable operating leases; and (2) estimated real property rent payments to GSA and other Federal entities as of September 30, 2003, are as follows (dollars in thousands):

Fiscal Year	GSA Real Property	Other Real Property	Personal Property	Total
2004	$ 37,197	$ 3,560	$ 2,637	$ 43,394
2005	35,561	3,666	2,716	41,943
2006	34,548	3,776	2,797	41,121
2007	33,129	3,889	2,880	39,898
2008	31,557	4,005	2,968	38,530
Thereafter	22,558	4,126	3,057	29,741
Total Future Lease Payments	$ 194,550	$ 23,022	$ 17,055	$ 234,627

Note 10 Imputed Financing Sources

Imputed financing sources primarily represent costs that have been incurred by the Service but budgeted by another entity. The imputed cost of approximately $44 million for the year ended September 30, 2003 presented in the Service's accompanying financial statements reflects the recorded costs (e.g., employee benefit costs) that were financed by budgetary resources of the OPM. For the year ended September 30, 2002, imputed financing sources totaled approximately $40 million. The Service recognizes the actuarial present value of pensions and other retirement benefits for its employees during their active years of service. Imputed costs also include services that are received by the Service at less than full cost. The U.S. Treasury made no Judgment Fund payments on behalf of the Service in FY 2003 and 2002.

Note 11 Dedicated Collections

The Service's financial statements reflect balances in three dedicated collections accounts: the Aquatic Resources Trust Fund (ARTF), the Federal Aid in Wildlife Restoration account, and the Sport Fish Restoration account.

The ARTF receives funding from excise tax receipts collected from manufacturers of equipment used in fishing, hunting, and sport shooting, and on motorboat fuels. It provides funding to the Service's Sport Fish Restoration Account, the U.S. Coast Guard Boat Safety Program and the Corps of Engineers Coastal Wetlands Program. The Sport Fish Restoration Account is authorized to use the excise tax revenues received to provide assistance to the 50 States, Puerto Rico, Guam, and the U.S. Virgin Islands, the Northern Mariana Islands, American Samoa, and the District of Columbia to carry out projects to restore, enhance, and manage sport fishery resources. Receipts collected into this account are permanently appropriated for use in the fiscal year following collection. Excise tax revenues distributed to the Service on behalf of the Coast Guard and Corps of Engineers are immediately transferred out to those entities.

The Federal Aid in Wildlife Restoration Account (the Pittman-Robertson Wildlife Restoration Act) receives funding from excise taxes on sporting firearms, handguns, ammunition and archery equipment. It provides Federal Assistance to the 50 States, Puerto Rico, Guam, and the U.S. Virgin Islands, the Northern Mariana Islands, and American Samoa for projects to restore, enhance, and manage wildlife resources, and to conduct state hunter education programs. The Act authorizes receipts for permanent indefinite appropriations to the Service for use in the fiscal year following collection. Funds not used by the states after two years are reverted to the Service for carrying out the provisions of the Migratory Bird Conservation Act.

The distribution of funds relating to these accounts represents an inflow of revenues as a result of intra-governmental transfers. The table below reflects summarized information as of September 30, 2003 and 2002 (dollars in thousands):

	Aquatic Resources Trust Fund	Wildlife Restoration	Sport Fish Restoration	TOTAL 2003	Aquatic Resources Trust Fund	Wildlife Restoration	Sport Fish Restoration	TOTAL 2002
ASSETS								
Fund Balance with Treasury	$ 22,074	$ 18,099	$ (6,938)	$ 33,235	$ 20,635	$ 5,350	$ 2,349	$ 28,334
Investments	1,415,812	453,148	0	1,868,960	1,364,823	499,389	0	1,864,212
Accounts Receivable	273	1	883,688	883,962	273	1	846,669	846,943
Other Assets	0	123	0	123	0	123	0	123
TOTAL ASSETS	$ 1,438,159	$ 471,371	$ 876,750	$ 2,786,280	$ 1,385,731	$ 504,863	$ 849,018	$ 2,739,612
LIABILITIES								
ARTF Amounts Due to FWS	$ 883,661	$ 0	$ 0	$ 883,661	$ 846,669	$ 0	$ 0	$ 846,669
ARTF Amounts Due to Coast Guard	0	0	62,515	62,515	0	0	66,812	66,812
ARTF Amounts Due to Corps of Engineers	0	0	327,164	327,164	0	0	304,226	304,226
ARTF Amounts Due to Others	83	0	0	83	83	0	0	83
Accounts Payable	0	17,073	22,284	39,357	0	14,061	15,301	29,362
Other Liabilities	0	624	1,348	1,972	0	312	370	682
TOTAL LIABILITIES	883,744	17,697	413,311	1,314,752	846,752	14,373	386,709	1,247,834
Total Net Position	554,415	453,674	463,439	1,471,528	538,979	490,490	462,309	1,491,778
TOTAL LIABILITIES AND NET POSITION	$ 1,438,159	$ 471,371	$ 876,750	$ 2,786,280	$ 1,385,731	$ 504,863	$ 849,018	$ 2,739,612
CHANGE IN NET POSITION								
Net Position, Beginning of Fiscal Year	$ 538,979	$ 490,490	$ 462,309	$ 1,491,778	$ 571,775	$ 478,436	$ 391,810	$ 1,442,021
Change in Net Position:								
Non-exchange Revenue								
Taxes	426,377	214,337	0	640,714	415,673	223,812	0	639,485
Investment Interest and Other	40,949	8,745	358	50,052	35,572	13,540	0	49,112
Transfers In/Out without Reimbursement	(451,890)	(243)	329,816	(122,317)	(484,041)	(298)	356,462	(127,877)
Program Expenses	0	(259,655)	(329,044)	(588,699)	0	(225,000)	(285,963)	(510,963)
Net Position, End of Fiscal Year	$ 554,415	$ 453,674	$ 463,439	$ 1,471,528	$ 538,979	$ 490,490	$ 462,309	$ 1,491,778

Note 12 Statement of Budgetary Resources

Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority

The Service's FY 2003 operating and grant programs were financed and its financial activity summarized under 9 general fund accounts, 17 special fund accounts, and 2 trust fund accounts, all with distinct Treasury Fund Symbols. All of the Service's funding needs are authorized in a number of appropriation laws, which prescribe a combination of current and permanent authority. Each of the Service's funds were appropriated under OMB apportionment Category B and were subject to annual apportionment. Current authority includes funding that is legislatively re-authorized each fiscal year, while permanent authority is issued once and remains in effect in future fiscal years until re-authorized or rescinded. The majority of the Service's 28 fund accounts are classified as no-year, which allows the Service to use its fiscal year-end unobligated resources remaining in these accounts to execute its operating and grant programs in subsequent fiscal years. The Service's operating account is classified as a multi-year appropriation, whose budget authority is available for two years. The FY 2002 / 2003 Resource Management appropriation expired at the end of FY 2003. Expired, not cancelled funds, are resources that are available for the next 5 fiscal years to settle obligations arising in the year the funds were enacted, but are not available for new business. These expired resources are reported as "Permanently Not Available."

Permanent Indefinite Appropriations
As of September 30, 2003, the Service has 12 permanent indefinite appropriations which are primarily utilized to administer endangered species and wildlife and sport fish restoration grants to states and other non-federal entities, and to fund land acquisition for the National Wildlife Refuge System. These funds do not require annual appropriation action by Congress as they are subject to the authorities of permanent law and are available indefinitely. FY 2003 total budgetary resources were $948,308,893, which represent $715,854,624 in obligations incurred and an available balance of $232,454,269. Comparitively, at the end of FY 2002 total budgetary resources were about $963,793,000, which represent approximately $706,413,000 in obligations incurred and an available balance of about $257,380,000.

Differences Between Amounts Reported in the Statement of Budgetary Resources and Amounts Reported in the Budget of the U.S. Government
The Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the FY 2002 President's Budget (Budget of the United States Government). The President's Budget with the actual FY 2002 amounts was released on February 3, 2003 and can be found at the OMB Web site: http://www.whitehouse.gov/omb.

The differences between the FY 2002 Statement of Budgetary Resources and the President's Budget primarily relate to:

a. Unobligated Balances Start of Year and Spending Authority from Offsetting Collections reflect differences between the SBR and the President's Budget which are attributed to the fact that the SBR includes expired appropriations and the President's Budget does not.

b. A small difference exists due to the cancellation of expired accounts. This amount is below the reporting threshold used for the President's Budget.

Note 13 Allocation Transfer Accounts
Allocation transfers are the amounts of budget authority and other resources transferred to other Federal agencies to carry out the purposes of the parent account. Within the Department of Interior, the Service is a recipient of allocation transfers from the Bureau of Land Management (Wildland Fire Management and Central Hazardous Materials), and the Office of the Secretary (Natural Resources Damage Assessment).

OMB Circular A-11 requires parent accounts to report their allocation agency's transactions as part of their Statement of Budgetary Resources, while the recipient of allocation transfers reports the proprietary activity on its Balance Sheet, Statement of Net Cost of Operations, and Statement of Changes in Net Position. This process creates a reconciling difference on the Statement of Financing.

For the Years Ended September 30, 2003 and 2002 (dollars in thousands)	2003	2002
Recipient Accounts		
Current Year Transfers	$ 110,400	$ 100,257
Transfer Reconciling Item	$ 110,400	$ 100,257

Note 14 Restatement

During FY 2003, general property, plant and equipment (PP&E) was restated as a result of the Service correcting its records and removing certain real property assets that were improperly capitalized in prior years. The net impact of the restatement resulted in a decrease to PP&E as of October 1, 2001 and September 30, 2002 of approximately $100 million and $90 million, respectively. The net impact of lower depreciation expense and additional expense for assets previously improperly capitalized during FY 2002 resulted in an increase of approximately $5 million in the FY 2002 Consolidated Statement of Changes in Net Position and FY 2002 Consolidated Statement of Financing. There was also an increase of approximately $15 million in the FY 2002 Consolidated Statement of Changes in Net Position to record real property assets that were transferred from other federal agencies. The following table summarizes the changes due to the restatement, including the impact on the four mission goals in the FY 2002 Consolidated Statement of Net Cost (dollars in thousands):

October 1, 2001	
Cumulative Results of Operations, as previously reported	$ 2,776,948
Restatement	(99,990)
Cumulative Result of Operations, as restated	$ 2,676,958

	2002 As Originally Reported	Restatement	2002 As Restated
Balance Sheet			
General Property, Plant & Equipment, Net	$ 935,384	$ (89,782)	$ 845,602
Cumulative Results of Operations	2,970,614	(89,782)	2,880,832
Statement of Net Cost			
Sustainablity of Fish and Wildlife Recreation	$ 545,149	$ 1,586	$ 546,735
Habitat Conservation	812,193	2,974	815,167
Public Use and Enjoyment	164,378	349	164,727
Partnerships in Natural Resouces	241,649	48	241,697
Total Net Cost of Operations	1,763,369	4,957	1,768,326
Statement of Changes in Net Position			
Other Budgetary Financing Sources	$ 8,515	$ 1,404	$ 9,919
Other	(705)	705	0
Transfers In/Out without Reimbursement	15,422	13,056	28,478
Total Financing Sources	23,232	15,165	38,397
Statement of Financing			
Transfers In/Out Without Reimbursement	$ 28,478	$ 13,056	$ 15,422
Benefits Ordered but Not Yet Provided	(101,367)	1	(101,368)
Resources That Fund Expenses Recognized in Prior Periods	(166)	(6)	(160)
Offsetting Receipts Not Part of the Net Cost of Operations	31,173	(3,070)	34,243
Resources That Finance the Acquisition of Assets	(97,909)	33,199	(131,108)
Other	8,738	1,535	7,203
Depreciation and Amortization	32,930	(24,127)	57,057
Revaluation of Assets or Liabilities	0	(21,126)	21,126
Budget Amounts are Reported by Other Federal Entities	100,257	2,715	97,542
Other	2,780	2,780	0
	$ 4,914	$ 4,957	$ (43)

The table above for the Statement of Financing includes both the restatement and certain reclassifications.

Note 15 Net Cost by GPRA and Reporting Responsibility Segments
During the year ended September 30, 2003, the Service revised the line item presentation of the Consolidating Statement of Net Cost to include presentation of Eliminations which were reported in fiscal year 2002 under General Operations.

The Service presented costs associated with acquiring, constructing, and renovating heritage assets which were $31,000 and $27,000 for the years ended September 30, 2003 and 2002, respectively. The costs associated with acquiring and improving stewardship lands were $122 million and $120 million for the years ended September 30, 2003 and 2002, respectively

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The statements on the following page fully display the Service's earned revenues, gross cost, and net cost of operations as of September 30, 2003 and 2002.

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidating Statement of Net Cost
For the Year Ended September 30, 2003

(dollars in thousands)

	Endangered Species	Fisheries and Habitat Conservation	Law Enforcement	Migratory Birds and State Programs	National Wildlife Refuge System	International Affairs	General Operations	Eliminations	Total
Sustainability of Fish and Wildlife Populations									
Cost -Services Provided to the Public	$ 225,902	$ 104,148	$ 66,732	$ 22,740	$ 66,662	$ 14,611	$ 98,482	$ 0	$ 599,277
Revenue Earned from the Public	230	7,382	6,978	221	396	165	1,120	0	16,492
Net Cost of Services to the Public	225,672	96,766	59,754	22,519	66,266	14,446	97,362	0	582,785
Cost - Services Provided to Federal Agencies	7,017	41,629	206	6	3,042	0	2,112	(320)	53,692
Revenue Earned from Federal Agencies	6,843	40,202	200	6	2,925	0	2,078	(320)	51,934
Net Cost of Services Provided to Federal Agencies	174	1,427	6	0	117	0	34	0	1,758
Net Cost of Operations	225,846	98,193	59,760	22,519	66,383	14,446	97,396	0	584,543
Habitat Conservation									
Cost -Services Provided to the Public	37,307	134,499	0	61,755	322,737	0	170,578	0	726,876
Revenue Earned from the Public	0	8,947	0	12,938	9,509	0	3,159	0	34,553
Net Cost of Services to the Public	37,307	125,552	0	48,817	313,228	0	167,419	0	692,323
Cost - Services Provided to Federal Agencies	0	31,490	0	12,475	8,619	0	5,395	(468)	57,511
Revenue Earned from Federal Agencies	0	30,536	0	12,387	8,389	0	5,309	(468)	56,153
Net Cost of Services Provided to Federal Agencies	0	954	0	88	230	0	86	0	1,358
Net Cost of Operations	37,307	126,506	0	48,905	313,458	0	167,505	0	693,681
Public Use and Enjoyment									
Cost -Services Provided to the Public	0	6,427	0	9,751	131,783	0	25,365	0	173,326
Revenue Earned from the Public	0	541	0	136	3,285	0	368	0	4,330
Net Cost of Services to the Public	0	5,886	0	9,615	128,498	0	24,997	0	168,996
Cost - Services Provided to Federal Agencies	0	6,881	0	68	2,943	0	463	(121)	10,234
Revenue Earned from Federal Agencies	0	6,634	0	66	2,823	0	455	(121)	9,857
Net Cost of Services Provided to Federal Agencies	0	247	0	2	120	0	8	0	377
Net Cost of Operations	0	6,133	0	9,617	128,618	0	25,005	0	169,373
Partnerships in Natural Resources									
Cost -Services Provided to the Public	0	3,490	0	551,884	0	0	4,745	0	560,119
Revenue Earned from the Public	0	0	0	0	0	0	17	0	17
Net Cost of Services to the Public	0	3,490	0	551,884	0	0	4,728	0	560,102
Cost - Services Provided to Federal Agencies	0	0	0	0	0	0	34	(5)	29
Revenue Earned from Federal Agencies	0	0	0	0	0	0	34	(5)	29
Net Cost of Services Provided to Federal Agencies	0	0	0	0	0	0	0	0	0
Net Cost of Operations	0	3,490	0	551,884	0	0	4,728	0	560,102
Total									
Cost -Services Provided to the Public	263,209	248,564	66,732	646,130	521,182	14,611	299,170	0	2,059,598
Revenue Earned from the Public	230	16,870	6,978	13,295	13,190	165	4,664	0	55,392
Net Cost of Services to the Public	262,979	231,694	59,754	632,835	507,992	14,446	294,506	0	2,004,206
Cost - Services Provided to Federal Agencies	7,017	80,000	206	12,549	14,604	0	8,004	(914)	121,466
Revenue Earned from Federal Agencies	6,843	77,372	200	12,459	14,137	0	7,876	(914)	117,973
Net Cost of Services Provided to Federal Agencies	174	2,628	6	90	467	0	128	0	3,493
Net Cost of Operations	$ 263,153	$ 234,322	$ 59,760	$ 632,925	$ 508,459	$ 14,446	$ 294,634	$ 0	$ 2,007,699

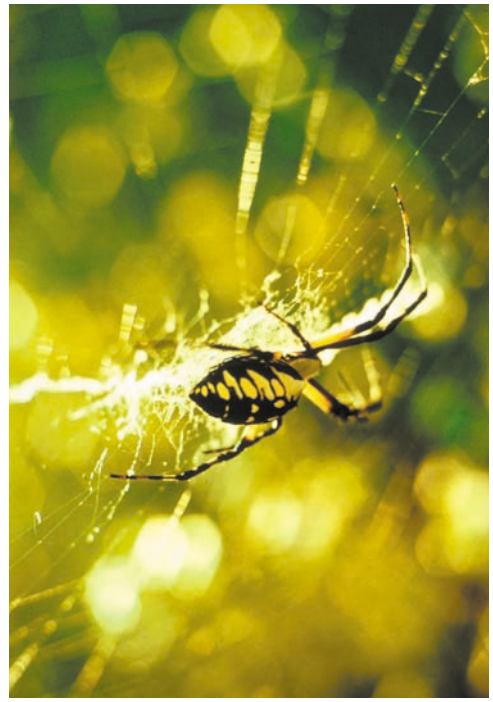
U.S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidating Statement of Net Cost
For the Year Ended September 30, 2002

(dollars in thousands)

	Endangered Species	Fisheries and Habitat Conservation	Law Enforcement	Migratory Birds and State Programs	National Wildlife Refuge System	International Affairs	General Operations	Eliminations	Total As Restated
Sustainability of Fish and Wildlife Populations									
Cost -Services Provided to the Public	$ 183,049	$ 70,194	$ 54,295	$ 67,447	$ 56,560	$ 12,903	$ 117,516	$ 0	$ 561,964
Revenue Earned from the Public	175	7,638	6,153	237	384	169	670	0	15,426
Net Cost of Services to the Public	182,874	62,556	48,142	67,210	56,176	12,734	116,846	0	546,538
Cost - Services Provided to Federal Agencies	5,287	38,138	441	35	1,916	0	2,063	(204)	47,676
Revenue Earned from Federal Agencies	5,287	38,138	441	35	1,916	0	1,866	(204)	47,479
Net Cost of Services Provided to Federal Agencies	0	0	0	0	0	0	197	0	197
Net Cost of Operations	182,874	62,556	48,142	67,210	56,176	12,734	117,043	0	546,735
Habitat Conservation									
Cost -Services Provided to the Public	25,344	112,014	0	226,048	267,016	0	217,488	0	847,910
Revenue Earned from the Public	0	5,288	0	12,548	11,956	0	3,478	0	33,270
Net Cost of Services to the Public	25,344	106,726	0	213,500	255,060	0	214,010	0	814,640
Cost - Services Provided to Federal Agencies	0	28,170	0	12,182	5,766	0	5,595	(329)	51,384
Revenue Earned from Federal Agencies	0	28,170	0	12,182	5,766	0	5,068	(329)	50,857
Net Cost of Services Provided to Federal Agencies	0	0	0	0	0	0	527	0	527
Net Cost of Operations	25,344	106,726	0	213,500	255,060	0	214,537	0	815,167
Public Use and Enjoyment									
Cost -Services Provided to the Public	0	6,263	0	31,617	101,547	0	29,125	0	168,552
Revenue Earned from the Public	0	734	0	91	2,733	0	305	0	3,863
Net Cost of Services to the Public	0	5,529	0	31,526	98,814	0	28,820	0	164,689
Cost - Services Provided to Federal Agencies	0	4,612	0	87	1,785	0	441	(85)	6,840
Revenue Earned from Federal Agencies	0	4,612	0	87	1,785	0	403	(85)	6,802
Net Cost of Services Provided to Federal Agencies	0	0	0	0	0	0	38	0	38
Net Cost of Operations	0	5,529	0	31,526	98,814	0	28,858	0	164,727
Partnerships in Natural Resources									
Cost -Services Provided to the Public	0	5,347	0	233,038	0	0	3,312	0	241,697
Revenue Earned from the Public	0	0	0	0	0	0	2	0	2
Net Cost of Services to the Public	0	5,347	0	233,038	0	0	3,310	0	241,695
Cost - Services Provided to Federal Agencies	0	0	0	0	0	0	27	(5)	22
Revenue Earned from Federal Agencies	0	0	0	0	0	0	25	(5)	20
Net Cost of Services Provided to Federal Agencies	0	0	0	0	0	0	2	0	2
Net Cost of Operations	0	5,347	0	233,038	0	0	3,312	0	241,697
Total									
Cost -Services Provided to the Public	208,393	193,818	54,295	558,150	425,123	12,903	367,441	0	1,820,123
Revenue Earned from the Public	175	13,660	6,153	12,876	15,073	169	4,455	0	52,561
Net Cost of Services to the Public	208,218	180,158	48,142	545,274	410,050	12,734	362,986	0	1,767,562
Cost - Services Provided to Federal Agencies	5,287	70,920	441	12,304	9,467	0	8,126	(623)	105,922
Revenue Earned from Federal Agencies	5,287	70,920	441	12,304	9,467	0	7,362	(623)	105,158
Net Cost of Services Provided to Federal Agencies	0	0	0	0	0	0	764	0	764
Net Cost of Operations	$ 208,218	$ 180,158	$ 48,142	$ 545,274	$ 410,050	$ 12,734	$ 363,750	$ 0	$ 1,768,326

Jamie Richie /USFWS

Bombay Hook NWR, Delaware



Joe Snyder /USFWS

Garden Spider

Mark Emery /USFWS

Alaska Peninsula NWR, Alaska

Required Supplementary Information

(Unaudited, see Auditors Report)

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Combined Statement of Budgetary Resources
For the Year Ended September 30, 2003

(dollars in thousands)	Resource Management	Sport Fish Restoration	Federal Aid in Wildlife Restoration	Other Grants	Total Grants	Misc	Total Budgetary Accounts
Budgetary Resources:							
Budget Authority:							
Appropriations Received	$ 922,429	$ 451,890	$ 235,466	$ 277,725	$ 965,081	$ 202,099	$ 2,089,609
Net Transfers, Current Year Authority (+/-)	18,113	(121,938)	0	0	(121,938)	4,550	(99,275)
Unobligated Balance:					-		
Beginning of Fiscal Year	52,121	138,295	81,060	294,984	514,339	164,401	730,861
Net Transfers, Unobligated Balance, Actual (+/-)	646	0	0	0	0	(5,346)	(4,700)
Spending Authority From Offsetting Collections:					-		
Earned					-		
Collected	132,342	0	0	0	0	6,473	138,815
Receivable From Federal Sources	1,989	0	0	0	0	724	2,713
Change in Unfilled Customer Orders					-		
Advance Received	(8,385)	0	0	0	0	(23,734)	(32,119)
Without Advance From Federal Sources	(8,279)	0	0	0	0	2,742	(5,537)
Recoveries of Prior Year Obligations	19,433	32,831	16,599	3,175	52,605	3,365	75,403
Permanently Not Available	(6,038)	0	0	(51,496)	(51,496)	(924)	(58,458)
Total Budgetary Resources	$ 1,124,371	$ 501,078	$ 333,125	$ 524,388	$ 1,358,591	$ 354,350	$ 2,837,312
					-		
Status of Budgetary Resources:					-		
Obligations Incurred:					-		
Direct	$ 969,541	$ 351,900	$ 271,615	$ 343,754	$ 967,269	$ 203,513	$ 2,140,323
Reimbursable	124,465	0	0	0	0	1,671	126,136
Total Obligations Incurred	1,094,006	351,900	271,615	343,754	967,269	205,184	2,266,459
Unobligated Balance:					-		
Apportioned	28,798	149,178	61,510	180,634	391,322	149,166	569,286
Unobligated Balance not Available	1,567	0	0	0	0	0	1,567
Total Status of Budgetary Resources	$ 1,124,371	$ 501,078	$ 333,125	$ 524,388	$ 1,358,591	$ 354,350	$ 2,837,312
					-		
Relationship of Obligations to Outlays:					-		
Obligations Incurred	$ 1,094,006	$ 351,900	$ 271,615	$ 343,754	$ 967,269	$ 205,184	$ 2,266,459
Obligated Balance, Net, Beginning of Fiscal Year	263,121	339,683	195,051	123,845	658,579	144,616	1,066,316
Obligated Balance, Net, End of Fiscal Year:					-		
Accounts Receivable	30,297	0	0	0	0	827	31,124
Unfilled Customer Orders From Federal Sources	41,370	0	0	0	0	4,044	45,414
Undelivered Orders	(294,811)	(315,422)	(176,361)	(313,314)	(805,097)	(94,872)	(1,194,780)
Accounts Payable	(46,119)	(22,444)	(17,200)	(5,442)	(45,086)	(2,280)	(93,485)
Less: Spending Authority Adjustments	(13,143)	(32,831)	(16,599)	(3,175)	(52,605)	(6,831)	(72,579)
Outlays:					-		
Disbursements	1,074,721	320,886	256,506	145,668	723,060	250,688	2,048,469
Collections	(123,958)	0	0	0	0	17,261	(106,697)
Subtotal	950,763	320,886	256,506	145,668	723,060	267,949	1,941,772
Less: Offsetting Receipts	0	0	(11,676)	(34,835)	(46,511)	(16,232)	(62,743)
Net Outlays	$ 950,763	$ 320,886	$ 244,830	$ 110,833	$ 676,549	$ 251,717	$ 1,879,029

See accompanying Independent Auditor's Report

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Combined Statement of Budgetary Resources
For the Year Ended September 30, 2002

(dollars in thousands)	Resource Management	Sport Fish Restoration	Federal Aid in Wildlife Restoration	Other Grants	Total Grants	Misc	Total Budgetary Accounts
Budgetary Resources:							
Budget Authority:							
Appropriations Received	$ 850,597	$ 390,743	$ 213,481	$ 293,066	$ 897,290	$ 226,069	$ 1,973,956
Net Transfers, Current Year Authority (+/-)	0	(34,095)	0	0	(34,095)	(17,085)	(51,180)
Unobligated Balance:							
Beginning of Fiscal Year	50,575	117,133	107,632	119,361	344,126	240,412	635,113
Net Transfers, Unobligated Balance, Actual (+/-)	0	0	0	0	0	(18,915)	(18,915)
Spending Authority From Offsetting Collections:							
Earned							
Collected	116,310	0	0	0	0	16,122	132,432
Receivable From Federal Sources	370	0	0	0	0	(1,089)	(719)
Change in Unfilled Customer Orders							
Advance Received	216	0	0	0	0	(2,441)	(2,225)
Without Advance From Federal Sources	778	0	0	0	0	(162)	616
Recoveries of Prior Year Obligations	19,467	27,974	14,144	2,244	44,362	3,584	67,413
Permanently Not Available	(584)	0	0	(200)	(200)	0	(784)
Total Budgetary Resources	$ 1,037,729	$ 501,755	$ 335,257	$ 414,471	$ 1,251,483	$ 446,495	$ 2,735,707
Status of Budgetary Resources:							
Obligations Incurred:							
Direct	$ 870,938	$ 363,459	$ 254,197	$ 119,488	$ 737,144	$ 270,300	$ 1,878,382
Reimbursable	114,670	0	0	0	0	11,794	126,464
Total Obligations Incurred	985,608	363,459	254,197	119,488	737,144	282,094	2,004,846
Unobligated Balance:							
Apportioned	49,523	138,296	81,060	294,983	514,339	164,401	728,263
Unobligated Balance not Available	2,598	0	0	0	0	0	2,598
Total Status of Budgetary Resources	$ 1,037,729	$ 501,755	$ 335,257	$ 414,471	$ 1,251,483	$ 446,495	$ 2,735,707
Relationship of Obligations to Outlays:							
Obligations Incurred	$ 985,607	$ 363,460	$ 254,197	$ 119,488	$ 737,144	$ 282,094	$ 2,004,846
Obligated Balance, Net, Beginning of Fiscal Year	245,700	295,329	181,733	120,968	598,030	129,591	973,321
Obligated Balance, Net, End of Fiscal Year:							
Accounts Receivable	28,307	0	0	0	0	104	28,411
Unfilled Customer Orders From Federal Sources	49,649	0	0	0	0	1,302	50,951
Undelivered Orders	(280,698)	(324,014)	(180,677)	(118,327)	(623,018)	(132,915)	(1,036,631)
Accounts Payable	(60,380)	(15,669)	(14,374)	(5,519)	(35,562)	(13,106)	(109,048)
Less: Spending Authority Adjustments	(20,614)	(27,975)	(14,144)	(2,244)	(44,362)	(2,333)	(67,310)
Outlays:							
Disbursements	947,571	291,131	226,735	114,366	632,232	264,737	1,844,540
Collections	(116,526)	0	0	0	0	(13,681)	(130,207)
Subtotal	831,045	291,131	226,735	114,366	632,232	251,056	1,714,333
Less: Offsetting Receipts	0	0	(14,995)	(35,813)	(50,808)	(15,141)	(65,949)
Net Outlays	$ 831,045	$ 291,131	$ 211,740	$ 78,553	$ 581,424	$ 235,915	$ 1,648,384

See accompanying Independent Auditor's Report

Facilities Management

Deferred Maintenance

Water management facilities, fish hatcheries, visitor centers, buildings, roads, dikes, dams, bridges, and other facilities represent a major investment by the American people in resources that support the mission of the Service. Annually, the Service must defer needed maintenance because of current and prior year budget constraints. Deferring maintenance of facilities leads to accelerated deterioration which can adversely impact public and employee health and safety, disrupt operations of the Service, and compromise the conservation of fish and wildlife resources.

Estimating deferred maintenance requires the professional judgment of numerous site managers gathering information from multiple sources. These estimates can represent average costs among several sources or the last estimate increased over time to accommodate inflation. Each method is acceptable; however, estimates may vary by 15 percent above or below any discrete number provided.

The Service's estimates of deferred maintenance are aggregate estimates for all facilities and for all property related to facility operations and represent estimates of bringing existing facilities into a functional or acceptable operating condition. Equipment replacement is excluded from these estimates.

The Service's method of calculating deferred maintenance is consistent with calculations made by the other Bureaus within the Department of Interior. The Service is conducting condition assessments on its public road system which may contribute to additional

Steve Chase/USFWS

Camping at Arctic NWR, Alaska

Gary M. Stolz/USFWS

Wild Mustard

estimate increases in future years. Deferred maintenance for Service facilities is estimated at approximately $1.1 billion, plus or minus 15 percent, placing the range between approximately $1 billion and $1.4 billion for all facilities under the jurisdiction of the Service. Included in these figures is approximately $843,000 of deferred maintenance for museum-related property. The table below shows deferred maintenance projections by asset category.

A standard measure of condition for facilities, known as the Facilities Condition Index (FCI), is a ratio of the estimates of deferred maintenance needs to the estimates of replacing facilities at today's costs. The FCI illustrates the percentage of its capital amount that an institution would have to spend to eliminate the deferred maintenance. If the ratio of accumulated deferred maintenance to replacement value is from zero to five percent, the condition of the facilities is considered as "good." If the ratio is greater than five but less than 10 percent, the condition is considered as "fair" and if the ratio is 10 percent or greater, then condition is considered "poor." The combined FCI for all Service facilities is estimated at approximately 13 percent. Therefore, the overall condition of Service facilities is "poor."

Equipment Replacement and Repair
Although the estimates for deferred maintenance exclude equipment, the Service is tracking equipment needs in much the same manner as it tracks facility condition and maintenance. As with its facilities, the Service has determined that much of its equipment is in poor condition and, thus, in need of repair, rehabilitation or replacement.

Robert Karges II/USFWS

Elk in Velvet

Estimated Range of Deferred Maintenance for FY 2003	General PP&E		Stewardship PP&E		Total	
(dollars in thousands)	Low	High	Low	High	Low	High
Roads Bridges and Trails	$295,531	$399,836	$115,497	$156,261	$411,028	$556,097
Irrigation, Dams and Water	213,511	288,868	82,155	111,151	295,666	400,019
Buildings (e.g.: Administration, Education, Housing, Historic Buildings	175,789	237,833	16,025	21,681	191,814	259,514
Other Structures (e.g.: Recreation sites, Hatcheries, etc.)	105,194	142,322	2,471	3,342	107,665	145,664
	$790,025	$1,068,859	$216,148	$292,435	$1,006,173	$1,361,294

Sherry James/USFWS

Lake at Two Ponds NWR, Colorado

Mike Bender/USFWS

Black Bear

Required Supplementary Stewardship Information

(Unaudited, see Audtors Report)

Jesse Achtenberg/USFWS

Flamingos

Allen Montgomery/USFWS

Monarch Butterflies

Steve Maslowski/USFWS

Bison

Stewardship Lands
Lands within the National Wildlife Refuge System (NWRS) include 542 refuge units, 203 Waterfowl Production Area Counties, and 50 Coordination Areas. Lands and facilities within the National Fish Hatcheries System (NFHS) comprise 70 National Fish Hatcheries, including 1 Historical National Fish Hatchery, 7 Fish Technology Centers, and 9 Fish Health Centers located in 34 States.

Figure 1 displays the acreage owned by the Service (Federal Acres) and acreage where the Service has an interest or secondary jurisdiction (non-Federal Acres). Lands are acquired through a variety of methods, including withdrawal from the public domain, fee title purchase, transfer of jurisdiction, donation, or gift. Lands are purchased through two primary sources of funding, the Migratory Bird Conservation Fund and the Land and Water Conservation Fund.

Stewardship of the Nation's fishery and aquatic resources, through the NFHS, has been a core responsibility of the Service for more than 120 years. Although the Service does not own all the lands and facilities in the NFHS, the Service participates in managing all units within the NFHS. In addition to conservation, restoration, and management of fish and wildlife resources and their habitats, the NFHS provides recreational opportunities to the public, such as fishing, hiking, and bird watching.

Condition of Stewardship Lands
Stewardship lands managed by the Service are used and managed in accordance with the explicit purpose of the statutes that authorize their acquisition or designation and that direct their use and management. The Service manages lands so that the fish, wildlife and plants that depend on these lands for habitat are benefited over both the short and long term. Lands placed in the land conservation systems managed by the Service are protected into perpetuity for as long as they remain in the NWRS and the NFHS. As new lands enter these conservation systems, they are managed to maintain their natural state, to mitigate adverse effects of actions previously conducted by others, or to enhance existing conditions to improve benefits to fish and wildlife resources. The Service safeguards the stewardship values of the lands it administers through

Figure 1
Service Stewardship Lands (in thousands)

Category	Federal Acres				Total Non-Federal Acres	Combined Total Acres	Condition	Number of Sites
	Beginning Acres	Additions	Withdrawals	Ending Acres				
National Wildlife Refuge	89,175	138	**0**	89,313	3,247	92,560	See RSSI Narrative	542
Refuge Coordination Areas	197	**0**	**0**	197	119	316	See RSSI Narrative	50
Waterfowl Productions Areas	736	5	**0**	741	2,254	2,995	See RSSI Narrative	203
Fish Hatcheries	12	1	**0**	13	9	22	See RSSI Narrative	86

Uses of Stewardship Lands
Lands managed within the NWRS are used to conserve and manage fish, wildlife and plant resources for the benefit of present and future generations. While the needs of fish and wildlife must come first, refuges welcome those who want to enjoy the natural world, to observe or photograph wildlife, to hunt or to fish, or to study and learn about wildlife and their needs.

management actions taken on individual refuges and hatcheries; however, such actions are taken in consideration of the needs and purposes of the entire NWRS and NFHS. Conservation systems provide integrated habitat and life support for both permanent resident populations and for migratory populations needing temporary stopover sites to rest, breed, feed, and to survive nationwide and, in some cases, worldwide seasonal migrations. While some individual units of stewardship lands can be improved at any time during their management cycles, the condition of the stewardship assets as a whole, protected by inclusion in either the NWRS and the NFHS, is sufficient to support the mission of the Service and the statutory purposes for which these conservation systems were authorized.

The Service assesses the condition of its stewardship lands and resources by monitoring habitat characteristics and determining whether management actions are needed to change those characteristics to benefit their usefulness to fish and wildlife resources. The condition of stewardship lands managed by the Service is not static. Land or habitat conditions may change, either through the imposition of management techniques or through natural stressors or processes acting on those lands. The Service's goal is to provide habitat that optimizes the usefulness of stewardship lands to benefit fish and wildlife resources.

Net Change in Stewardship Land Acreage from 2002 to 2003
The Service had a net increase of approximately 144,000 acres of stewardship lands in FY 2003. These lands provide permanent protection for valuable wetland, riparian, coastal and upland habitat for fish, wildlife and plant species, including threatened and endangered species. The Service increased the number of units in the NWRS from 540 in FY 2002 to 542 in FY 2003. The Baca National Wildlife Refuge was established in San Luis Valley, Colorado, and the Mountain Longleaf National Wildlife Refuge was established in Anniston, Alabama.

Revenue from Stewardship Assets
The Recreation Fee Demonstration Program is a highly successful endeavor for participating sites of the NWRS, which collected approximately $3.8 million in FY 2003 compared with $3.5 million collected in FY 2002. At least 80 percent of revenues are returned to the refuges collecting it. These funds enhance visitor experiences and improve visitor services through restoring and maintaining trails, developing interpretive programs, improving signs, and creating accessible wildlife observation platforms.

Also, the Service makes payments to counties in which Service lands and holdings are located. Funding for these payments is derived from a combination of annual appropriations and revenues generated through the sale of products from Service lands incidental to habitat management, such as timber and oil and gas receipts. Payments to counties in FY 2003 and FY 2002 exceeded $17.3 million.

Investments in Human Capital
Stewardship investment in Human Capital refers to education and training programs financed by the Federal Government for the benefit of the public. The Department of Labor administers the Job Corps Program, which provides training and educational opportunities for at-risk young people 16 to 24 years old. The Service is provided operating funds by the Department of Labor for its participation in the program, and operates two Job Corps Civilian Conservation Centers - Mingo, located at Mingo Wildlife Refuge in Puxico, Missouri, and Treasure Lake, located at the Wichita Mountains Wildlife Refuge in Indiahoma, Okahoma. Information on the funds provided by the Department of Labor shown below (dollars in millions):

2000	2001	2002	2003	TOTAL
$11.8	$10.9	$12.3	$12.3	$47.3

Based on obligations rather than actual expenses.

Investments in Non-Federal Physical Property
Stewardship investment in non-Federal physical property refers to expenses incurred by the Federal Government for the purchase, construction, or the major renovation of physical property owned by State or local governments. Such investments include major additions, alterations or replacements of structures; the purchase of major equipment; and, the purchase or improvements of other physical assets for purposes of


Gary M. Stolz/USFWS

Woodhouse Toad


USFWS Photo

Polar Bear


USFWS Photo

Atlantic Puffin, Petit Manan NWR

Dave Menke/USFWS

Indigo Bunting, Desoto NWR, Iowa

enhancing fish and wildlife management in States and for land restoration, species protection, recreational hunting and boating improvements, and habitat loss prevention. Expenses for maintenance and operations are not considered investments. In FY 2003, the Service estimates that it provided $114 million in grants to State and local governments that resulted in the purchase, construction or major renovation of physical property they own. The amounts provided for non-Federal physical property are provided in Figure 2 below.

Figure 2
Investments in Non-Federal Physical Property (dollars in millions)

Property Type	1999	2000	2001**	2002*	2003	TOTAL
Dams and Other Structures					$62	$62
Land					$52	$52
Total	Not Available	Not Available	$178-$192	$169	$114	$465-$479

* Not categorized

** First year reported, submitted as a range, not categorized

R.I. Bridges/USFWS

Black Bear Cub

Natural Heritage Assets

Natural heritage assets include lands managed by the Service that carry overlay or special designations authorized by the Congress, the President, or the Secretary of the Interior. The Wilderness Protection Act of 1964 created the National Wilderness Preservation System. Designations ensure that lands in the Wilderness Preservation System are preserved and protected in their natural state. Wilderness is where the earth and its community of life are untrammeled by human beings and where humans themselves are visitors who do not remain. The Service manages 84 wilderness areas encompassing over 20 million acres in 26 States. This total represents approximately 20 percent of the 106 million acres in theNational Wilderness Preservation System.

For a river to be eligible for the National Wild and Scenic Rivers System, it must be in a free flowing condition and it must possess one or more specific attributes, such as having scenic, recreational, geologic, historic, fish and wildlife, or cultural value, or other similarly unique characteristics. An eligible river may be added to the National System by an act of Congress or by the Secretary of Interior after application by the governor of a state. The total system encompasses approximately 11,294 river miles in 160 river units. The Service manages segments of eight Wild and Scenic Rivers totalling approximately 1,051 miles in length. These rivers are destined to run wild and free as long as they remain in the Wild and Scenic Rivers System and, as such, the condition of these lands and waters is maintained so as to preserve the natural qualities for which they were originally intended.

National Natural Landmarks (NNL) are management areas designated by the Secretary of the Interior that have national significance by exemplifying one of a natural region's characteristic biotic or geologic features. Sites must be one of the best known examples of a unique feature and must be located in the United States or on the Outer Continental Shelf. The Service manages 43 NNLs on units of the National Wildlife Refuge System. Natural heritage assets represent a subset of stewardship lands. As such, their condition is as good or better than that described for stewardship lands.

The Convention on Wetlands of International Importance, adopted in 1971 in Ramsar, Iran, provides a framework for the conservation of wetlands worldwide. Marsh, fen,

Bill Hickey/USFWS

Walrus, Togiak NWR, Alaska

Figure 3: Cultural and Natural Heritage Assets

Category	September 30, 2002 (units)	Additions (units)	Withdrawals (units)	September 30, 2003 (units)	Condition % of units: Good	Fair	Poor	Unknown
Archaeological and Historic Sites	11,500	522		12,022		5		95
National Historic Landmarks	9			9				100
National Register of Historic Places	84	1		85		20		80
Wilderness Preservation Areas	84			84	50	50		
Wild and Scenic Rivers	8			8		100		
National Natural Landmarks	43			43	50	50		
Total	11,728	523		12,251				

peatland, or waters; whether static or flowing; fresh, brackish or salt and riparian or coastal zones adjacent to wetlands are included in and protected by the Convention. The Ramsar Convention is embraced by more than 122 nations throughout the world and recognizes the special value of 1,031 Wetlands of International Importance located in these countries. In the United States 20 refuges encompass 17 RAMSAR sites.

The Western Hemisphere Shorebird Reserve Network (WSHRN) fosters international shorebird conservation partnerships among countries throughout the Americas. Sites are accepted into the WHSRN if they satisfy biological criteria and all owners and stakeholders agree to make a commitment to shorebird conservation. Throughout the United States, 24 sites are managed within the NWRS, 9 of which hold international status.

Cultural Heritage Assets
Of the total number of known cultural resources, 85 sites or districts have been listed in the National Register of Historic Places. The Service also manages 9 National Historic Landmarks designated by the Secretary of the Interior to protect and recognize sites of exceptional importance. The overall condition of facilities managed by the Service, which includes cultural heritage assets, is documented to be in poor condition and in need of repair. (Please refer to the discussion of Facilities Management in the previous section of this report.)

As of FY 2003, the Service documented more than 12,000 archaeological and historic sites on a small percentage of its lands and estimates that it is responsible for tens of thousands of additional sites yet to be identified. Cultural properties range in age and type from the Sod House historic ranch on the Malheur NWR, Oregon to early 20th Century military fortifications in Fort Dade on Egmont Key NWR, Florida, to a segment of the Lewis and Clark National Historic Trail on the Charles M. Russell NWR, Montana, to the Victorian-era historic buildings on the D.C. Booth Historic Fish Hatchery in South Dakota. Cultural properties managed by the Service reflect our Nation's rich heritage and diversity.

Service-wide information on the number and status of archaeological properties is summarized each year for the Secretary of the Interior's report to Congress required by the Archaeological Resources Protection Act. The physical condition of cultural resources managed by the Service varies tremendously, depending on location, maintenance, use, and type of resource. While no comprehensive assessment is available, the Service is developing guidance and criteria to begin collecting information. The Service estimates that a minimum of 10 years is required to assess the condition of identified cultural resources under its jurisdiction. Figure 3 identifies the Service's Heritage Assets by category.


USFWS Photo

Reef Fish


Greg Knadle/USFWS

Chincoteague NWR, Virginia

USFWS Photo

Lighthouse

Museum Collections

Service museum collections consist of millions of objects, documents, and specimens maintained in 136 offices or on loan to over 300 non-Federal repositories for study and long-term care. The overall condition of Service museum collections is being determined by an ongoing item-by-item assessment. Collections consist of archaeological materials excavated from Service-managed cultural resources; paleontological collections; objects and documents associated with the agency's history; wildlife art; and, wildlife, fisheries, and botanical specimens. Service collections are used for educational and interpretive programs, research on changes to habitat and wildlife, and also for maintaining the history and traditions of the Service's programs and employees.

Figure 4 below is a table identifying the holdings, by category of museum property.

The Service continues to add new museum collections each year, primarily as a result of the scientifically controlled excavation of archaeological sites on its lands. More than 80 percent of the Service's collections are safeguarded through compliance with the Secretary of the Interior's curations standards found in 36 CFR 79. Institutions must maintain the appropriate environmental, recordkeeping, and security controls in order to qualify for maintaining Federal collections. Loan agreements signed by the Service and institutions create the basis for ensuring the perpetual care of these valuable materials. The Service is in the process of cataloging its collections, and of those objects approximately 211,000 have been determined to be in fair condition. Figure 5 on the following page illustrates the status of the cataloging and condition assessment of the collections.

Information standards for tracking the location, provenance or origin, and condition of museum collections are addressed by Department of the Interior and Service policy and data standards. A U.S. Army Corps of Engineers study commissioned in 2002 will more accurately determine the scope of the effort needed to meet Departmental

Figure 4

US Fish & Wildlife Service Museum Property

Number of FWS Units Holding Museum Property: 136

Number of Other Institutions Holding Museum Property for FWS: 324

	NUMBER OF OBJECTS IN FWS FACILITIES	**NUMBER OF OBJECTS IN OTHER INSTITUTIONS**	**TOTAL NUMBER OF FWS OBJECTS**
Year Data Last Updated	2003	2003	2003
DISCIPLINE			
Archaeology	48,284	1,867,244; approx 781.97 cubic ft; 391 boxes; 235.62 kg; 257.51 liters	1,915,528; approx. 781.97 cubic ft; 391 boxes; 235.62 kg; 257.51 liters
Art	576	10	586
Ethnography	43	11,003	11,046; 2 sets of tools
History	210,167; 875 boxes	388	210,555; 3 sets of photos; 875 boxes
Documents*	51,068; 20+ lf; 155 boxes	9; 819.9 lf;	51,077; 838.9 lf; 155 boxes
Botany	12,586; 1 herbarium	3,100	15686; 1 herbarium
Zoology	183,385	1125	184,510
Paleontology	464	12,134*	12,598*
Geology	0	0	0
Environmental Samples	13	202; approx. 5 cubic ft	215; approx. 5 cubic ft.
TOTAL NUMBER OF OBJECTS	506,586; 20+ lf; 1,030 boxes; 2 sets of tools; 3 sets of photos	1,895,215; approx. 786.97 cubic ft; 391 boxes; 819.9 lf; 235.62 kg; 257.51 liters	2,401,801; approx 786.97 cubic ft:; 1,266 boxes; 839.9 lf; 235.62 kg; 257.51 liters; 2 sets of tools; 3 sets of photos

* For reporting purposes the Department of Interior calculates:
1 box = 1 linear foot; 1 linear foot = 1600 objects

standards, but the Service estimates that it will require a minimum of 10 years to fully account for museum collections according to these standards. The status of the evaluation process is shown in Figure 6.

Figure 5

FY 2003 Status of Cataloging and Condition of Cataloged Service Museum Collections								
Estimated Total Collection Size FY 2002	Additions Since Last Report	Withdrawals Since Last Report	Estimated Total Collection Size FY 2003	Total Number of Service Items Catalogued	Number of Catalogued Items with Item-level Condition Data	Number of Catalogued Items in Good, Fair, & Poor Condition		
						Good	Fair	Poor
4,488,000	2,913	(496,917)	3,994,000	1,400,000	211,000		211,000	

Figure 6

FY 2003 Conditions at Locations Housing Service Collections					
Number of locations housing Service museum collections		Number of Locations Evaluated	Condition of Collections Based on the % of Departmental Standards Met by the Locations Evaluated		
			Good (Meet > 70%)	Fair (Meet 50 - 70%)	Poor (Meet < 50%)
FWS facilities	136	5		5	
Other facilities	324	27	27		


USFWS Photo

Archaelogical Excavation at Kenai NWR, Alaska


Hollingsworth/USFWS Photo

Salmon Eggs, Leavenworth NFH, WA


Jon Nickles/USFWS

Caribou


Rob Shallenberger/USFWS

Pelican Island NWR, Florida

United States Department of the Interior
Office of Inspector General
Washington, D.C. 20240

December 22, 2003

Memorandum

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

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

Subject: Independent Auditors' Report on the U.S. Fish and Wildlife Service's Financial Statements for Fiscal Years 2003 and 2002 (No. C-IN-FWS-0078-2003)

We contracted with KPMG LLP, 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. The contract required that KPMG conduct its audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of America, Office of Management and Budget Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, and the General Accounting Office/President's Council on Integrity and Efficiency, *Financial Audit Manual.*

In its Independent Auditor's Report dated October 31, 2003 (Attachment 1), KPMG issued an unqualified opinion on FWS's financial statements. KPMG identified six reportable conditions related to internal controls and financial operations: (1) processes, controls, and financial reporting related to plant, property, and equipment, (2) controls and processes related to financial reporting, (3) controls, processes and allocations in the statement of net cost, (4) application and general controls over financial management systems, (5) reconciling transactions within the Service as well as with other Department of the Interior components, and (6) controls, processes and financial reporting relating to capital equipment. KPMG considers the first reportable condition to be a material weakness. With regard to compliance with laws and regulations, KPMG found FWS to be noncompliant with portions of the Federal Financial Management Improvement Act. Specifically, FWS's financial management systems did not substantially comply with Federal financial management systems requirements and Federal accounting standards for plant, property and equipment.

KPMG is responsible for the auditors' report and for the conclusions expressed in the report. We do not express opinions on the U.S. Fish and Wildlife Service's financial statements, conclusions on the effectiveness of internal control, conclusions on whether the U.S. Fish and Wildlife Service's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations.

In the November 17, 2003 response (Attachment 2), FWS generally concurred with the report's findings and recommendations and indicated corrective actions would be taken. Based on FWS's response we consider all the recommendations resolved but not implemented. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

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.

We appreciate the cooperation and assistance of FWS personnel during the audit. If you have any questions, please contact me at (202) 208-5512.

Attachments (2)

KPMG

Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

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 accompanying consolidated balance sheets of the United States Fish and Wildlife Service (the Service) as of September 30, 2003 and 2002, and the related consolidated statements of net costs, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing, for the years then ended (herein after referred to as the financial statements). The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered the Service's internal control over financial reporting and tested the Service's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the Service's financial statements as of and for the years ended September 30, 2003 and 2002 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

During our audit of the 2003 financial statements, we determined that as of September 30, 2003 and 2002, the Service had corrected its records for real property assets, which represent the majority of general property, plant, and equipment included in the Service's financial statements. We expressed a qualified opinion on the Service's 2002 financial statements in our report dated January 10, 2003. Our opinion on the 2002 financial statements, as presented herein, is different from that expressed in our previous report. As discussed in note 14 to the financial statements, the Service restated its fiscal year 2002 consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, and consolidated statement of financing.

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

Reportable Condition That is Considered to be a Material Weakness

A. Processes, controls, and financial reporting related to property, plant, and equipment

Other Reportable Conditions

B. Controls and processes related to financial reporting

C. Controls, processes, and allocations in the statement of net cost

D. Application and general controls over financial management systems

E. Reconciling transactions within the Service as well as with other Department of the Interior components

F. Controls, processes, and financial reporting related to capital equipment

The results of our tests of compliance with laws and regulations, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

The results of our tests of FFMIA disclosed instances where the Service did not substantially comply with federal financial management systems requirements and federal accounting standards.

The following sections discuss our opinion on the Service's financial statements, our consideration of the Service's internal control over financial reporting, our tests of the Service's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Service as of September 30, 2003 and 2002, and the related consolidated statements of net costs, consolidated statements of changes in net position, combined statements of budgetary resources, and consolidated statements of financing for the years then ended.

In our report dated January 10, 2003, we expressed an opinion that the 2002 financial statements did not fairly present the financial position and changes in net position in conformity with accounting principles generally accepted in the United States of America because the Service did not maintain customary records for its real property assets, which represent the majority of general property, plant, and equipment included in the Service's financial statements. As described in note 14, the Service corrected its records for real property assets and restated its 2002 financial statements to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the 2002 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Service as of September 30, 2003 and 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the management's discussion and analysis, required supplementary information and required supplementary stewardship information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control 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 control over financial reporting that, in our judgment, could adversely affect the Service's ability to initiate, record, process, summarize, and report financial data consistent with the assertions 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.

In our fiscal year 2003 audit, we noted the following matters involving internal control over financial reporting and its operation that we consider reportable conditions. We believe that the reportable condition A is a material weakness.

A. Processes, Controls, and Financial Reporting Related to Property, Plant, and Equipment

In order to address the problems noted in the 2002 audit regarding the recording of general property, plant, and equipment (PP&E), the Service completed the following in 2003:

- Issued a *Financial Accounting Policy for U.S. Fish and Wildlife Service Property, Plant and Equipment and Stewardship Assets* that provides the accounting guidance for the Service's general PP&E, and assets designated as stewardship PP&E. This policy was based in part on a similar policy issued by the Department of the Interior in fiscal year 2003.
- Completed a physical inventory of its real property assets.
- Reviewed the costs of its real property assets to ensure the costs were accurate and complete.

However, during 2003, the Service did not fully address some of the underlying resource and process problems identified that caused the issues noted in the prior audit. As a result, the Service had a significant number of errors in the cost of its assets that had to be corrected through additional work in the regions. Therefore, the Service still needs to improve controls over the recording of general property, plant, and equipment as follows:

1. **Regional Capabilities** – We noted certain regions did not address real property valuations in an accurate and timely manner during 2003. As a result, certain regions had significant numbers of errors in the cost of assets that had to be corrected through additional work. Specifically:

   - Region 9, in particular the National Conservation Training Center, did not update its real property inventory records as part of the Service's effort to correct its records.
   - Region 1 did not fully understand the Service policy on assets acquired with stewardship land, costed certain assets using the wrong construction cost index and had other errors that impacted initial sampling results.
   - Region 2 did not fully understand the Service's policy on assets acquired with stewardship land and failed to update approximately 77 Real Property Inventory (RPI) records with accurate cumulative costs. Both issues impacted initial sampling results.
   - Regions 4 and 5 did not fully understand the components of cumulative cost in RPI, specifically related to construction work in process, and as a result, misstated the cost of certain assets in RPI.
   - Most regions did not fully understand and correctly implement the Service's policy on assets acquired with stewardship land. Also, there were no procedures in place centrally to ensure these assets were properly accounted for.

2. **Acquisitions and Disposals** – While the Service issued a property policy that stated the basis for determining the cost for different types of acquisitions, it did not establish procedures for maintaining the RPI system. Specific instructions as to how and when to populate financial related data in RPI have not been developed. Also, the Service did not develop a methodology

for determining the acquisition cost of assets constructed by the Service using internal labor resources and purchased materials, known in the Service as "Force Account Work." In addition, the Service did not have adequate processes in place to identify disposals of real property assets for financial reporting purposes.

3. **Engineering** – The Service charged 17.5% as an engineering cost estimate to a majority of its real property assets costed during its effort to correct real property records. However, this percentage had not been updated since 1999 and was related to deferred maintenance projects only. In addition, the Service could not easily determine if the 17.5% corresponded to actual charges for recently acquired assets.

4. **Reconciliation of Subsidiary Ledgers to General Ledgers** – The Service is still having difficulty in accurately and efficiently reconciling its subsidiary and general ledgers for real property and construction work in progress. This is in part due to the fact that the Service focused on correcting the subsidiary ledger in fiscal year 2003 and has not historically maintained and reconciled its subsidiary ledgers throughout the fiscal year. We noted that when the Service did reconcile the ending construction work in progress balance to the general ledger, a $9 million adjustment was recorded.

5. **Capital Leases** – While the Service's policy addresses capital leases, the Service had difficulty in providing documentation as to how current year leases were evaluated for proper capital or operating treatment.

Recommendations

1. **Regional Responsibilities** – We recommend the Service assess regional responsibilities and capabilities related to its real property inventory and make changes as necessary to ensure that real property transactions are recorded in the subsidiary ledger and general ledger at the time the financial event occurs and at the proper amount. At a minimum, the Service should:

    a. Develop real property inventory and valuation training for regional offices and field stations.

    b. Consider centralizing quality control measures and other financial reporting aspects as necessary to ensure accurate, complete, and timely financial reporting.

2. **Acquisitions and Disposals** – We recommend that the Service implement processes and internal controls to ensure that real property transactions are recorded in the subsidiary ledger and general ledger at the time the financial event occurs and at the proper amount. We also recommend that the Service develop processes to track "Force Account Work" and properly determine disposals of assets.

3. **Engineering** – If the Service continues to use a standard percentage to charge an engineering cost estimate to capital assets, as opposed to actual costs, it should update its analysis on an annual basis, reconcile the standard percentage cost applied to actual costs incurred, and ensure it covers construction projects as well as deferred maintenance projects.

4. **Reconciliation of Subsidiary Ledgers to General Ledgers** – We recommend that the Service reconcile its subsidiary and general ledgers in accordance with Department policy (on a monthly basis), and promptly resolve any reconciling items.

5. **Capital Leases** – We recommend that the Service establish procedures to determine, at the inception of a lease, if the lease should be accounted for as a capital or operating lease. This analysis should be documented appropriately.

B. Controls and Processes Related to Financial Reporting

The DOFM 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. The Service made many improvements to its financial reporting process in fiscal year 2003, including its timeliness.

The Service has also significantly lowered the number of adjustments made in Hyperion after the Federal Financial System closed. Finally, the Service developed a financial statements branch that has worked over the last year to implement policies and procedures related to financial statement reconciliation and preparation. However, during our audit, we still noted the following weaknesses in the Service's financial reporting process:

There was inadequate quality control over the annual accountability report. We noted a number of items that were incorrect and did not reconcile in the first draft of the financial statements, including:

- Beginning balances of net position did not agree to the prior year report.
- The 2002 Statement of Financing was not accurate.
- The Fund Balance with Treasury note was not accurate.
- The note disclosures presenting allocation transfer accounts did not agree to the principal financial statements.
- Stewardship expense was not disclosed in the notes to the financial statements.
- The Service did not fully address reclassifications of 2002 balances.

After the Service certified its trial balance to the Department of the Interior (Department), we proposed, and the Service made adjustments to:

- Record approximately $29 million of imputed federal costs.
- Record an approximate $9 million decrease in construction work in progress.
- Record approximately $300 million of reclassifications of 2002 appropriations received and transferred to properly reflect the Aquatic Resource Trust Fund activity.
- Record a $35 million reclassification to properly reflect the federal aid accrual to the public.
- Record a $35 million reclassification to properly reflect the Cooperative Endangered Species Conservation Trust Fund revenue.
- For its largest environmental clean-up site, the Service did not coordinate cost and probability information from site personnel and the Solicitor's Office. Also, the Service did not update the clean-up costs for this site from the previous year. As a result, the liability was overstated by $2.3 million.
- The Service did not adjust its environmental clean-up accruals for inflation.

The deficiencies in the Service's financial reporting process result from a lack of adequate quality control over the annual report. It appears that the Service did not adequately review and agree the report prior to submitting it to the Department and its auditors. Also, the Service did not reconcile final property and construction work in process files to the general ledger. Finally, the Service did not evaluate the need for reclassifications of 2002 balances.

Recommendations

The Service should implement adequate quality control procedures to ensure its financial statements, including note disclosures, are accurate and complete. These procedures should include:

1. Assigning responsibility and accountability for financial statement review to ensure balances between financial statements and notes agree. This responsibility should be assigned at an appropriate level of the organization and be performed by a person(s) knowledgeable of federal accounting standards and financial statement preparation guidance.

2. Completing the General Accounting Office CFO Act Checklist as part of the annual financial statement preparation process.

3. As the Service changes posting models and business processes, evaluating reclassifications of prior year balances.

4. Assigning responsibility for the reconciliations of subsidiary records to the general ledger throughout the year.

5. Ensuring that the appropriate personnel are responsible for the determination, review, and recording of environmental clean-up liabilities. Procedures should be placed in operation to ensure accurate, updated data is obtained in a timely manner to record the ECL liability.

C. Controls, Processes, and Allocations in the Statement of Net Costs

The Service reports its costs and revenues through four responsibility segments as follows:

- Mission Goal 1 – Sustainability of Fish and Wildlife Populations
- Mission Goal 2 – Habitat Conservation: A Network of Lands and Waters
- Mission Goal 3 – Public Use and Enjoyment
- Mission Goal 4 – Partnerships in Natural Resources

For the statement of net costs, the programs' net cost data is grouped into the four responsibility segments. Based on management's perspective, these responsibility segments represent the Service's current mission goals in its Government Performance and Results Act (GPRA) strategic and annual performance plans. The programs are as follows:

- Endangered Species
- Fisheries and Habitat Conservation
- National Wildlife Refuge System
- Migratory Birds and State Programs
- Law Enforcement
- International Affairs
- General Operations

Revenues and costs for the subactivities of the programs noted above are assigned to the particular responsibility segments based on the program manager's perspective of what percentage of each subactivity applied to each responsibility segment. During our audit, we noted that certain program personnel were unable to initially support the allocation of subactivities to the mission goals. Specifically, certain programs could not communicate the rationale for their allocations or provide budget or other data to support their assessments. Adequate guidance was not provided to program offices to review and confirm the matrix of subactivities and allocation to mission goals. Also, programs did not execute the DOFM instructions and contact DOFM for clarification or assistance.

In a subsequent review of the allocations conducted by the Service, approximately 150 of 460 subactivities changed. The Service also noted differences between its allocation worksheets and the allocations in Hyperion. The magnitude of these changes in the fiscal year 2003 statement of net costs was as follows:

Mission goal		2003 before changes (in thousands)	2003 after changes (in thousands)
1 – Sustainability of Fish and Wildlife Populations	$	574,954	584,543
2 – Habitat Conservation		1,050,798	693,681
3 – Public Use and Enjoyment		79,095	169,373
4 – Partnerships in Natural Resources		300,587	560,102
Total net costs	$	2,005,434	2,007,699

Note: Entries were made between the preliminary draft and final statement of net costs for approximately $2 million.

Recommendations

The Service should ensure that components of its statement of net costs are fairly presented. Specifically, the Service should:

1. Provide adequate background information and instructions to program offices to carry out their responsibilities when confirming and updating the matrix of subactivity allocations.

2. Review program allocations for reasonableness and consistency.

3. Ensure allocations in Hyperion are accurate and based on Service submissions.

D. Application and General Controls Over Financial Management Systems

The Service has made recent improvements in the security and controls over its information systems; however, controls still need to be improved in the areas described below, as required by OMB Circular A-130, *Management of Federal Information Resources*. These conditions could affect the Service's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, ensure that data and system integrity is achieved, and protect its information resources.

During our audit, we noted that the Service improved its risk assessment, security planning, and computer security training processes. The Service has established a plan of action to complete risk assessments and certification and accreditations for its major applications and general support systems. The Service also improved its policies and procedures governing National Communications Center functions. Finally, the Service improved certain aspects of its network security though configuration management. However, we did note several areas in which controls still need to be improved. During our audit, Service management was responsive and took immediate action to address several of the following weaknesses that we identified.

1. **Entity-Wide Security Program and Planning:** An entity-wide security program, including the establishment of security policies and a related implementation plan, is the foundation of an entity's security control structure and a reflection of senior management's commitment to

addressing security risks. As outlined in OMB Circular A-130, an effective security program includes a risk assessment process, a certification process, and an effective incident response and monitoring capability. While the Service has processes in place that address some of these areas, the Service has not ensured that they have been completed in accordance with NIST guidance. Specifically, the Service has not:

- Implemented an effective entity-wide security program that includes a centralized security structure, a comprehensive incident handling program, a process for acknowledgement of a Statement of Responsibility (with user's rules of behavior), a process for prompt user access removal from all Service systems; and,
- Established appropriate position sensitivity levels and performance of adequate background checks for certain sensitive positions.

2. **Access Controls:** Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. The objectives of limiting access are to ensure that: (1) users have only the access needed to perform their duties; (2) access to very sensitive resources, such as security software programs, is limited to very few individuals; and (3) employees are restricted from performing incompatible functions or functions beyond their responsibilities. The Service did not have adequate controls to limit or detect access to certain information systems in order to protect against unauthorized modification, loss, and disclosure of data. We noted:

   - User accounts that were not promptly removed upon employee termination in the IDEAS and Federal Financial System (FFS) applications;
   - No policy requirement for the periodic review of access logs to detect abnormal or unauthorized activity;
   - Improperly configured database software that increases the risk of unauthorized access to application data; and,
   - Weaknesses on certain servers that could provide internal users with unauthorized access to servers and could lead to full control over a server.

3. **Software Development and Change Controls:** Establishing controls over the modification of application software programs helps to ensure that only authorized programs and authorized modifications are implemented. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or "turned-off," or that processing irregularities could be introduced. The Service has not established a current, comprehensive system life cycle that describes a standard methodology, a detailed software and application software change management process, and software testing procedures.

4. **Segregation of Duties:** Segregation of duties is important to ensure the division of roles and responsibilities and steps in critical functions are designed in information systems so that no one individual can undermine the process. We noted weaknesses in the Service's segregation of duties surrounding:

   - The establishment of a user operations manual for the Federal Aid Information Management System (FAIMS) that addresses the required segregation of systems administration, database administration, input, and other system responsibilities; and,
   - Regional security responsibilities being performed as collateral duties that may have an impact on the ability to adequately perform regional security responsibilities and to attend sufficient, relevant training.

5. **Service Continuity:** Losing the capability to process, retrieve, and protect electronic information could significantly impact the Service's ability to accomplish its mission. Thus, procedures should be in place to protect information resources, minimize the risk of unplanned interruptions, and recover critical operations should interruptions occur. We noted several weaknesses related to service continuity that should be corrected by the Service to mitigate the risk of service interruptions. Specifically, we noted:

   - The IDEAS contingency plan is in draft form and needs improvement in certain areas;
   - Several regions have not formally documented their data backup and storage procedures;
   - Several regional contingency plans do not have sufficient detailed elements to address the protection of resources, minimization of unplanned interruptions and processes to recover critical operations in the event of an unplanned outage; and,
   - Testing of contingency plans is needed to establish assurance about the viability of the contingency plans.

Recommendation

We recommend that the Service continue to develop and implement a formal action plan to improve the control environment over its financial management systems. This plan should address each of the areas discussed above, as well as other areas that might impact the information technology control environment to ensure adequate security and protection of the Service's financial management systems.

E. Reconciling Transactions Within the Service as Well as With Other Department of the Interior Components

As part of its reporting process, the Service is required to reconcile intra-bureau activity and intra-departmental transactions between other Interior bureaus (referred to as trading partners). The Department and the Service have implemented a process to reconcile the intra-departmental transactions on a quarterly basis (and monthly towards year-end). In order to address the material weakness from the prior audit related to eliminations, the Service formed an eliminations team that has implemented several changes and improvements to the elimination process. These changes include:

- Establishing step-by-step procedures for the elimination process.
- Creating a guide for researching differences between the Service and trading partners.
- Using Snapshot to compare the Federal Financial System and Hyperion.
- Using queries to import data in a useable format.
- Using a new reconciliation worksheet in Hyperion that links to other trading partners input for government standard general ledger accounts.
- Tracking journal entries that impact the listing of large elimination differences.
- Using analytics to compare general ledger accounts between the Service and its trading partners.
- Establishing a checklist for the posting of adjusting journal entries.
- Communicating more actively with sister bureaus in identifying and resolving issues.

As of March 31, 2003, the Service's intra-bureau activity was out of balance by over $300 million and it had variances with other Interior bureaus totaling over $8 million. As of June 30, 2003, the Service's intra-bureau activity was out of balance by $250,000 and it had variances with other Interior bureaus totaling $2.1 million. As of September 30, 2003, the Service had variances with other Interior bureaus totaling approximately $2 million. While the Service did show significant progress during the year, adequate controls were not in place during the full year under audit.

During the year, the Service also did not use the correct trading partners on transactions for the Aquatic Resources Trust Fund (ARTF) and the Sports Fish Restoration Account (SFRA). These transactions total greater than $500 million for the entire year. In September 2003, the Service corrected trading partner errors and developed policies and procedures to accurately record transactions between the ARTF and SFRA.

The Service's reconciliation process is a manual process, dependent in part on other Department bureaus. Variances within the Service accounts and between trading partners are currently identified through this manual process, which includes entering transaction data into Hyperion. This information is accessible by all Department bureaus. At times, bureaus do not load Hyperion elimination data in a timely manner to allow for accurate and complete reconciliation. In order for the Service's reconciliation process to be effective, it must work with other bureaus to obtain elimination data in a timely manner.

Recommendations

We recommend that the Service work with the Department to continue to improve its manual process to identify and reconcile the intra-Departmental transactions. This should include the following:

1. Identifying root causes of elimination variances and establishing procedures to accurately record transactions at inception.
2. Working with other bureaus to obtain elimination data in a timely manner. This should include taking a lead management role in the Department's effort to address elimination process issues.
3. Implementing the ARTF/SFRA procedures that were developed in September 2003 to ensure transactions between the two appropriations are properly recorded.

F. Controls, Processes, and Financial Reporting Related to Capital Equipment

The Service needs to continue to improve its controls and processes associated with the accounting for and reporting of capital equipment. During our audit, we noted the following:

- Neither the Personal Property Management System (PPMS) nor the Federal Financial System (FFS) was completely accurate at quarter-end due to various reconciliation and timing issues. The reconciliation prepared by the Division of Financial Management noted a $3.2 million unreconciled difference at June 30, 2003 and a $100,000 unreconciled difference at September 30, 2003. Also, our test work revealed that certain other reconciling items were inaccurate.
- The Service recorded corrections to capital equipment through current-year activity without an evaluation as to the impact to prior-year recorded amounts. For example, certain regions changed the acquisition cost of capital equipment. Such changes were treated as current period changes in the financial statements and not evaluated for their prior-period impact. Deletions were also not evaluated for their prior-period impact.
- Regions did not record transfers at net book value.

These deficiencies appear to be the result of the DOFM and the Division of Contracting and General Services not adequately communicating information needs to accurately reconcile capital equipment and record related depreciation.

Recommendations

We recommend the Service continue its efforts to evaluate and revise, as applicable, its processes for acquiring, tracking, and reporting capital equipment. Specifically, the Service should:

1. Improve the reconciliation performed by the DOFM of PPMS to FFS to ensure all reconciling items are identified and adequately supported.

2. Ensure transfer values are recorded at net book value.

3. Ensure corrections to capital equipment are evaluated as prior-period adjustments, as applicable.

A summary of the status of prior year reportable conditions is included as exhibit I. We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of the Service in a separate letter dated October 31, 2003.

Compliance with Laws and Regulations

Our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act* (FFMIA), disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and are described below.

The results of our tests of FFMIA disclosed instances, described below, where the Service's did not substantially comply with federal financial management systems requirements and the federal accounting standards for general property, plant, and equipment.

G. Federal Financial Management Improvement Act of 1996 (FFMIA)

1. **Federal Financial Management Systems Requirements** – As discussed in the section of our report entitled Internal Control over Financial Reporting, the Service needs to improve its information technology security and general control environment. As a result, the Service does not substantially comply with the information technology security and general control requirements of OMB Circular A-130, *Management of Federal Information Resources*.

2. **Federal Accounting Standards** – The Service is required to prepare its financial statements in accordance with federal accounting standards. As discussed in the section of this report entitled Internal Control over Financial Reporting, we identified a material weakness related to processes, controls, and financial reporting related to property, plant, and equipment. The foregoing material weakness in internal control is also an indicator of noncompliance with FFMIA provisions relating to federal accounting standards.

Recommendations

1. We recommend that the Service take the necessary actions to improve information technology security and general controls over its financial management systems in accordance with requirements set forth in OMB Circular A-130 in fiscal year 2004.

2. We recommend that the Service strengthen its procedures and internal control to ensure that buildings, structures, and construction work in progress are fairly stated and recorded in accordance with federal accounting standards.

The results of our tests of FFMIA disclosed no instances in which the Service's financial management systems did not substantially comply with the United States Standard General Ledger at the transaction level.

Responsibilities

Management's Responsibilities

The *Government Management Reform Act of 1994* (GMRA) requires each federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To assist the Department of the Interior in meeting the GMRA reporting requirements, the Service prepares annual financial statements.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparation of the Management's Discussion and Analysis (including the performance measures), required supplementary information, and required supplementary stewardship information, and
- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates, and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2003 and 2002 financial statements of the Service based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management, and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2003 audit, we considered the Service's internal control over financial reporting by obtaining an understanding of the Service's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered the Service's internal control over required supplementary stewardship information by obtaining an understanding of the Service's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over required supplementary stewardship information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Service's fiscal year 2003 financial statements are free of material misstatement, we performed tests of the Service's 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 provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Service. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the Service's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Distribution

This report is intended for the information and use of Service management, the Department of the Interior's management, the Department of the Interior's Office of Inspector General, OMB, 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.

KPMG LLP

October 31, 2003

Exhibit I

UNITED STATES FISH AND WILDLIFE SERVICE

Summary of the Status of Prior Year Findings

September 30, 2003

Reference	Condition	Status
2002 – A	Processes, controls, and financial reporting relating to buildings, structures, and construction work in process.	This material weakness has not been corrected and is repeated in fiscal year 2003. See finding A.
2002 – B	Financial reporting process.	This material weakness has not been completely corrected, but it has been downgraded in fiscal year 2003 as a reportable condition. See finding B.
2002 – C	Reconciling transactions within the Service as well as with other Department of the Interior Components.	This condition has not been corrected and is repeated in fiscal year 2003. See finding E.
2002 – D	Controls, processes, and financial reporting relating to year-end accruals.	This condition has been corrected.
2002 – E	Controls, processes, and financial reporting relating to capital equipment.	This condition has not been corrected and is repeated in fiscal year 2003. See finding F.
2002 – F	Security and general controls over financial management systems.	This condition has not been corrected and is repeated in fiscal year 2003. See finding D.
2002 – G	Grant controls and processes over reporting requirements.	This condition has been partially corrected and is included in the management letter.
2002 – H	IDEAS-Procurement Desktop controls.	This condition has been corrected.
2002 – I	Federal Financial Management Systems Requirements.	This condition has not been corrected and is repeated in fiscal year 2003. See finding G.
2002 – J	Federal Accounting Standards.	This condition has not been corrected and is repeated in fiscal year 2003. See finding G.

United States Department of the Interior

FISH AND WILDLIFE SERVICE
Washington, D.C. 20240

In Reply Refer To:
FWS/DFM

NOV 17 2003

Memorandum

To: Roger La Rouche
Assistant Inspector General for Audits
Office of Inspector General

From: Director

Subject: Draft Independent Auditors' Report on the U.S. Fish and Wildlife Service's Financial Statements for Fiscal Years 2003 and 2002

The Service has reviewed the subject draft audit report, in which KPMG, LLP issued an unqualified opinion on the Service's financial statements for FY 2003 and FY 2002. The Service generally agrees with the findings concerning internal controls over financial reporting considered by KPMG as reportable conditions. Following are our comments concerning the audit report.

General Comments

The Service is committed to taking all necessary corrective actions to resolve the identified deficiencies in our internal controls over financial reporting. However, several of the recommendations by KPMG address areas such as information technology (IT) controls, Intra-Departmental transactions, and financial statement preparation where corrective actions depend in part on development and implementation of Departmentwide policies, processes or systems. The Service will provide assistance to support the Department in these endeavors.

Internal Controls Over Financial Reporting

A. Processes, controls and financial reporting related to property, plant and equipment

The Service agrees that we need to improve controls over the recording of Service real property to ensure that our real property records are up-to-date, accurate and complete. A team has been formed to perform a comprehensive review of the Service's real property accounting and reporting function. The team consists of Service headquarters and Regional staff with extensive knowledge of the Service's real property accounting and reporting functions who will evaluate the efficiency and effectiveness of current processes, systems, organizational responsibilities, and management controls. The team will address all of the findings and recommendations relating to property, plant and equipment presented in the audit report, and develop appropriate corrective actions.

Following are our comments relating to the specific findings:

1. **Regional Capabilities** – We agree that real property valuations performed in our Regions were not always accurate and timely. We would like to point out, however, that the Service has unique real property accounting issues that are not easily understood. Although the Service implemented PP&E policy in FY 2003 that addresses these issues, we did not have the resources available to prepare

comprehensive technical guidance and provide training on real property accounting. The PP&E review team will be charged with developing real property guidance and training approaches, as well as other quality control measures to ensure that real property information is accurate, complete and timely.

2. **Acquisitions and Disposals** - The PP&E review team will address the appropriate processes for recording real property acquisitions and disposals timely in both the Service's real property subsidiary ledger and the official accounting system (FFS). Specific instructions will be developed for appropriately tracking and accounting for "force account" costs associated with real property assets.
3. **Engineering** - The PP&E review team will address the appropriate method for assigning engineering costs to the capitalized value of real property assets.
4. **Reconciliation of Subsidiary Ledgers to General Ledgers** - We will implement the necessary procedures to accomplish monthly reconciliations as required by the Department beginning in the second quarter of FY 2004.
5. **Capital Leases** - A Service Manual Chapter has been implemented that sets forth the criteria for determining capital leases versus operating leases. The directive includes a worksheet for determining capital and operating leases that must be completed at the inception of the lease and kept in the official lease file.

B. Controls and processes related to financial reporting

The Service agrees that quality control over the annual financial report needs to be improved. However, the report was prepared amidst a tremendous acceleration of the Department of the Interior's deadlines for Bureaus to complete their reports. The traditional quality control processes relied upon in previous years could not be as effective in such short time frames. Despite these restrictions, as pointed out in the audit report, the Service made many improvements to our financial reporting process. We improved the timeliness and accuracy of our trial balances, financial statements, and footnotes, and achieved a significant reduction in the number of post-closing adjustments made in Hyperion. Several of the adjustments were made in conjunction with the Service's audit team who subsequently reversed their position. We believe the corrections and adjustments made to our trial balances and financial statements were not extraordinary in comparison with other Bureaus faced with the same deadlines.

The Service is firmly committed to the transformation of financial management within the Department of the Interior over the next several years. The Service intends to build upon our financial reporting improvements of the past year by implementing all of the recommendations presented in this finding.

1. **Financial Statement Review** – The Service will ensure that responsibility for reviewing financial statements and notes is assigned to Branch of Financial Statements staff who are thoroughly knowledgeable of Federal accounting standards and all relevant financial statement guidance.
2. **General Accounting Office Checklist** – The Service used an interim checklist developed by the Department of the Interior for use in FY 2003. We will review the General Accounting Office checklist for use in FY 2004 and future years.
3. **Reclassification of Prior Year Balances** – The Service will evaluate all changes to posting models and business processes to determine their impact on prior year balances.
4. **Reconciliation of Subsidiary Ledgers to the General Ledger** – Responsibility for monthly reconciliations of subsidiary ledgers to the general ledger will be assigned to appropriate Division of Financial Management staff.

5. **Review of Environmental Cleanup Liabilities** - The Service agrees that the controls and processes relating to the determination of environmental clean-up liabilities (ECL) can be improved to ensure that the ECL information presented in our financial statements and notes is accurate and complete. We will perform a thorough review of the current procedures for developing ECL estimates, as well as the roles and responsibilities of the various offices involved in the process, and make all necessary changes to facilitate the preparation of timely and accurate ECL information.

C. Controls, Processes and Allocations in the Statement of Net Cost

The Service agrees that the process for allocating its revenues and expenses to its four mission goals needs to be improved to ensure that the components of its Statement of Net Cost are fairly presented.

1. **Guidance to Programs** – The Service will perform a thorough review of the revenue and expense allocation process, including the guidance provided to Program offices.
2. **Review of Program Allocations** - The roles of the Division of Financial Management and other Service offices in evaluating the reasonableness of program allocations will be reviewed and responsibility assigned as appropriate.
3. **Reconciliation of Allocations with Hyperion** – The Service will work with the Department of the Interior to obtain documentation of the allocations entered in Hyperion so that we can compare them with our records. We will also ask for responses verifying all of our change requests.

D. Application and General Controls Over Financial Management Systems

The Service agrees with the audit findings and has been actively working to implement many of the recommendations. The Service notes the following activities that pertain to the application of general controls over financial management systems.

1. **Entity-Wide Security Program and Planning** - The Service believes that it has implemented an effective IT entity-wide security program and planning processes by undertaking the following activities:

   The Service implemented the recommendation on incident reporting in KPMG NFR 2003-002 by issuing IT Bulletin 2003-007, "Interim IT Security Incident Reporting Process" on June 12, 2003. The Bulletin was disseminated to the Service's IT community for implementation. A revised bulletin, based on recently released Departmental guidance, will be issued in FY 2004.

   The Service developed a web site for its IT security program to track the completion of System Security Plans for all Major Applications (MA) and General Support Systems (GSS) as part of its plan to achieve full Certification and Accreditation in compliance with OMB Circular A-130.

   The Bureau Information Technology Security Manager coordinated with programs and Regions to produce four foundation security documents for each MA and GSS: Asset Valuations, System Security Plans, Risk Assessments, and Contingency Plans. The web site posts these documents for each MA and GSS in the Service's portfolio.

   Service policy (see 270 FW 7, Exhibit 1, paragraph A) requires each system owner of a MA or GSS to prepare rules of behavior specific to that system which "clearly delineate responsibilities of all individuals with access to the system and include the consequences of non-compliance." Service policy 270 FW 7.4 includes a process for prompt user access removal from all Service systems. In response to KPMG NFR 2003-005, the Password Control Document was modified in July 2003 to ensure a process for a user's acknowledgement of rules of behavior.

The Service established a process for distributing lists of terminated employees to be distributed to IT representatives for each Region and program in order to reassess the granted access levels within their respective systems/applications. The distributions began in September 2004.

The Acting Director issued a memorandum dated September 5, 2003, on "Service Security and Suitability Program" to "ensure positions are designated with the correct sensitivity levels and employees occupying those positions have the appropriate level of background investigation..." The memorandum includes a table of position types, including IT responsibilities, with corresponding sensitivity designations and investigation types.

Human Resource offices are working to ensure that each new IT position is assigned the correct position sensitivity and that whoever is hired into the position receives the appropriate background check; and to review existing IT positions, ensure that they are classified in the appropriate sensitivity level, and perform required background checks as needed; and to set up some basic supporting documentation.

2. **Access Controls** - Standards for access logs are included in 375 DM 19, which was formally adopted by the Service IT Bulletin 2003-009 dated July 11, 2003. Reiteration of policy on access logs was reiterated in a subsequent e-mail in August 2003 from the Bureau IT Security Manager to Regional and program security contacts.
3. **Software Development and Change Controls** - The Service issued IT Bulletin ITB 2003-005, "Software Development Life Cycle Guidebook," on July 9, 2003. This Guidebook applies to all Service systems and addresses all aspects of SDLC, including test plans, documentation of test results, delivery and implementation of software, and approval by management for all system and application software.
4. **Segregation of Duties** - While Regional security responsibilities are sometimes assigned to staff as collateral duties, the only system administration duties they have pertain to network administration of their local area networks; they are not involved in system design or development of the Service's major applications, which include the systems having financial management functions. Security of major applications is the responsibility of system owners, and the ability of such staff to compromise these systems is small, and the Service accepts the weakness as an acceptable risk. The Service plans to issue an IT Bulletin in December 2003 on IT Training based on NIST 800-16 that will include IT training requirements for those with IT security duties. This risk may be further mitigated if additional resources become available.
5. **Service Continuity** - The Service has implemented the recommendations pertaining to backups as previously noted in KPMG NFR 2003-001. As of June 19, 2003, Regions 4, 5, and 9 had formally documented their backup procedures as part of their contingency planning procedures. An IT Bulletin on "IT Systems Contingency Planning" issued July 24, 2003, includes the requirement that backup procedures be documented as part of IT contingency plans.

Following a recommendation in KPMG NFR 2003-003 pertaining to IT contingency planning, IT Bulletin 2003-008, "IT Systems Contingency Planning" defines requirements for IT contingency plans and adopts Department of the Interior's *Information Technology Systems Contingency Planning Guide*, dated April 30, 2002, issued by the Office of the Chief Information Officer, as methodology for preparing IT Contingency Plans.

E. Reconciling Transactions Within the Service as Well as With Other Department of the Interior Components

The Service agrees with the finding and we will continue to improve our manual reconciliation process. However, the problem of reconciling intra-Governmental transactions cannot be fully resolved until the Department of the Interior implements an automated system to facilitate eliminations.

1. **Root Causes of Variances** – The Service will continue to refine its processes to ensure that intra-Governmental transactions are recorded at inception. We will provide guidance to those responsible for entering these transactions on the importance of timely and complete trading partner information.
2. **Coordination with Other Bureaus** – The Service has established a strong working relationship with our sister Bureaus to identify and appropriately record transactions with these Bureaus. The Service has taken a lead role in dealing with our trading partners in the Department of the Interior, as reflected in our small end-of-year unreconciled balances as compared with other Bureaus. We will continue to work closely with our trading partners to minimize our unreconciled balances.
3. **Aquatic Resources Trust Fund Reconciliations** – The Service will permanently implement and document the procedures for tracking transactions between the ARTF and the SFRA developed in September 2003.

F. Controls, Processes and Financial Reporting Related to Capital Equipment

The Service agrees with the need to improve controls over the recording of Service personal property to ensure that our real property records are up-to-date, accurate and complete. Following are our comments relating to the specific recommendations:

1. **Reconciliation of PPMS to FFS** - We agree that process improvements are necessary to ensure the complete reconciliation of PPMS and FFS balances. Staff from the Division of Financial Management and the Division of Contracting and Facilities Management will work together to establish detailed reconciliation procedures to be applied on a monthly basis.
2. **Recording transferred assets at net book value** - We agree that the Service's offices did not always obtain information on the net book value (NBV) of assets transferred from other Federal agencies. The recently issued Director's Order specifically addresses this requirement. In addition, the PPMS has been programmed to automatically compute an estimated NBV when the information is not available from transferring agencies. For those transfers where the NBV is not provided, the PPMS automatically calculates an estimated NBV if the original acquisition cost and model year of the property are known.
3. **Prior period adjustments** - The Division of Financial Management has established procedures for identifying corrections to capital equipment amounts that should be reported as prior period adjustments.

Compliance with Laws and Regulations

G. Federal Financial Management Improvement Act of 1996 (FFMIA)

Following are the Service's comments concerning the audit findings relating to the requirements of the FFMIA:

1. **Federal Financial Management System Requirements** – The Service has made substantial efforts to comply with the information technology security and general control requirements of OMB Circular A-130, as detailed in our response to finding D. We believe these efforts will bring the Service into substantial compliance with A-130.
2. **Federal Accounting Standards** – The Service has made substantial progress toward improving our internal controls and procedures for recording property, plant and equipment, but we acknowledge that the process needs to be improved. We believe the work of the real property review team detailed in our response to finding A will result in permanent process improvements that will ensure that Service buildings, structures, and construction work in process are recorded accurately and timely in accordance with Federal accounting standards.

The Service appreciates the opportunity to provide comments on the draft audit report. If you have any questions or need additional information, please contact Paul Henne, Assistant Director for Business Management and Operations, at (703) 358-1822.

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U.S. Department of Interior
U.S. Fish & Wildlife Service

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