U.S. Fish & Wildlife Service

Shared Commitments to Conservation

2002 Annual Financial Report of the U.S. Fish and Wildlife Service

Front Cover Photo Credit: Red Fox Pup ©Hollingsworth/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 U.S. Fish and Wildlife 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.

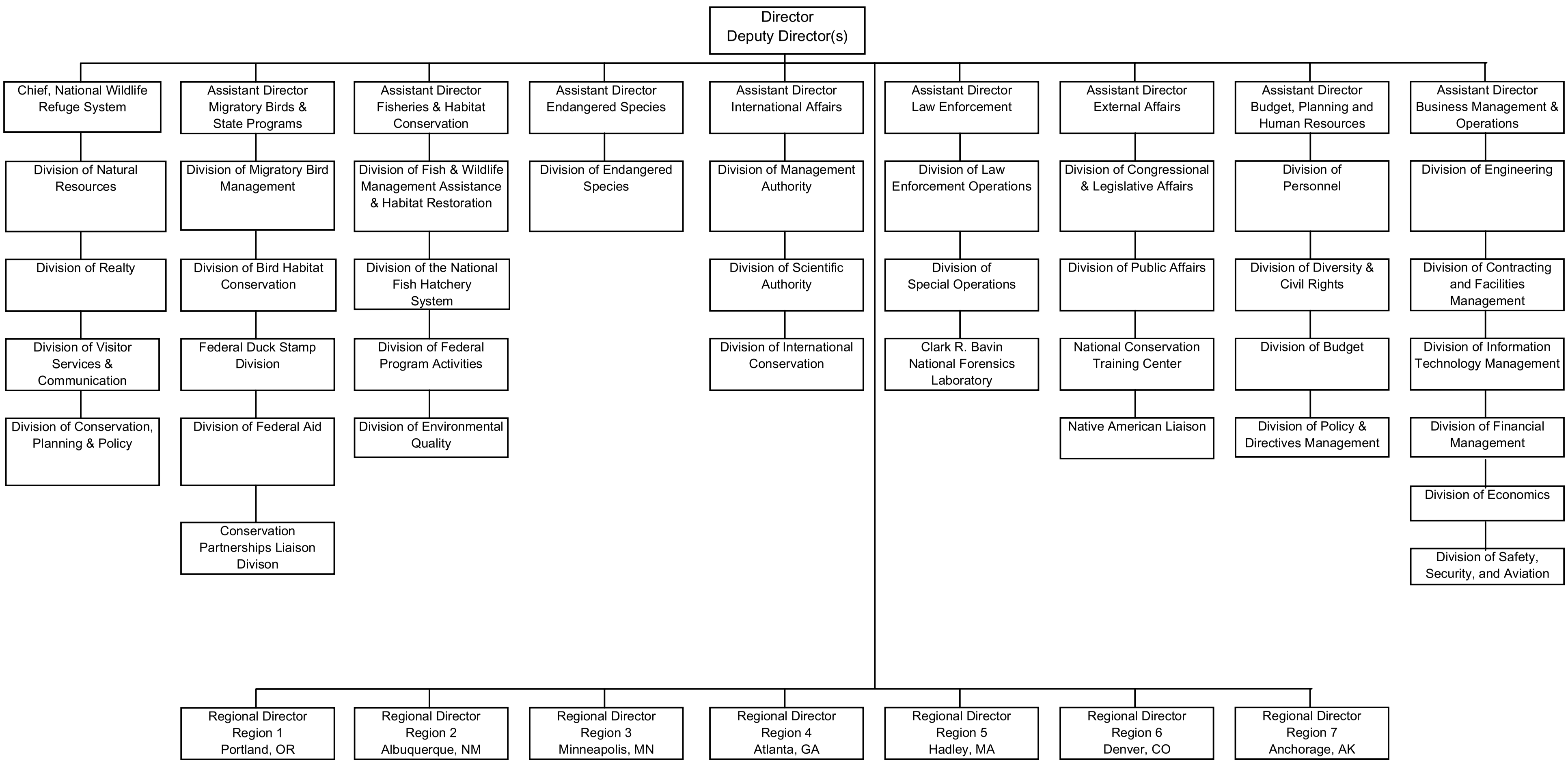
The Service employs approximately 8,000 personnel and is supported by a volunteer force of approximately 36,000 citizens. Although the Service is headquartered in Washington, D.C., over 80 percent of the workforce is located in local communities across the Nation at over 700 field stations supported 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 and Deputy Director, eight Assistant Directors, the Chief of the National Wildlife Refuge System, 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 Service headquarters and seven regional offices. Assistant Directors and the Chief of the National Wildlife Refuge System 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 — Sustainability of Fish and Wildlife Populations; Habitat Conservation: A Network of Lands and Waters; Public Use and Enjoyment; and Partnerships in Natural Resources — drive the Fish and Wildlife Service's Strategic Plan and support the organization's core mission. 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, Sustainability of Fish and Wildlife Populations, and Strategic Goal 1.2 entitled, "Imperiled Species," the Service set a goal in FY 2002 to stabilize or improve 49 percent or 347 of 705 threatened or endangered species populations listed for a decade or more. Also, the Service planned to delist three species due to recovery under the Endangered Species Act (ESA) and targeted three species at risk for which listing could be precluded due to conservation agreements.

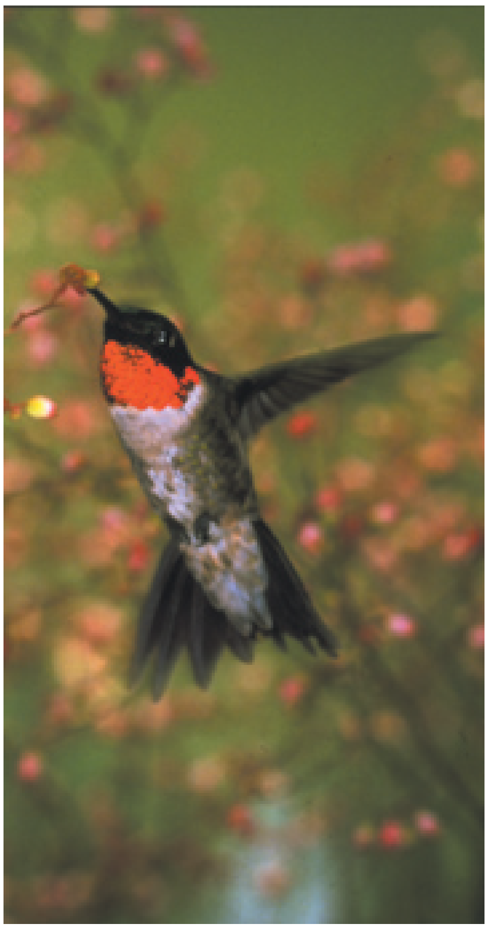
The Service achieved a level of 320 species stable or improving in FY 2002 falling short of its target of 347 species. There are several reasons why the Service did not meet its goal. The Service directly implements recovery actions for listed species and also serves as a facilitator in encouraging, planning, organizing, assisting, and overseeing the implementation of recovery actions by partners (e.g., other Federal agencies, state agencies, conservation organizations, private landowners). Achievement of this goal, therefore, 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.

The Service delisted one species in FY 2002 (Robbins' cinquefoil), falling short of its target of three delistings. The Service failed to finalize two delistings due to unforeseen circumstances. For example, the final delisting of the bald eagle is delayed until adequate regulations are in place to allow permits for take under the Bald and Golden Eagle Protection Act following delisting under the ESA. The Hoover's wooly-star's delisting has been delayed due to additional analysis required to justify the Service's decision and post-delisting monitoring requirements. The Service proposed the delisting of one new species in FY 2002 (Columbia white-tailed deer) and has two additional actions currently in Washington for publication in early FY 2003 (brown pelican (Gulf Coast population) and Johnston's frankenia). We are also completing final analyses for species we anticipate delisting in FY 2004 and 2005 so that we can reach our cumulative target for FY 2005.

During FY 2002, the Service determined that three species did not need to be listed due to proactive conservation efforts. The species were the Wet Canyon tallussnail, blue diamond cholla, and the Rio Grande cutthroat trout. The Wet Canyon tallussnail was removed from the candidate list due to conservation efforts undertaken by the U.S. Forest Service in accordance with a candidate conservation agreement. The Coronado National Forest is implementing trail closures, campfire restrictions, and monitoring efforts. The blue diamond cholla habitat is actively managed in accordance with a candidate conservation agreement with the Bureau of Land Management, Nevada Division of Forestry, and James Hardie Gypsum

Ed Loth/USFWS

Cecropia Moth



Steve Maslowski/USFWS

Ruby-throated hummingbird

Elise Smith/USFWS

Button Bush, Wichita Mtns NWR

Company, including habitat restoration, avoiding impacts, and monitoring. The U.S. Forest Service, the State of New Mexico, and the State of Colorado have developed management plans specific to this species and are implementing conservation activities for the Rio Grande cutthroat trout.

Under Mission Goal 2, Conserving Habitat Through a Network of Lands and Waters, and Strategic Goal 2.1 entitled, "Habitat Conservation on Service Lands," the Service set three goals this year to meet the identified habitat needs of Service lands. The first target was to ensure that 3,256,000 acres in the National Wildlife Refuge System (NWRS) were managed and enhanced. The Service exceeded this goal this year by increasing the number of acres managed and enhanced in the NWRS to 3,460,765 acres. The second target was to restore 191,326 acres in the NWRS. The Service restored 79,987 acres, falling short of its target. This reduction is due to a variety of factors such as high variability in cost per acre, and increased species control and annual habitat management needs. The third target was to add 105,000 acres to the NWRS over the previous year. The Service exceeded this target goal by adding 233,961 acres to the NWRS in FY 2002. This increase is due to several factors. Migratory Bird Conservation Funds were used to acquire 16,360 acres of Migratory Bird Refuges and 53,845 acres of Waterfowl Production Areas in the Prairie Pothole Region. The bulk of the remainder of the difference was due to an unanticipated donation by The Conservation Fund of 33,805 acres at the Alaska Peninsula National Wildlife Refuge. Eight additional donations also accounted for an additional 2,488 acres that were unanticipated.

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 to increase volunteer participation hours in Service programs by 3 percent and the second to foster 107 new friends groups for a total of 170. In FY 2002, the number of volunteer participation hours was 1,298,445 hours. This represented 95% of the target of 1,359,995 volunteer hours. This decline in volunteer hours was likely due to the overall reduction in travel and tourism following the 9/11/2002 terrorist actions and subsequent war in Afghanistan. The number of planned New Friends Groups was 170 (cumulative), a total increase of 107 from the FY 1997 baseline of 63. The actual number was 176 (cumulative), an increase of 113 from the 1997 level, and, thus, met the FY 2002 target.

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, "Partnerships in Natural Resources," and Strategic Goal 4.2 entitled, "Sport Fish and Wildlife Restoration Grants Management," the Service set a goal to improve grant management by increasing the number of State and Federal Aid program staff trained in modern grant management processing, specifically including the use of the Federal Aid Information Management System (FAIMS).

The Service met the two targets of annual goal 4.2.1. (1) The Service trained 45 state and Federal Aid staff in modern grant/management processing and accomplishment reporting systems throughout all Service Federal Aid offices. The Service exceeded its target of 20. There were three different training courses for FAIMS completed during FY 2002. The number reflected for Region 9 includes personnel from the Division of Financial Management. (2) The Federal Aid Office achieved 100% FAIMS Phase One implementation, which met the FY 2002 target. Phase One is the full development and implementation of the internal system, which serves as the backbone for the entire grants management process in Federal Assistance, and includes a basis for electronic granting. It ensures consistency and reliability in grants data, financial data, accountability, and accomplishment reporting. Note: this measure, 100% FAIMS Phase One implementation, ends in FY 2002.

Data Verification and Validation. The Fish and Wildlife Service is committed to ensuring that those who use Service's reported performance information to make decisions can do so with the confidence that our data are reliable and valid. Over the last few years, the Service has made progress in developing the essential processes that 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.

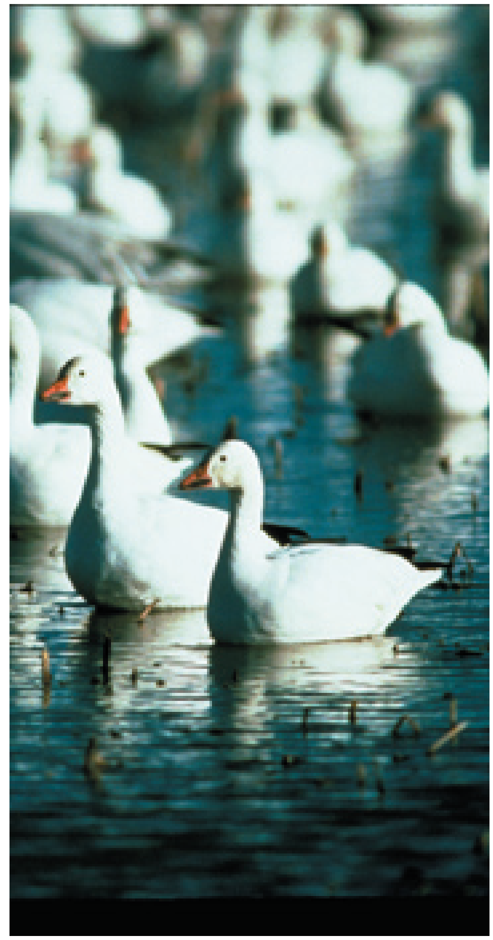
Management Controls and Legal Compliance
The Service is dedicated to maintaining the integrity and accountability in all programs and operations. Management assesses its systems of management, administrative and financial controls to ensure that:
- programs achieve their intended results;
- resources 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 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 2002, 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, 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. This is the second year the ARTF is presented on 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 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 2002, the Service continued to improve its financial management processes governing the performance of financial transactions and cost recovery and cost allocations. The Service is processing payments more efficiently



Hollingsworth/USFWS

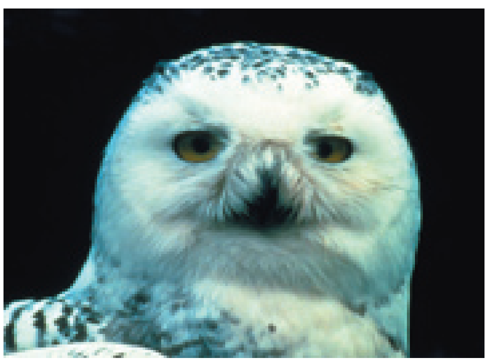
Snow Geese, Bosque Del Apache NWR

Elise Smith/USFWS

Black-tailed Prairie Dog, Wichita Mtns NWR

Gary M. Stolz/USFWS

African Elephant



Dan O'Neal/USFWS

Snowy Owl

George Harrison/USFWS

Ghost Crab

and has improved its rate of compliance with Departmental and Federal payment processing requirements. During FY 2002, the Service continued to provide the necessary funding and accounting of its General Operations costs through full cost recovery from reimbursable partners and the equitable allocation of administrative support costs using the Cost Allocation Methodology (CAM).

Improving Financial Transaction Processes and Results

In FY 2002, the Service continued to improve its performance levels of prior years. The Service made prompt payments at a 97.3 percent rate and paid a total of $55,246 in late payment penalties during FY 2002. This continues our improvement over FY 2001 when the Service paid approximately $88,000 in late payment penalties.

Similar progress was made for electronic funds transfer payments (EFT). In FY 2002, 88.7 percent of the Service's payments were accomplished through EFT. This continues our improvement over the prior years when we achieved a 84.2 percent rate in FY 2001 and a 76.3 percent rate during FY 2000.

In FY 2002, the Service had a low delinquency rate when compared to the Federal Government average. Approximately one percent of open accounts are outstanding and delinquent for the Service at the end of FY 2002. This compares favorably to the Federal Government average of approximately six percent.

Improving Cost Recovery and Cost Allocation 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. The Service relies on cost recovery and cost allocation to fully fund and account for these costs.

At the beginning of FY 2001, the Service implemented new policies to improve cost recovery and allocation of General Operations funding. The impetus for change originated with an internal policy review that revealed the Service historically had not adequately recovered General Operations costs on work projects performed for external partners and customers on a cost reimbursable basis. In FY 2002, the Service continued with its cost recovery policies.

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. $10.1 million was recovered in indirect costs associated with reimbursable work in FY 2002, an increase of $ 3.5 million over FY 2001 and over $4.7 million over FY 2000. There is strong evidence that this increase relates to a reduction in the number of reimbursable agreements either receiving an exemption or meeting policy requirements to waive indirect costs.

During FY 2002, the Service continued the Cost Allocation Methodology (CAM) process to promote the complete and equitable allocation of General Operations costs among its programs. The CAM centralizes all General Operations costs into a single cost pool and allocates these costs to all Service programs using specific cost drivers that track to usage and servicing levels. In FY 2002, $32.4 million in General Operations costs were allocated to 27 programs using usage/service-based cost drivers. This is a marked increase from just two years ago, in which the Service allocated $8.496 million to 10 programs and a dramatic improvement from FY 1999, in which $7.214 million was allocated to the same 10 programs based largely on the "ability to pay." In previous years the difference was recovered by Congressional reprogramming and a large amount of administrative support costs charged directly to programs.

Two benefits of the changed policies are better identification of costs to Service programs and the creation of incentives for improved management. Assigning costs to programs directly has resulted in a substantial decrease in cross-charging making it easier to understand the actual costs of operating Service programs and organizations. Using cost drivers based on actual usage allows managers the flexibility to attain savings for their respective programs by controlling the usage of said cost drivers. For example, reductions in the square footage of leased space occupied by a program (cost driver) will result in a cost savings to the program.

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 2002, the Service's appropriations budget was approximately $1.9 billion. The total budgetary resources available for use in FY 2002 is approximately $2.7 billion, a decrease of approximately 2% from FY 2001. This includes budget authority, unobligated balances as of the beginning of the year, and spending authority from offsetting collections.

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 2002, the Service recognized approximately $157 million in earned revenues.

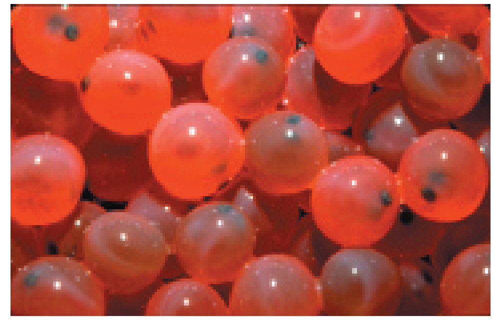
Expenses

The Service's cost of operations before earned revenue in FY 2002 was approximately $1.9 billion, an increase of approximately 8.8% over FY 2001. Table 1 is an analysis of expenses by Service Mission Goal.

Assets

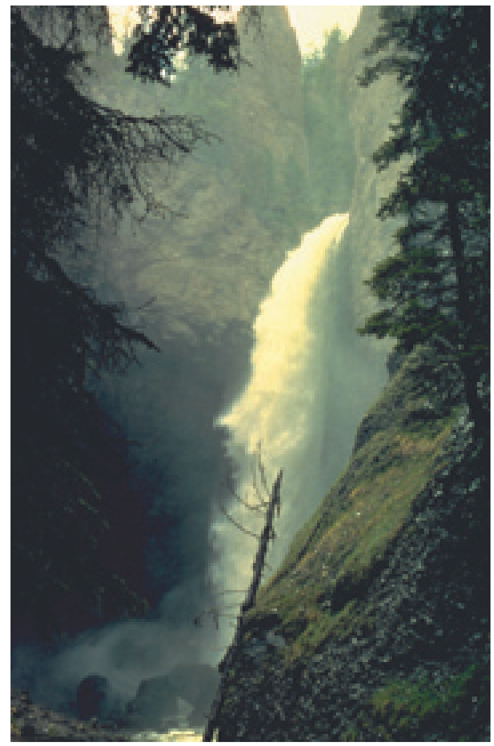
The largest portion of reported assets, approximately 47%, is Treasury securities held by the Service representing invested amounts from the Federal Aid in Wildlife Restoration Fund (approximately $499 million), and the Aquatic Resources Trust Fund (approximately $1.4 billion). Although the Department 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. Approximately 42% of ARTF investments are intended for distribution to the U.S. Coast Guard and the Corps of Engineers, and are thus considered non-entity assets.

The Service's Fund Balance with Treasury is approximately $1.3 billion, or approximately 31% of Service assets. The portion of this balance available to the Service at any point in time



Hollingsworth/USFWS Photo

Salmon Eggs, Leavenworth NFH, WA

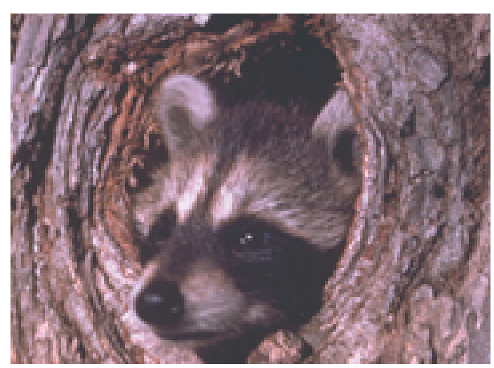


Bruce Halstead/USFWS Photo

Tower Falls

Table 1

Service Mission Goal	Amount of FY 2002 Expenses	Percentage of FY 2002 Expenses
Sustainability of Fish and Wildlife Populations	$607,850	31.7%
Habitat Conservation: A Network of Land and Water	$895,992	46.7%
Public Use and Enjoyment	$174,958	9.1%
Partnerships in Natural Resources	$241,666	12.6%
Total	$1,920,466	100.0%



USFWS Photo

Raccoon

HollingsworthUSFWS

Whooping Crane
Patuxent NWR, MD

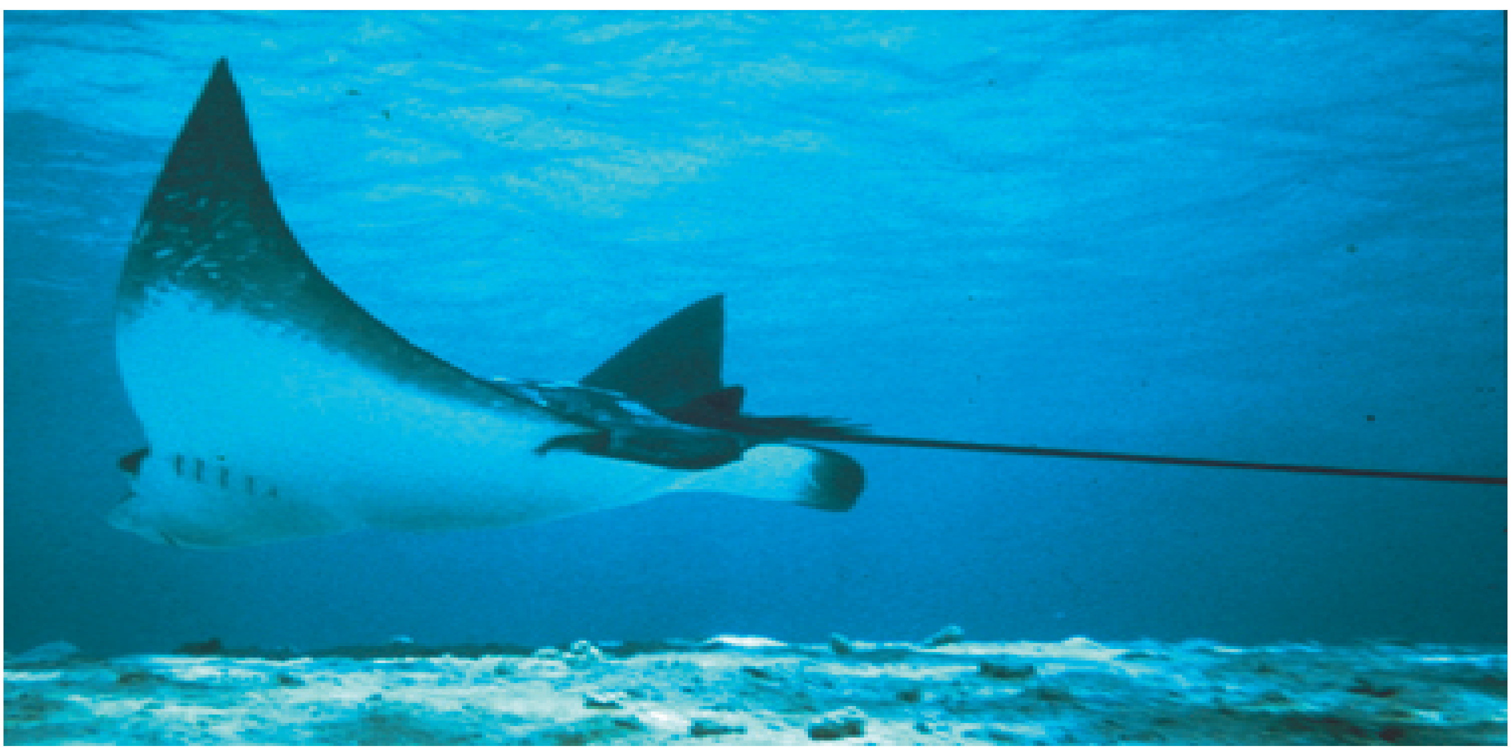
depends on the terms of the Service's appropriation language, and other applicable statutes.

The Service's investment in property, plant and equipment, net of accumulated depreciation, is approximately $935 million, or approximately 23% of Service assets. The Service does not report stewardship property, such as national wildlife refuges and waterfowl production areas in its financial statements. The Service also excludes heritage assets from its reports, 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 $371 million or approximately 56%, consists of amounts owed to the U.S. Coast Guard and the Corps of Engineers from the ARTF. 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 $119 million in unfunded liabilities, which cannot be paid until funds are appropriated by Congress in future periods. These liabilities consist primarily of environmental cleanup liabilities (approximately $15 million), representing the future costs of remediating hazardous waste and landfills existing on Service lands. They also include unfunded annual leave (approximately $42 million), and the Service's actuarial FECA liability (approximately $59 million).

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, 2002, is approximately $3.45 billion, of which approximately $478 million is unexpended appropriations.



USFWS Photo

Skate

Principal Financial Statements

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidated Balance Sheet
As of September 30, 2002 and 2001
(Dollars in Thousands)

	2002	2001 As Restated (Note 16)
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	$ 1,275,327	$ 1,194,342
Investments (Notes 5 and 14)	1,863,615	1,772,056
Accounts, Interest and Taxes Receivable, Net (Note 6)	24,485	33,487
Advances and Prepayments	1,505	2,055
Total Intragovernmental	**3,164,932**	**3,001,940**
Cash (Note 4)	116	140
Accounts, Interest and Taxes Receivable, Net (Note 6)	5,594	7,497
Advances and Prepayments	493	663
General Property, Plant, and Equipment, Net (Note 7)	935,384	880,634
TOTAL ASSETS	**$ 4,106,519**	**$ 3,890,874**
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 40,086	$ 47,097
Accrued Payroll and Benefits	7,102	6,171
Unfunded Payroll Costs (Note 9)	12,464	10,151
Deferred Credits	12,968	11,840
Aquatic Resources Trust Fund Liabilities (Note 14)	371,122	335,416
Other Liabilities	19,587	26,196
Total Intragovernmental	**463,329**	**436,871**
Accounts Payable	41,364	45,210
Accrued Payroll and Benefits	26,691	24,290
Unfunded Annual Leave (Note 9)	42,311	37,153
Deferred Credits	1,903	1,341
Actuarial FECA Liability (Note 9)	59,032	52,882
Environmental Clean-Up Costs and Contingent Liabilities (Notes 9 and 10)	15,470	46,807
Other Liabilities	7,644	3,325
TOTAL LIABILITIES	**$ 657,744**	**$ 647,879**
NET POSITION		
Unexpended Appropriations	478,161	466,047
Cumulative Results of Operations (Note 14)	2,970,614	2,776,948
TOTAL NET POSITION	**3,448,775**	**3,242,995**
TOTAL LIABILITIES AND NET POSITION	**$ 4,106,519**	**$ 3,890,874**

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, 2002 and 2001
(Dollars in Thousands)

	2002	2001 As Restated (Note 16)
1. Sustainability of Fish and Wildlife Populations		
Cost - Sales to other Federal Agencies	$ 48,233	$ 36,152
Revenue - Federal Agencies	47,275	35,480
Net Cost - Sales to Other Federal Agencies	958	672
Cost - Services and Goods Provided to the Public	559,617	553,142
Revenue - Public	15,426	13,499
Net Cost - Public	544,191	539,643
Total Net Cost	545,149	540,315
2. Habitat Conservation		
Cost - Sales to other Federal Agencies	51,562	57,300
Revenue - Federal Agencies	50,528	56,235
Net Cost - Sales to Other Federal Agencies	1,034	1,065
Cost - Services and Goods Provided to the Public	844,430	635,554
Revenue - Public	33,271	28,053
Net Cost - Public	811,159	607,501
Total Net Cost	812,193	608,566
3. Public Use and Enjoyment		
Cost - Sales to other Federal Agencies	6,855	7,668
Revenue - Federal Agencies	6,717	7,524
Net Cost - Sales to Other Federal Agencies	138	144
Cost - Services and Goods Provided to the Public	168,103	151,780
Revenue - Public	3,863	3,590
Net Cost - Public	164,240	148,190
Total Net Cost	164,378	148,334
4. Partnerships in Natural Resources		
Cost - Sales to other Federal Agencies	16	25
Revenue - Federal Agencies	16	24
Net Cost - Sales to Other Federal Agencies		1
Cost - Services and Goods Provided to the Public	241,650	322,772
Revenue - Public	1	33
Net Cost - Public	241,649	322,739
Total Net Cost	241,649	322,740
Totals		
Cost - Sales to other Federal Agencies	106,666	101,145
Revenue - Federal Agencies	104,536	99,263
Net Cost - Sales to Other Federal Agencies	2,130	1,882
Cost - Services and Goods Provided to the Public	1,813,800	1,663,248
Revenue - Public	52,561	45,175
Net Cost - Public	1,761,239	1,618,073
Net Cost of Operations (Note 18)	$ 1,763,369	$ 1,619,955

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 Year Ended September 30, 2002
(Dollars in Thousands)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances, as restated (Note 16)	$ 2,776,948	$ 466,047
Budgetary Financing Sources:		
Appropriations Received		1,006,867
Appropriations Transferred In (Out)		90,421
Unexpended Appropriations Used		(39,285)
Appropriations Used	1,044,397	(1,044,397)
Non-exchange Revenue	85,209	
Tax Revenue (Note 14)	656,923	
Donations, Penalties and Fines Revenue	4,981	
Transfers In Without Reimbursement	102,322	
Other Budgetary Financing Sources	8,515	(597)
Other Financing Sources:		
Transfers In Without Reimbursement	15,422	
Imputed Financing From Costs Absorbed by Others (Note 13)	39,971	
Other	(705)	(895)
Total Financing Sources	1,957,035	12,114
Net Cost of Operations	(1,763,369)	
Ending Balances	$ 2,970,614	$ 478,161

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 Year Ended September 30, 2002
(Dollars in Thousands)

Budgetary Resources:	
Budget Authority:	
Appropriations Received	$ 1,939,861
Net Transfers, Current Year Authority	(17,085)
Unobligated Balance:	
Beginning of Fiscal Year, as restated (Note 16)	635,113
Net Transfers, Unobligated Balance, Actual	(18,915)
Spending Authority From Offsetting Collections:	
Earned:	
Collected	132,432
Less: Receivable From Federal Sources	(719)
Change in Unfilled Customer Orders:	
Advance Received	(2,225)
Without Advance From Federal Sources	616
Recoveries of Prior Year Obligations	67,413
Permanently Not Available	(784)
Total Budgetary Resources	$ 2,735,707
Status of Budgetary Resources:	
Obligations Incurred:	
Direct	$ 1,878,382
Reimbursable	126,464
Subtotal	$ 2,004,846
Unobligated Balance:	
Apportioned	728,263
Unobligated Balance Not Available	2,598
Total Status of Budgetary Resources	$ 2,735,707

(continued)

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)

Relationship of Obligations to Outlays:	
Obligations Incurred	$ 2,004,846
Obligated Balance, Net, Beginning of Fiscal Year, as restated (Note 16)	973,321
Obligated Balance, Net, End of Fiscal Year:	
Accounts Receivable	28,411
Unfilled Customer Orders From Federal Sources	50,951
Less: Undelivered Orders	(1,036,631)
Less: Accounts Payable	(109,048)
Less: Spending Authority Adjustments	(67,310)
Outlays:	
Disbursements	1,844,540
Less: Spending Authority from Offsetting Collections	(130,207)
Net Outlays Before Offsetting Receipts	1,714,333
Less: Offsetting Receipts	(65,949)
Net Outlays	$ 1,648,384

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 Financing
For the Year Ended September 30, 2002
(Dollars in Thousands)

Resources Used to Finance Activities:	
Budgetary Resources Obligated:	
Obligations Incurred	$ 2,004,846
Less: Spending Authority From Offsetting Collections and Adjustments	197,517
Obligations Net of Offsetting Collections and Adjustments	1,807,329
Less: Offsetting Receipts	65,949
Net Obligations	1,741,380
Other Resources:	
Transfers In (Out) Without Reimbursement	15,422
Imputed Financing From Costs Absorbed by Others	39,971
Net Other Resources Used to Finance Activities	55,393
Total Resources Used to Finance Activities	1,796,773
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	(101,368)
Resources that Fund Expenses Recognized in Prior Periods	(160)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	34,243
Resources that Finance the Acquisition of Assets	(131,108)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	8,515
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(189,878)
Total Resources Used to Finance the Net Cost of Operations	1,606,895

(continued)

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Consolidated Statement of Financing
For the Year Ended September 30, 2002
(Dollars in Thousands)

Components of the 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	$ 5,158
Decrease in Environmental Clean-Up Costs and Contingent Liabilities	(31,612)
Other	7,203
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	(19,251)
Components Not Requiring or Generating Resources:	
Depreciation and Amortization	57,057
Revaluation of Assets or Liabilities	21,126
Other (Note 17)	97,542
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	175,725
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	156,474
Net Cost of Operations	$ 1,763,369

The accompanying notes are an integral part of these statements.

Notes to Principal Financial Statements as of September 30, 2002 and 2001

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

The accompanying financial statements reflect both accrual and budgetary accounting transactions. Under the accrual 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 an accrual-based transaction. The recognition of budgetary accounting transactions facilitates compliance with legal constraints and controls over the use of Federal funds. The accompanying financial statements 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 are in conformance with accounting principles generally accepted in the United States of America using guidance issued by the Federal Accounting Standards Advisory Board, instructions specified by the Office of Management and Budget (OMB) on the form and content for entity financial statements, and the policies of the Service and the Department. As permitted by OMB financial statement guidance for FY 2002, the Service presented comparative Fiscal Year 2001 information for only the Balance Sheet and Statement of Net Cost.

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 2002, the Sport Fish Restoration Account (SFRA) received approximately 74% of the ARTF transfers. ARTF amounts presented on the accompanying financial statements relating to funds not made available to the SFRA and other programs as of September 30, 2002, were provided by the Department of the Treasury. Note 14 provides additional detail on the ARTF. 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 to 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

The Service maintains all cash accounts with Treasury except for imprest fund accounts. The funds with Treasury include appropriated, special receipts, 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) 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 Service also reports investments of the ARTF (Treasury Symbol 20X8147) 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 5 provides additional information on Service and ARTF investments.

E. Accounts 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. Note 6 provides additional information concerning receivables.

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

General property, plant and equipment consist of 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. 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 30 years.

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 five to ten years. Note 7 provides additional information on the Service's PP&E.

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 12 provides additional information on the Service's operating leases.

Consistent with accounting standards for PP&E, most land managed by the Service is reported as stewardship land in the Required Supplementary Stewardship

Information section of the annual report. Land associated with administrative sites is reported on the accompanying financial statements.

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 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 8 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. Intragovernmental 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.

Unearned revenue is recorded as deferred credits until earned. The majority of deferred revenue represents obligated balances for funds made available through Title V (Priority Land Acquisitions, Land Exchanges, and Maintenance) of Public Law 105-83, dated November 14, 1997 (111 Stat. 1610), and pursuant to Title VI of the Department of Interior and Related Agencies Appropriations Act (P.L. 107-63), 2001.

The Federal Employees' Compensation Act (FECA) liability is the liability for future workers' compensation. This includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period.

Liabilities of the ARTF are the amounts of funds resulting from the original budget authority for a fiscal year less the cash drawdowns 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

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.

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.

K. 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 Intragovernmental Liabilities as accrued payroll and benefits.

L. Retirement Plans

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 one percent of basic pay and matches employee contributions up to four 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 one percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional four 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, 2001, FERS employees could contribute up to 11 percent of their gross earnings to the plan. CSRS employees were limited to a contribution of seven percent of their gross earnings to the plan for the year ended September 30, 2002, and six percent for the year ended September 30, 2001, 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.

M. Reclassifications

The Consolidated Statement of Net Cost presents comparative data for Fiscal Years 2001 and 2002 on two facing pages to incorporate OMB Circular 01-09 requirements. The format of the Statement of Net Cost was also changed by removing the "Eliminations and Other" category, and redistributing the associated costs and revenues to the remaining four categories. The reporting differences are based on increases to Service grant programs resulting in new Partnerships in FY 2002 as well as the reporting of certain grant programs, reported under Habitat Conservation in FY 2001, as grants enhancing Partnerships in Natural Resources in FY 2002. Thus FY 2001 figures have been reclassified to allow for meaningful comparison between the two years.

Certain other 2001 amounts have been reclassified to conform with the 2002 financial statement presentation.

The Statement of Budgetary Resources was expanded to include additional information on financing sources and spending authorities. The Combining Statement of Budgetary Resources included as Required Supplementary Information, was changed to report by budget category compatible with the President's Budget as mandated by the OMB.

Note 2. Entity and Non-Entity Assets

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 transfer of funds from the ARTF to the SFRA. 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, 2002 and 2001 (dollars in thousands):

	2002	2001 As Restated
Intragovernmental:		
Fund Balance with Treasury	$ 6,971	$ 6,600
Investments, Net	$ 575,728	$ 542,763
Total Non-Entity Assets	$ 582,699	$ 549,363
Entity Assets:		
Restricted	$ 330,952	$ 356,648
Unrestricted	$ 3,192,868	$ 2,984,863
Total Entity Assets	$ 3,523,820	$ 3,341,511
Total Assets	$ 4,106,519	$ 3,890,874

Note 3. Fund Balance with Treasury

The fund balance with Treasury as of September 30, 2002 and 2001 is as follows (dollars in thousands):

	2002	2001
Fund Balance		
General Fund	$ 646,053	$ 611,303
Special Fund	584,172	545,391
Trust Fund	42,074	36,162
Other Fund Types	3,028	1,486
Total Fund Balance with Treasury	**$ 1,275,327**	**$ 1,194,342**
Status of Fund Balance with Treasury		
Unobligated - Available Budget Authority	$ 607,677	$ 462,236
Unobligated - Unavailable Budget Authority	128,369	179,925
Obligated Balance not yet Disbursed	539,281	552,181
Total Fund Balance with Treasury	**$ 1,275,327**	**$ 1,194,342**

Note 4. Cash

Cash consists of petty cash imprest funds of approximately $116,000 and $140,000 as of September 30, 2002 and 2001, respectively.

Note 5. 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), and the ARTF (Treasury Symbol 20X8147). Outstanding investments in Treasury securities as of September 30, 2002 and 2001 total (dollars in thousands):

	2002	2001
14X5029		
Par Value	$ 494,568	$ 479,068
Unamortized Premium/(Discount)	4,224	(737)
Investments, Net	498,792	478,331
Market Value	501,692	478,787
20X8147		
Par Value	1,369,234	1,304,233
Unamortized Premium/(Discount)	(4,411)	(10,508)
Investments, Net	1,364,823	1,293,725
Market Value	1,386,341	1,295,118
Total Net Investments	1,863,615	1,772,056
Total Market Value	$ 1,888,033	$ 1,773,905

Note 6. Receivables

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 these monies primarily derive from investments disclosed in Note 5. Accounts and interest receivable as of September 30, 2002 and 2001 consist of (dollars in thousands):

	2002		2001	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Accounts Receivable				
Accounts Receivable, Gross	$ 23,615	$ 6,087	$ 22,344	$ 7,898
Allowance		(512)		(456)
Accounts Receivable, Net	23,615	5,575	22,344	7,442
Taxes Receivable				
Taxes Receivable, Gross			6,352	
Allowance				
Taxes Receivable, Net			6,352	
Interest Receivable				
Interest Receivable, Gross	870	51	4,791	71
Allowance		(32)		(16)
Interest Receivable, Net	$ 870	$ 19	$ 4,791	$ 55
Totals	$ 24,485	$ 5,594	$ 33,487	$ 7,497

Note 7. General Property, Plant and Equipment (PP&E)

General PP&E owned by the Service as of September 30, 2002 and 2001 consists of the following (dollars in thousands):

	Acquisition Value		Accumulated Depreciation		Net Book Value	
	2002	2001	2002	2001	2002	2001
Land	$ 12,781	$ 10,538	$	$	$ 12,781	$ 10,538
Buildings	532,976	510,441	178,520	163,199	354,456	347,242
Other Structures	621,822	593,252	259,188	250,796	362,634	342,456
Subtotal Buildings and Structures	1,154,798	1,103,693	437,708	413,995	717,090	689,698
Construction in Progress	99,139	85,391			99,139	85,391
Equipment	243,245	216,469	136,871	121,462	106,374	95,007
Total	**$ 1,509,963**	**$ 1,416,091**	**$ 574,579**	**$ 535,457**	**$ 935,384**	**$ 880,634**

General PP&E was restated as of September 30, 2001. See Note 16 for additional information.

Note 8. 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, 2002 , (dollars in thousands):

	Balance, 10/1/2001		Additions		Dispositions		Balance, 9/30/2002	
	# Cases	Value	# Cases	Value	# Cases	Value	# Cases	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 9. Liabilities Not Covered by Budgetary Resources

These liabilities are claims against the Service by other Federal and non-Federal entities that require Congressional action before budgetary resources can be provided. Liabilities not covered by budgetary resources as of September 30, 2002 and 2001 are as follows (dollars in thousands):

	2002		2001	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Unfunded Annual Leave	$	$ 42,311	$	$ 37,153
Actuarial FECA Liability		59,032		52,882
Unfunded FECA Liability	10,773		10,151	
Unfunded Payroll Costs	1,691			
Unfunded Deferred Credits	12,968	1,903	11,840	1,341
Unfunded ARTF Liability	371,122		336,477	
Unfunded Other Liability		14		64
Environmental Cleanup Costs and Contingent Liabilities		15,470		46,807
Total Other Liabilities Not Covered By Budgetary Resources	$ 396,554	$ 118,730	$ 358,468	$ 138,247

All other liabilities are covered by budgetary resources.

Note 10. 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 $15.2 million and $104.2 million as of September 30, 2002. In accordance with accounting principles generally accepted in the United States of America, the Service has recorded the $15.2 million liability as of September 30, 2002 in its financial statements. The Service estimated its environmental cleanup liabilities as of September 30, 2001 to be approximately $46.8 million. The change in the liability estimates between FY 2001 and FY 2002 results primarily from liability reassessments performed by the Service in Fiscal Year 2002 with assistance of legal counsel. 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.

Note 11. Contingent Liabilities
There are two claims against the Service with adjudications pending and for which payments have been deemed probable. The Service accrued $275,000 in FY 2002 for these two cases. The Service's potential liability for other claims where the likelihood of an unfavorable outcome is reasonably possible is estimated to be approximately $500,000.

Note 12. 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 2005. Estimates for FY 2006 and FY 2007 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 2002. 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, 2002, are as follows (dollars in thousands):

Fiscal Year	PP&E Category			Total
	Personal Property	GSA Real Property	Other Real Property	
2003	$2,790	$32,902	$16,002	$51,694
2004	$2,874	$30,653	$20,604	$54,131
2005	$2,960	$29,644	$22,485	$55,089
2006	$3,049	$28,435	$25,258	$56,742
2007	$3,140	$25,598	$29,706	$58,444
After 5 Years	$3,234	$31,190	$28,773	$63,197
Total Future Lease payments	**$18,047**	**$178,422**	**$142,828**	**$339,297**

Note 13. 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 $40 million for the year ended September 30, 2002 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. 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. Also, the U.S. Treasury's Judgment Fund paid $105,000 on behalf of the Service for a case covered under the Contract Disputes Act, which the Service recorded in its FY 2002 financial statements

as an imputed financing source and for which Treasury has requested reimbursement from future agency appropriations.

Note 14. Aquatic Resources Trust Fund (ARTF)

The Service's financial statements reflect balances of the ARTF (20X8147), which provide funding to the SFRA and are distributed to the U.S. Coast Guard Boat Safety Program and the Corps of Engineers Coastal Wetlands Program. The table below reflects summarized information of the ARTF as of September 30, 2002 and 2001 (dollars in thousands, rounded).

	2002	2001
Fund Balance with Treasury	$ 20,635	$ 17,671
Investments, Net	1,364,823	1,293,725
Taxes Receivable, Net		6,352
Interest Receivable, Net	273	275
Total Assets	1,385,731	1,318,023
Invested Balances:		
Fish and Wildlife Service	475,631	410,832
Payable to:		
Corps of Engineers	304,226	265,321
Coast Guard	66,896	70,095
Subtotal for Payables	371,122	335,416
Total Invested Balances	846,753	746,248
Total Net Position	538,979	571,775
Total Liabilities and Net Position	$ 1,385,732	1,318,023
Tax and Interest Revenue	451,245	470,874
Net Transfers	(484,041)	(417,930)
Total Changes in Net Position	(32,796)	52,944
Net Position, Beginning of Year	571,775	518,831
Net Position, End of Year	$ 538,979	$ 571,775

Note 15. Statement of Budgetary Resources

Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority

The Service's FY 2002 operating and grant programs were financed and its financial activity summarized under nine general fund accounts, 17 special fund accounts, and two 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 are a combination of current and permanent authority. 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 indicates that the Service may utilize its fiscal year-end unobligated resources 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 2001 and 2002 Resource Management appropriation expired at the end of FY 2002. Expired, not cancelled funds, are resources that are available for the next five fiscal years to settle business arising in the year the funds were enacted, but are not available for new obligations. These expired resources are reported as "Not Available." At the end of FY 2002, the Service had expired funds whose available resources in the amount of $3,604,000 were classified as unavailable.

All appropriation language contains specific and/or general authorizations. These authorizations may be defined as legislative parameters that frame the funding and Federal agency policy for executing programs. These authorizations also direct how the Service must treat other assets it may acquire as a result of executing its operating programs. Since both specific and general authorizations are integral components of all legislation, the Service does not view them as restrictions or legal encumbrances on its available funding.

Permanent Indefinite Appropriations
As of September 30, 2002, the Service had 12 permanent indefinite appropriations with total budgetary resources of $963,793,000, which represent $706,413,000 obligations incurred and an available unobligated balance of $257,380,000. These funds do not require annual appropriations action by the Congress, as they are subject to the authorities of permanent law and are available indefinitely.

Differences Between Amounts Reported in the Statement of Budgetary Resources and Amounts Reported in the Budget of the U.S. Government
The Service is the recipient of budgetary resources from other Federal agencies including the Department of Transportation, Department of Labor, and the Department of Agriculture. As a transferee of budgetary resources, the Service reports the budgetary activity in its Statement of Budgetary Resources, while the agencies providing the budgetary resources report the budget activity in the Budget of the U.S. Government. The Service reported total budgetary resources of $16,255,000 from other Federal agencies in its Statement of Budgetary Resources.

The Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States Government). The actual amounts, for FY 2002 amounts were not available at the time the financial statements were prepared. 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.

Allocation Transfer Accounts
Allocation transfers are the amounts of budget authority and other resources transferred to other 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.

The Service reported $85,616,000 in total budgetary resources from the Bureau of Land Management and $20,334,000 from the Office of the Secretary of the Interior for the year ended September 30, 2002.

Note 16. Restatements and Change in Accounting

Restatements are used to reflect the retroactive impact of changes to accounting or reporting policies and correction of errors in prior years. The Service restated its FY 2001 financial statements to reflect a change in accounting policy and to correct errors from prior years.

The restatements related to General Property, Plant, and Equipment (PP&E) were as follows (dollars in thousands):

• $79,311 net reduction in PP&E to remove certain earthen structures reclassified as non-capitalizable items based on a change in accounting policy for structures. These earthen structures are expensed as stewardship land improvements.
• $159,784 net increase in PP&E to record the net change to acquisition cost and related accumulated depreciation as the result of adding assets and adjusting the acquisition value of assets that should have been recorded in prior years.
• $17,046 net increase in PP&E to correct other errors in depreciation and acquisition costs.

The impact of the above adjustments resulted in an increase of $97,519 to PP&E as of September 30, 2001. The impact of depreciation expense and capitalization of items previously expensed resulted in an adjustment of $26,230 decrease to FY 2001 Net Cost of Operations. This adjustment impacted the four mission goals on the FY 2001 Statement of Net Cost as follows: $8,393, Sustainability of Fish and Wildlife Populations; $15,739, Habitat Conservation; $1,836, Public Use and Enjoyment; and $262, Partnerships in Natural Resources.

Balances as of and for the year ended September 30, 2001 have been restated as follows:

	2001 As Previously Reported	Restatements	2001 As Restated
General Property, Plant & Equipment	$ 783,115	$ 97,519	$ 880,634
Net Cost of Operations	1,646,184	(26,230)	1,619,954
Cumulative Results of Operations	2,679,429	97,519	2,776,948
Net Position	$ 3,145,476	$ 97,519	$ 3,242,995

Adjustments to Beginning Balance of Budgetary Resoures

The amounts reported in the FY 2001 Statement of Budgetary Resources for Budget Authority and Unobligated Balance, Available were overstated by $33.5 million.

An improper transfer of budget authority to the Cooperative Endangered Species Conservation Fund (14X5143) from the Department of Treasury's Unavailable Special Fund Receipt account (145143) was executed. This improper transfer corrected in FY 2002 consequently required an adjustment to FY 2002 beginning balances.

As of October 1, 2001, the Service changed its method of accounting for allocation transfers in accordance with OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. In accordance with these reporting requirements, the Service reports the proprietary activity but not the budgetary activity when the Service is the recipient of the transfer (i.e., child).

As a result of this change, the Service adjusted its unobligated and obligated balances as of October 1, 2001, by recording an adjustment for the cumulative effect of a change in accounting principle.

The restatement and cumulative effect of change in accounting principle results in the following adjustments:

	2001 As Previously Reported	Restatement	Cumulative Effect of Change in Accounting Principle	2001 As Restated
Unobligated Balance, Beginning of Period	$ 699,065	$ (33,525)	$ (30,427)	$ 635,113
Obligated Balance, Beginning of Year	$ 1,015,233		$ (41,912)	$ 973,321

Note 17. Components of the Net Cost of Operations not Requiring or Generating Resources - Other

The components of the Service's net cost of operations that do not require or generate resources, other than depreciation and amortization of assets, consist mostly of funding transferred to the Service from other bureaus and agencies that receive budgetary resources for joint program initiatives involving the Service. The agency that receives initial funding reports budgetary information for the entire program. For FY 2002, the Components not Requiring or Generating Resources - Other include (dollars in thousands):

Allocation Accounts Without Budgetary Resources	$97,496,759
Bad Debt Expense	44,815
Total	$97,541,574

Note 18. Consolidating Statements of Net Cost

The following statements fully display net cost of operations by classifying detailed revenue and cost information by responsibility segment, which supports the summary information in the Statement of Net Cost.

Consolidating Statement of Net Cost
For the Years Ended September 30, 2002 and 2001
(Dollars in Thousands)

	Endangered Species	Fisheries and Habitat Conservation	Law Enforcement	Migratory Birds & State Programs	National Wildlife Refuge System	International Affairs	General Operations and Other	2002	2001 As Restated (Note 16)
Sustainability of Fish and Wildlife Populations									
Cost - Sales to Federal Agencies	$ 5,394	$ 38,903	$ 450	$ 36	$ 1,951	$	$ 1,499	$ 48,233	$ 36,152
Revenue - Federal Agencies	5,287	38,138	441	35	1,912		1,462	47,275	35,480
Net Cost - Federal Agencies	107	765	9	1	39		37	958	672
Cost - Service/Goods to the Public	182,942	69,429	54,286	67,447	56,521	12,903	116,089	559,617	553,142
Revenue - Public	175	7,638	6,153	237	384	169	670	15,426	13,499
Net Cost - Public	182,767	61,791	48,133	67,210	56,137	12,734	115,419	544,191	539,643
Total Net Cost	$ 182,874	$ 62,556	$ 48,142	$ 67,211	$ 56,176	$ 12,734	$ 115,456	$ 545,149	$ 540,315
Habitat Conservation: A Network of Land and Water									
Cost - Sales to Federal Agencies	$	$ 28,739	$	$ 12,428	$ 5,879	$	$ 4,516	$ 51,562	$ 57,300
Revenue - Federal Agencies		28,170		12,182	5,762		4,414	50,528	56,235
Net Cost - Federal Agencies		569		246	117		102	1,034	1,065
Cost - Service/Goods to the Public	25,344	111,445		225,802	266,900		214,939	844,430	635,554
Revenue - Public		5,288		12,548	11,957		3,478	33,271	28,053
Net Cost - Public	25,344	106,157		213,254	254,943		211,461	811,159	607,501
Total Net Cost	$ 25,344	$ 106,726	$	$ 213,500	$ 255,060	$	$ 211,563	$ 812,193	$ 608,566
Public Use and Enjoyment									
Cost - Sales to Federal Agencies	$	$ 4,704	$	$ 89	$ 1,821	$	$ 241	$ 6,855	$ 7,668
Revenue - Federal Agencies		4,612		87	1,785		233	6,717	7,524
Net Cost - Federal Agencies		92		2	36		8	138	144
Cost - Service/Goods to the Public		6,170		31,615	101,511		28,807	168,103	151,780
Revenue - Public		734		91	2,733		305	3,863	3,590
Net Cost - Public		5,436		31,524	98,778		28,502	164,240	148,190
Total Net Cost	$	$ 5,528	$	$ 31,526	$ 98,814	$	$ 28,510	$ 164,378	$ 148,334
Partnerships in Natural Resources									
Cost - Sales to Federal Agencies	$	$	$	$	$	$	$ 16	$ 16	$ 25
Revenue - Federal Agencies							16	16	24
Net Cost - Federal Agencies									1
Cost - Service/Goods to the Public		5,347		233,038			3,265	241,650	322,772
Revenue - Public							1	1	33
Net Cost - Public		5,347		233,038			3,264	241,649	322,739
Total Net Cost	$	$ 5,347	$	$ 233,038	$	$	$ 3,264	$ 241,649	$ 322,740
Totals									
Cost - Sales to Federal Agencies	$ 5,394	$ 72,346	$ 450	$ 12,553	$ 9,651	$	$ 6,272	$ 106,666	$ 101,145
Revenue - Federal Agencies	5,287	70,920	441	12,304	9,459		6,125	104,536	99,263
Net Cost - Federal Agencies	107	72,346	9	249	192		147	2,130	1,882
Cost - Service/Goods to the Public	208,286	192,391	54,286	557,902	424,932	12,903	363,100	1,813,806	1,663,248
Revenue - Public	175	13,660	6,153	12,876	15,074	169	4,454	52,561	45,175
Net Cost - Public	208,111	178,731	48,133	545,026	409,858	12,734	358,646	1,761,239	1,618,073
Net Cost of Operations	$ 208,218	$ 180,157	$ 48,142	$ 545,275	$ 410,050	$ 12,734	$ 358,793	$ 1,763,369	$ 1,619,955

Consolidating Statement of Net Cost
For the Year Ended September 30, 2001, as restated (Note 16)
(Dollars in Thousands)

	Endangered Species	Fisheries and Habitat Conservation	Law Enforcement	Migratory Birds & State Programs	National Wildlife Refuge System	International Affairs	General Operations and Other	2001
Sustainability of Fish and Wildlife Populations								
Cost - Sales to Federal Agencies	$ 3,146	$ 29,859	$ 24	$ 48	$ 1,903	$	$ 1,172	$ 36,152
Revenue - Federal Agencies	3,088	29,310	23	47	1,868		1,144	35,480
Net Cost - Federal Agencies	58	549	1	1	35		28	672
Cost - Service/Goods to the Public	130,769	55,180	50,795	148,295	47,755	10,255	110,093	553,142
Revenue - Public	143	6,075	6,138	242	395	197	309	13,499
Net Cost - Public	130,626	49,105	44,657	148,053	47,360	10,058	109,784	539,643
Total Net Cost	$ 130,684	$ 49,654	$ 44,658	$ 148,054	$ 47,395	$ 10,058	$ 109,812	$ 540,315
Habitat Conservation: A Network of Land and Water								
Cost - Sales to Federal Agencies	$	$ 26,273	$	$ 13,570	$ 14,607	$	$ 2,850	$ 57,300
Revenue - Federal Agencies		25,790		13,320	14,338		2,787	56,235
Net Cost - Federal Agencies		483		250	269		63	1,065
Cost - Service/Goods to the Public	41,766	100,936		63,526	225,162		204,164	635,554
Revenue - Public		4,302	3	12,444	9,714		1,590	28,053
Net Cost - Public	41,766	96,634	(3)	51,082	215,448		202,574	607,501
Total Net Cost	$ 41,766	$ 97,117	$ (3)	$ 51,332	$ 215,717	$	$ 202,637	$ 608,566
Public Use and Enjoyment								
Cost - Sales to Federal Agencies	$	$ 6,056	$	$ 54	$ 1,322	$	$ 236	$ 7,668
Revenue - Federal Agencies		5,945		52	1,298		229	7,524
Net Cost - Federal Agencies		111		2	24		7	144
Cost - Service/Goods to the Public		11,715		22,552	90,264		27,249	151,780
Revenue - Public		493		86	2,778		233	3,590
Net Cost - Public		11,222		22,466	87,486		27,016	148,190
Total Net Cost	$	$ 11,333	$	$ 22,468	$ 87,510	$	$ 27,023	$ 148,334
Partnerships in Natural Resources								
Cost - Sales to Federal Agencies	$	$	$	$	$	$	$ 25	$ 25
Revenue - Federal Agencies							24	24
Net Cost - Federal Agencies							1	1
Cost - Service/Goods to the Public				315,255			7,517	322,772
Revenue - Public				32			1	33
Net Cost - Public				315,223			7,516	322,739
Total Net Cost	$	$	$	$ 315,223	$	$	$ 7,517	$ 322,740
Totals								
Cost - Sales to Federal Agencies	$ 3,146	$ 62,188	$ 24	$ 13,672	$ 17,832	$	$ 4,283	$ 101,145
Revenue - Federal Agencies	3,088	61,045	23	13,419	17,504		4,184	99,263
Net Cost - Federal Agencies	58	1,143	1	253	328		99	1,882
Cost - Service/Goods to the Public	172,535	167,831	50,795	549,628	363,181	10,255	349,023	1,663,248
Revenue - Public	143	10,870	6,141	12,804	12,887	197	2,133	45,175
Net Cost - Public	172,392	156,961	44,654	536,824	350,294	10,058	346,890	1,618,073
Net Cost of Operations	$ 172,450	$ 158,104	$ 44,655	$ 537,077	$ 350,621	$ 10,058	$ 346,989	$ 1,619,955

Required Supplementary Information

U.S. Department of the Interior
U.S. Fish and Wildlife Service
Required Supplementary Information
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Resource Management Operating Account	Grants: Sport Fish Restoration	Grants: Federal Aid in Wildlife Restoration	Grants: Other	Total Grants	Miscellaneous	Service Total
Budgetary Resources:							
Budget Authority:							
Appropriations Received	$ 850,597	$ 356,648	$ 213,481	$ 293,066	$ 863,195	$ 226,069	$ 1,939,861
Net Transfers, Current Year Authority (+/-)						(17,085)	(17,085)
Unobligated Balance:							
Beginning of Fiscal Year	50,575	117,134	107,632	119,360	344,126	240,412	635,113
Net Transfers, Unobligated Balance, Actual (+/-)						(18,915)	(18,915)
Anticipated Transfers of Unobligated Balance (+/-)							
Spending Authority From Offsetting Collections:							
Earned:							
Collected	116,310					16,122	132,432
Receivable From Federal Sources	370					(1,089)	(719)
Change in Unfilled Customer Orders:							
Advance Received	216					(2,441)	(2,225)
Without Advance From Federal Sources	778					(162)	616
Subtotal	117,674					12,430	130,104
Recoveries of Prior Year Obligations	19,467	27,973	14,144	2,245	44,362	3,584	67,413
Permanently Not Available	(584)			(200)	(200)		(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					11,794	126,464
Subtotal	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						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	$ 985,608	$ 363,459	$ 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	28,308					103	28,411
Unfilled Customer Orders From Federal Sources	49,649					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	(20,615)	(27,973)	(14,144)	(2,245)	(44,362)	(2,333)	(67,310)
Outlays:							
Disbursements	947,571	291,131	226,735	114,365	632,231	264,737	1,844,539
Collections	(116,525)					(13,681)	(130,206)
Subtotal	831,046	291,131	226,735	114,365	632,231	251,056	1,714,333
Less: Offsetting Receipts			(14,995)	(35,813)	(50,808)	(15,141)	(65,949)
Net Outlays	$ 831,046	$ 291,131	$ 211,740	$ 78,552	$ 581,423	$ 235,915	$ 1,648,384

See accompanying Independent Auditors' 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 this estimate.

The Service changed its method of calculating deferred maintenance for FY 2002 to make its estimate consistent with calculations made by the other Bureaus within the Department of Interior. This method results in a substantial increase in the deferred maintenance estimate by reflecting amounts that were previously included in capital improvement projects. Additionally, the Service is conducting

USFWS Photo

Lighthouse

USFWS Photo

Spearfish Hatchery, South Dakota

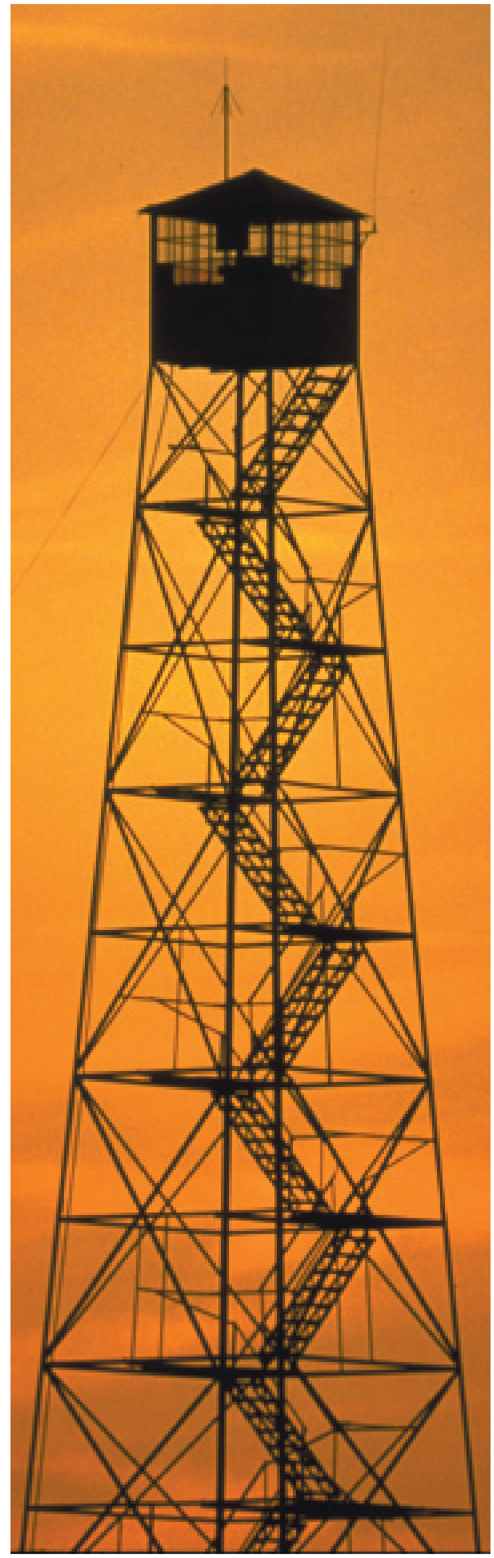
condition assessments on its public road system which may contribute to additional estimate increases in future years.

Deferred maintenance for Service facilities is estimated at approximately $1.3 billion, plus or minus 15 percent, placing the range between approximately $1.1 billion and $1.5 billion for all facilities under the jurisdiction of the Service.

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 associated 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.


USFWS Photo
National Conservation Training Center - West Building


George Gentry/USFWS
Fire Tower in Florida

Required Supplementary Stewardship Information

Stewardship Lands
Lands within the National Wildlife Refuge System (NWRS) include more than 540 refuge units, 203 Waterfowl Production Area Counties, and 50 Coordination Areas. Lands and facilities within the National Fish Hatcheries System (NFHS) comprise 69 National Fish Hatcheries, seven Fish Technology Centers, nine Fish Health Centers, and one Historical National Fish Hatchery, located in 34 States.

Figure 1 displays the acreage owned by the Service. 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.

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.

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 units within the NFHS, which comprises National Fish Hatcheries, Fish Health Centers, and Fish Technology Centers. 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 include refuges, fish hatcheries, and other special designations. They 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

Figure 1

Annual Stewardship Information for the Years Ended September 30, 2002 and 2001
(Acres in Thousands)

	2002		2001	
	Sites	*Acres*	*Sites*	*Acres*
National Wildlife Refuge System:				
National Wildlife Refuges	540	89,175	537	89,146
Coordination Areas	50	197	50	197
Waterfowl Production Areas	203	736	202	728
Total NWRS	793	90,108	789	90,071
Total NFHS	86	12	87	12
Total FWS Lands	**879**	**90,120**	**876**	**90,083**

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 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. Those 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 2001 to 2002
The Service had a net change of approximately 37,000 acres of stewardship lands in FY 2002. 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 National Wildlife Refuge System in FY 2001 from 537 to 540 in FY 2002.

Revenue from Stewardship Assets
The Recreation Fee Demonstration Program is a highly successful endeavor for participating sites of the NWRS, which collected approximately $3.5 million 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 2002 totaled more than $17.3 million.

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; the purchase of major equipment; and, the purchase or improvements of other physical assets for purposes of 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 2002, the Service estimates that it provided $168.7 million in grants to State and local governments that resulted in the purchase, construction or major renovation of physical property they own.


Rob Shallenberger/USFWS

Pelican Island NWR, Florida


Tim McCabe/USFWS

Geese, Upper Midwest


Geoff LeBaron/USFWS

Paradise Harbor

Joe Doherty/USFWS

Wetland, Okefenokee NWR, GA

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. Of the approximately 106 million acres in the Wilderness Preservation System, the Service manages 82 wilderness areas encompassing over 20 million acres in 26 States. This total represents approximately 20 percent of the National 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 of the following specific values, such as scenic, recreational, geologic, fish and wildlife, historic, cultural, or other similarly unique characteristics. Eligibility studies are presented to Congress with a Presidential recommendation, where final designations are decided by Congress. There are 154 rivers containing 178 river segments included in the National Wild and Scenic River System and each mile designated is classified as wild, scenic, or recreational. The total system encompasses approximately 11,294 river miles of which the Service manages segments of eight Wild and Scenic Rivers totaling 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 designated.

National Natural Landmarks (NNL) are management areas having national significance as sites that exemplify one of a natural region's characteristic biotic or geologic features and are designated by the Secretary of the Interior. 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. Natural heritage assets represent a subset of stewardship lands. As such, their condition is as good or better than that described for stewardship lands.

Cultural Heritage Assets

Of the total number of known cultural resources, an estimated 84 sites or districts have been listed in the National Register of Historic Places. The Service also manages nine 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 2002, the Service documented more than 11,500 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

Roxanne Bogart/USFWS

Lewis Ranch Wetland

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.

Museum Collections

Service museum collections consist of millions of objects, documents, and specimens maintained in 150 offices or on loan to 226 non-Federal repositories for study and long-term care. The overall condition of Service museum collections is adequate to good. 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 maintaining the history and traditions of the Service's programs and employees.

The Service continues to accession new museum collections each year, primarily as a result of the scientifically controlled excavation of archaeological sites on its lands. More than 82 percent of the Service's collections are maintained on loan by museums and other institutions. The Service ensures that these collections are safeguarded through compliance with the Secretary of the Interior's curation standards found in 36 CFR 79. Institutions must maintain the appropriate environmental, record-keeping, 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.

Information standards for tracking the location, provenance or origin, and condition of museum collections are addressed by Service policy and data standards released in FY 1998. In an effort to assist field stations in managing their collections, the Service released a new museum property software package for tracking essential information and preparing annual reports. A U.S. Army Corps of Engineers study commissioned in 2002 will more accurately determine the scope of the effort needed to meet Departmental standards, but the Service estimates that it will require a minimum of ten years to fully account for museum collections according to Department of Interior standards.

U.S. Fish and Wildlife Museum Program Highlights
- The Alutiiq Museum and Archaelogical Repository has updated, cataloged, and consolidated all agency collections and records held there.
- The D.C. Booth Historic National Fish Hatchery named its museum the Hector Von Bayer Museum of Fish Culture in celebration of 130 years of the National Fish Hatchery System.
- Work at the National Conservation Training Center was completed for two new collections involving law enforcement documents and objects and Office of External Affairs film collections.
- A cooperative agreement with the U.S. Army Corps of Engineers was initiated to begin a national inventory and assessment of Service collections.

Hollingsworth/USFWS

Outdoor Classroom in Minnesota

USFWS Photo

Archaelogical Excavation at Kenai NWR, Alaska

C-IN-FWS-0093-2002

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

March 26, 2003

Memorandum

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

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

Subject: Independent Auditors' Report on the U.S. Fish and Wildlife Service's Financial Statements for Fiscal Years 2002 and 2001 (Report No. 2003-I-0039)

We contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to audit the U.S. Fish and Wildlife Service's (Service) financial statements as of September 30, 2002 and for the year then ended. The contract required that KPMG conduct its audit in accordance with the Comptroller General of the United States of America's *Government Auditing Standards*, the Office of Management and Budget's Bulletin 01-02 *Audit Requirements for Federal Financial Statements*, and the General Accounting Office/President's Council on Integrity and Efficiency's *Financial Audit Manual.*

In its audit report dated January 10, 2003 (Attachment 1), KPMG issued a qualified opinion on the Service's financial statements for fiscal years 2002 and 2001. KPMG's opinion was qualified because the Service was unable to provide adequate documentation to support the general property, plant and equipment balances stated as \$935 million as of September 30, 2002, and \$881 million as of September 30, 2001. Previously KPMG, in its report dated January 21, 2002, issued an unqualified opinion on the Service's 2001 financial statements. Because of the problems identified above, KPMG's opinion on the 2001 financial statements is different from that previously expressed. KPMG identified eight reportable conditions related to the following internal controls and financial operations: (1) processes, controls, and financial reporting relating to buildings, structures, and construction work in process, (2) financial reporting process, (3) reconciling transactions within the Service as well as with other Department of the Interior components, (4) controls, processes, and financial reporting relating to year-end accruals, (5) controls, processes, and financial reporting relating to capital equipment, (6) security and general controls over financial management systems, (7) grant controls and processes over reporting requirements, and (8) IDEAS-Procurement Desktop controls. KPMG considers the first four reportable conditions to be material weaknesses. With regard to compliance with laws and regulations, KPMG found the Service noncompliant with portions of the Federal Financial Management Improvement Act (FFMIA). Specifically, KPMG reported that the Service's financial management systems were not in substantial compliance with Federal financial management systems requirements and Federal accounting standards.

In connection with the contract, we monitored the progress of the audit at key points, reviewed KPMG's report and selected related working papers, and inquired of its representatives. Our review, as differentiated from an audit in accordance with the *Government Audit Standards*, was not intended to enable us to express, and we do not express, an opinion on the Service's financial statements, conclusions about the effectiveness of internal controls, conclusions on whether the Service's financial management systems substantially complied with the three requirements of FFMIA, or conclusions on compliance with laws and regulations. KPMG is responsible for the auditors' report and for the conclusions expressed in the report. Our review disclosed no instances where KPMG did not comply in all material respects with the *Government Auditing Standards*.

In the March 7, 2003, response from the Deputy Director (Attachment 2), the Service concurred with all ten findings. Based on the response all recommendations are considered resolved but not implemented. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

Section 5(a) of the *Inspector General Act* (5 U.S.C. App. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress.

Attachments (2)

KPMG

Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

The Director of the United States Fish and Wildlife Service and
the Inspector General of the 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, 2002 and 2001, the related consolidated statements of net cost for the years then ended, and the related consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002 (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, except for the effects on the 2002 and 2001 financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to apply adequate procedures to general property, plant, and equipment, we concluded that the Service's financial statements as of and for the years ended September 30, 2002 and 2001, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 16 to the financial statements, the Service restated its fiscal year 2001 consolidated balance sheet and statement of net cost, and its beginning of fiscal year 2002 unobligated budgetary balance. Also, as discussed in note 16 to the financial statements, the Service changed its method of accounting for allocation transfers as of October 1, 2001.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as reportable conditions:

Reportable Conditions that are Considered to be Material Weaknesses

A. Processes, controls, and financial reporting relating to buildings, structures, and construction work in process

B. Financial reporting process

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

D. Controls, processes, and financial reporting relating to year-end accruals

Other Reportable Conditions

E. Controls, processes, and financial reporting relating to capital equipment

F. Security and general controls over financial management systems

G. Grant controls and processes over reporting requirements

H. IDEAS-Procurement Desktop controls

The results of our tests of compliance with the laws and regulations, exclusive of 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's financial management systems 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, 2002 and 2001, the related consolidated statements of net cost for the years then ended, and the related consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002.

During our audit of the 2002 financial statements, we determined that as of September 30, 2002 and 2001, the Service had not maintained 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 a result, it was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the accuracy, completeness and existence of general property, plant, and equipment stated at $935,384,000 and $880,634,000 in the accompanying consolidated balance sheets as of September 30, 2002 and 2001, respectively. Such amounts enter into the determination of net position. We expressed an unqualified opinion on the Service's 2001 financial statements in our report dated January 21, 2002. Our opinion on the 2001 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, except for the effects on the 2002 and 2001 financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to apply adequate procedures to general property, plant, and equipment, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Service as of September 30, 2002 and 2001, its net costs for the years then ended, and its changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 16 to the financial statements, the Service restated its fiscal year 2001 consolidated balance sheet and statement of net cost, and its beginning of fiscal year 2002 unobligated budgetary balance. Also, as discussed in note 16 to the financial statements, the Service changed its method of accounting for allocation transfers as of October 1, 2001.

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 and 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. The Service changed its method for calculating deferred maintenance in fiscal year 2002 to make its estimate consistent with calculations made within the Department of the Interior. This method resulted in an increase in the deferred maintenance estimate.

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 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 2002 audit, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the following reportable conditions are material weaknesses.

A. Processes, Controls, and Financial Reporting Relating to Buildings, Structures, and Construction Work in Process

The Service needs to improve processes and controls over the recording of buildings, structures, and construction work in process as follows:

1. **Capitalization of Assets** – The Service does not consistently capitalize real property. Specifically, we determined that the Service capitalized stewardship land improvements that should have been expensed and the Service expensed real property associated with stewardship land that should have been capitalized. In addition, we determined that the Service does not have adequate procedures to determine, at the inception of a lease, if the lease should be accounted for as a capital or operating lease.

2. **Inventory Processes** – The Service completes inventories as part of its annual data call to confirm the accuracy, existence, and completeness of certain real property. We noted that the physical inventory processes are not effective as they do not consistently identify acquisitions and disposals that need to be reflected in the financial statements. We also noted that the Service does not adjust the general ledger or Real Property Inventory (RPI) system based on the inventory results in a timely manner.

3. **Acquisitions and Disposals** – The Service does not consistently record real property acquisitions and disposals in a timely manner. Specifically, we determined that the Service expends a significant amount of time and resources identifying and recording real property transactions after the end of the fiscal year. Furthermore, we noted that the Service does not consistently maintain source documents to support the acquisition and disposal of real property.

4. **Transfers and Donation** – The Service does not have controls to ensure real property transferred and donated to the Service is properly recorded.

5. **Recording Depreciation** – The Service has not established and implemented controls to ensure depreciation starts when assets are placed in service and to ensure useful lives of real property and improvements to real property are consistently applied for the purposes of recording depreciation. In addition, the Service does not calculate or record depreciation until the end of the year.

6. **Reconciliation RPI to the General Ledger** – The Service is not able to accurately and efficiently reconcile RPI to the general ledger for real property.

As a result of these material weaknesses, the Service expended a significant amount of time and resources analyzing, counting, reconciling, and adjusting real property. Also, the Service had not maintained customary records for its real property assets, which represent the majority of general property, plant, and equipment included in the Service's financial statements. Consequently, it was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the accuracy, completeness, and existence of general property, plant, and equipment stated at $935,384,000 and $880,634,000 in the consolidated balance sheets as of September 30, 2002 and 2001, respectively.

Recommendation

1. **Capitalization of Assets**

   a. We recommend that the Service develop a formal real property capitalization policy. This policy should indicate the types of disbursements that should be capitalized, expensed as acquisition and improvements to stewardship land, or expensed because they are incidental to the acquisition of stewardship land.

   b. We also recommend that the Service establish procedures to determine, at the inception of the lease, if the lease should be accounted for as a capital or operating lease.

   c. Further, we recommend that the Service communicate the real property policy and lease procedures by providing training to the individuals implementing the real property policy and lease procedures.

2. **Inventory Processes**

   a. We recommend that the Service improve its inventory processes to verify the accuracy, existence, and completeness of real property. The Service should establish required inventory policies and train individuals on how to perform inventories.

   b. We also recommend that the Service record adjustments to RPI and the general ledger as a result of the inventory observations in a more timely manner.

3. **Acquisitions and Disposals**

   a. We recommend that the Service implement 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.

   b. We also recommend that the Service maintain source documents related to property, plant, and equipment acquisitions and disposals.

4. **Transfers and Donations** – We recommend that the Service review accounting transactions to ensure that assets transferred and donated to the Service are properly recorded. This should include revising the procedures to properly record real property received from others.

5. **Recording Depreciation** – We recommend that the Service design, communicate, and implement internal controls to ensure that depreciation begins when assets are placed in service and that useful lives are consistently applied. The process should establish useful lives of newly constructed/purchased real property, useful lives of property received and previously owned by other entities, useful lives of improvements to property, and changes in useful lives of improved property. The process should also include improving the communication between the Division of Financial Management and the regions and field offices.

6. **Reconciliation of RPI to the General Ledgers** – We recommend that the Service reconcile RPI to the general ledger on a quarterly basis, including resolving any reconciling items.

Management Response

The Service agrees with this finding and recognizes that improvements are necessary to record and report its real property assets accurately and completely. As a consequence, the Service is working on corrective actions designed to implement KPMG's recommendations.

1. **Capitalization of Assets** – The Service will establish policies for real and personal property assets. The Service will also participate in Departmental work groups designed to improve Department-wide policies and controls over property, plant, and equipment (PP&E).

2. **Inventory Processes** – The Service is committed to conducting a comprehensive review of the RPI, validating and updating information in the database during FY 2003. This review validates property information in the RPI from which financial data is derived, including verifying acquisition year, construction year, acquisition cost or value, and disposals. Additionally, the Service will standardize the RPI processes for the timely recording of acquisitions and disposals in the RPI and the Federal Financial System (FFS) general ledger as well as the maintenance of source documentation.

3. **Acquisitions and Disposals** – As part of the comprehensive review to the RPI, the Service will evaluate existing documentation related to real property acquisitions and disposals and secure necessary support information for key data fields of the RPI. The Service will also standardize processes for the timely recording of acquisitions and disposals in the RPI and FFS as well as the maintenance of source documentation.

4. **Transfers and Donations** – As part of the comprehensive RPI review, the Service will revise policies and standardize procedures governing entry of new data for transferred and donated property into the RPI and FFS general ledger as well as the maintenance of source documentation.

5. **Recording Depreciation** – The Service will develop policies and standardized processes for the timely recording of acquisitions, disposals, transfers, and donations in the RPI. The Service will also add key data fields to the RPI that will generate or calculate depreciation information so that it is available on a quarterly basis.

6. **Reconciliation of RPI to the General Ledger** – As part of the overall actions described above, the improvements to the Service's RPI policies and processes will result in more timely and frequent reconciliations to assist in preparing accurate and complete financial statements.

B. Financial Reporting Process

In the prior year we reported a material weakness over internal controls for financial reporting. This year we noted the Service made progress in implementing our recommendations including:

- Performing regular account reconciliations and management reviews of various reconciliations. Specifically, we noted that the Service performed reconciliations of proprietary to budgetary accounts during fiscal year 2002; and,
- Working with the Solicitors' Office to properly determine, accrue, and disclose environmental clean-up liabilities.

While these steps improved the processes to initiate and record financial transactions, the Service still needs to continue to improve its controls and processes associated with accounting and financial reporting. During our audit, we noted the following issues that result in financial reporting processes continuing to be material weaknesses:

- The Service's financial reporting process continues to be untimely, manually intensive, and prone to some error. This weakness is due in part to the turnover in the financial reporting section, which resulted in a lack of understanding of the financial reporting systems, OMB Bulletin 01-09, standard financial statement crosswalks, and the Service's accounting processes.
- The statement of financing had unreconciled differences of $1 million.
- Based on our interviews and test work, it appears that program, field, and regional offices continue to primarily analyze transactions and reports on budgetary execution. Asset and liability management and review of proprietary account information is primarily performed by the Division of Finance, not program, field, and regional offices.
- Service personnel coded numerous transactions to incorrect budget object classes (BOCs) which map to standard general ledger (SGL) accounts. The BOCs track disbursements according to type such as, but not limited to, compensation, benefits, travel, purchase of goods and services from governmental agencies, and equipment and structures. In many instances, the Service corrected the original incorrect postings through its review or reconciliation processes; however, this practice is manually intensive and time consuming.
- During the year the Service did not use proper posting models for transfers. For example, the Service recorded approximately $600 million of transfers in; however, approximately $9 billion of activity went through the account during the year. The Service corrected the original incorrect postings through its review and reconciliation processes; however, this practice was manually intensive and time consuming.
- The Service did not detect a debit balance of $25 million in accounts payable. This error was due to inaccurate reversals of prior-year accruals. Also, the Service did not record approximately $1 million of grant accruals.
- The Service made entries directly to its equity accounts instead of reflecting corrections as current-year activity or prior-period adjustments.
- The Service could not prepare the Fund Balance with Treasury Balance note in an accurate and timely manner.
- We passed 31 audit differences identified during the audit. While we believe these entries are not material to the financial statements taken as a whole of the Service, they do indicate further financial reporting issues.

- The Service does not maintain an audit trail for performing and reviewing reconciliations between Hyperion and its feeder system, FFS. We noted that the Service's fourth quarter 2002 FFS upload resulted differences between FFS and Hyperion account balances which had to be resolved through the course of the audit.
- Some journal entries for Hyperion are written in Excel by any of the Service's Hyperion users (all Hyperion users can perform this function). Journal entries are required to be approved by management, however, at the Service, such approvals were sometimes verbal, and therefore, an audit trail does not exist. We also noted that journal entries are not consistently signed off or otherwise noted that they have been entered.

The continued deficiencies in the Service's financial reporting process result from inadequate or poorly designed controls and systems, lack of appropriate training, and inadequate management oversight of financial transactions.

Recommendation

The Service should reevaluate its financial reporting process to improve its efficiency and effectiveness. The manual efforts currently required to generate financial statements should be taken into consideration. The Service's evaluation should include, but not be limited to:

1. Reviewing Service policies and procedures to ensure that internal and external financial reporting is accurate, complete, and timely.
2. Providing for adequate succession planning to ensure trained, knowledgeable resources are available to prepare accurate and complete financial statements in a timely manner.
3. Assigning responsibility for posting models to ensure the Service uses the proper model and avoids major clean-up.
4. Training Division of Finance, program and regional, and National Business Center personnel on transaction coding, account analysis, and financial reporting. This training should also ensure that personnel are adequately trained on the Hyperion financial reporting application. The Service should enhance training of personnel responsible for coding and approving disbursements to ensure these transactions are coded to the proper BOC and SGLs at the initial transaction.
5. Developing periodic review processes by program managers and regional budget and finance officers of FFS financial and budgetary information.
6. Consistently apply processes surrounding manual journal entries, including sign-off of Service management indicating approval of each entry and sign-off of accountant making the entry.
7. Implement a process to reconcile FFS to Hyperion, which includes investigating and resolving differences in a timely manner.

Management Response

The Service agrees that there are improvements that need to be made to its financial reporting processes and has taken steps to address KPMG's recommendations.

1. **Reviewing Internal Policies and Procedures** – The Service's Division of Financial Management is currently developing internal procedures and checklists governing roles and responsibilities, including account reconciliations, investigation and resolution for variances and illogical balances, etc.

2. **Provide Adequate Succession Planning** – The Division of Financial Management is undergoing an intensive restaffing effort and has taken significant steps to ensure that its personnel are knowledgeable and adequately trained to perform key financial statement preparation functions. The Service is also participating in Departmental financial management recruiting programs to ensure a regular succession of staff.

3. **Assign Responsibility for Posting Models** – The Service has made the specific assignment of updating and maintaining posting models to the Branch of Financial Statements within the Division of Financial Management.

4. **Training Division of Financial Management, Regional, Program, and NBC Personnel** – The Service continues its training efforts, initiated in FY 2001, for key personnel regarding transaction coding, account analysis, and financial reporting. Further, Service management and technical experts gained significant hands-on experience and enhanced key skill sets during the FY 2002 financial reporting and audit cycle that will improve Service performance in FY 2003. The Service will develop a formal training plan for priority financial reporting and transaction areas.

5. **Periodic Review Processes By Program Managers, Regional Budget, and Finance Officers** – The Service plans to establish Regional Chief Financial Officers to promote the review of all financial management information. In addition, the Service will develop checklists for Regional program and budget and finance personnel that will define reviews for financial management information.

6. **Apply Consistent Processes for Manual Journal Entries** – The Service will implement a standard process for reviewing and approving manual journal entries involving review and sign-off by Division of Financial Management supervisors.

7. **Audit Trail** – Hyperion and FFS are fundamentally different systems, for both of which the Department serves as the system owner. Without an electronic interface, reconciliation between Hyperion and FFS is manual. The Service's audit trail consists of traceable corrective actions to the upload file and adjusting journal entries to bring the two systems into alignment. Until the Department provides an electronic interface to bureau end users, the Service must continue its existing reconciliation operations.

C. 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 intrabureau activity and intradepartmental transactions between other Department of the Interior (Department) bureaus (referred to as trading partners). The Department and the Service have begun a process to reconcile the intra-Departmental transactions on a quarterly basis; however, as of third quarter, the Service's intrabureau activity was out of balance by $319 million and it had variances with other Department bureaus totaling $20 million. As of the end of the fourth quarter, the Service's intrabureau activity was out of balance by $486,000 and it had variances with other Department bureaus totaling $2.7 million. As part of the audit process, most of these differences were reconciled.

The Service's reconciliation process is a manual process and the Service currently does not have the necessary resources focused on this condition. Variances within the Service accounts and between trading partners are currently identified through a manual process, which includes entering transaction data into Hyperion. This information is accessible by all Department bureaus. Although the information is entered into Hyperion throughout the year, variances are not adequately reconciled and resolved in a timely manner. It also appears as though some of the differences relate to inconsistent posting models used by the Service.

Variances within Service accounts and with trading partners indicate misstatements in financial reporting at both the bureau and Department levels. Further, the majority of the reconciliations continue to occur at year-end and encompass a significant amount of accounting staff time and resources. The lack of devotion of time and resources to these areas may ultimately impact the Service's ability to prepare reliable financial statements in a timely manner as timelines for financial reporting continue to be expedited.

Recommendation

We understand that the Department is developing an automated process to facilitate the reconciliation of intradepartmental transactions. Until the automated process is implemented, we recommend that the Service improve its manual process to identify and reconcile the intradepartmental transactions to address the material weaknesses. The reconciliation process should be completed quarterly and include procedures to resolve any differences identified in a timely manner.

Management Response

The Service concurs with the finding; however, the Service would like to point out that reconciling intradepartmental transactions is a problem common to all Department bureaus. The Service's efforts to reconcile transactions are often made more difficult because timely and accurate information is not available from other bureaus. Until the planned Department-wide automated system for eliminating intrabureau transactions is implemented, the elimination reconciliation process will remain a difficult and resource intensive task for all bureaus.

D. Controls, Processes, and Financial Reporting Relating to Year-End Accruals

The Service did not properly accrue accounts payable at year-end. Based on our audit, the Service made an adjustment of approximately $14 million to properly reflect accounts payable. The Service also did not accrue liabilities for goods and services provided under reimbursable agreements and the related accounts receivable totaling approximately $2.6 million.

The Service's process to record accounts payable at year-end relies on field stations and other divisions to make accurate and complete accruals. Our test work and discussions with Service personnel revealed these groups did not completely understand and execute the year-end closing instructions related to accruals.

Recommendation

To address this material weakness, the Service should evaluate and revise, as applicable, its process to accrue accounts payable at year-end. This evaluation should include, but not be limited to:

1. Ensuring regional offices explain the accrual process to field stations and monitor execution of year-end closing instructions relating to accruals.

2. Consideration of alternative methods to accrue accounts payable at year-end that do not rely on field stations to record individual invoices or projects.

Management Response

The Service is pursuing alternative methods for accruing accounts payable quarterly and at year-end that do not rely on field stations recording individual invoices. The Service is also directly participating in Department efforts to establish Department-wide policies and procedures governing accruals. The Service will also work with KPMG by seeking their review and concurrence of newly developed alternative methods.

We noted the following reportable conditions that are not considered material weaknesses:

E. Controls, Processes, and Financial Reporting Relating to Capital Equipment

In the prior year, we reported a material weakness over internal control for capital equipment. This year, we noted the Service made progress in implementing the recommendations including:

- Implementing one personal property system for capital equipment, the Personal Property Management System (PPMS).

The Service also made plans to implement changes for fiscal year 2003 to:

- Apply consistent depreciation polices based on appropriate useful lives and acquisition dates.
- Record the cost of capital equipment transferred to the Service from other federal agencies at net book value.
- Revise inconsistent salvage values.

While these steps improved the processes to initiate and record fixed assets, 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 PPMS or the FFS is completely accurate at year-end due to various reconciliation and timing issues. These differences are not considered material to the financial statements of the Service taken as whole; however, certain adjustments were made to correct the financial statements.
- Capitalized equipment deletions and additions are entered throughout the year and are reconciled within the month they are entered into the PPMS on the Capitalized Equipment Report. Capitalized equipment is recorded in the SGL monthly as it is entered into FFS; however, both systems are reconciled at year-end.
- 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 prior-period impact. Deletions were also not evaluated for prior-period impact.
- Certain regions did not enter capital equipment items into the PPMS in a timely manner. End of year PPMS amounts are used to record capital equipment in the FFS. The delay in entering capital equipment information into PPMS may result in assets being entered into PPMS in fiscal year 2003 that were received by the Service in fiscal year 2002. Since the Service records capital equipment based on information in PPMS, this may result in assets not being reflected in the financial statements in the proper fiscal year.
- One region recorded the acquisition date in PPMS as the date the assets were entered into the system instead of the date the asset was received.

Recommendation

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. Work towards quarterly reporting of capital equipment. Specifically, the Division of Financial Management should post acquisitions and dispositions as well as depreciation to FFS on a periodic basis throughout the year.

2. Ensure implementation of planned fiscal year 2003 changes to transfer values, salvage values, and depreciation policies.

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

4. Ensure timely entry of capital equipment items into PPMS.

5. Improve the reconciliation performed by the Division of Financial Management of PPMS to FFS to ensure all reconciling items are identified and adequately supported.

Management Response

The Service is committed to using a continually updated personal property system that contributes timely information to the quarterly financial statement preparation process. We appreciate KPMG acknowledging Service improvements and advancements in achieving this goal. The Service will continue to perfect quarterly reconciliation processes, including identifying all necessary information that must be kept in the Service's PPMS and exploring automated means of reconciliation between PPMS and FFS. Also, the Service will develop guidelines to assist regional property managers to record identified information into PPMS properly and timely and to use IDEAS to track new equipment purchases for proper entry into PPMS and FFS.

F. Security 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 the Service improved its security related personnel policies and procedures as well as computer security training. 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 the following areas in which controls still need to be improved.

1. **Entity-Wide Security Program and Planning**: An entity-wide security program, including 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. The Service does not have a comprehensive entity-wide security program that identifies established security plans, security program management and related personnel, as well as ongoing management of security policies and procedures. Specifically, the Service has not:

   - Implemented an effective entity-wide security program that includes a centralized security structure, a comprehensive incident handling program, addresses system software ownership, a standard for the Statement of Responsibility process, a process for prompt user access removal from all Service systems, and performance of background checks and completion of nondisclosure statements; and,

- Established a current, comprehensive security plan that addresses user account administration.

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:

   - Lack of implemented control measures to ensure that access to data is properly controlled;
   - Weaknesses with the configuration of the Service's intranet security architecture;
   - Improperly configured web servers permitted unauthorized access to the internal network;
   - Unauthorized access to the internal network provided full control over a server; and
   - Weaknesses in internal access control and password management.

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:

   - Regional security managers performing primary and secondary security functions; and,
   - Technology support staff performing change management responsibilities and network monitoring.

5. **Service Continuity:** Losing the capability to process, retrieve, and protect information maintained electronically 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. To mitigate the risk of service interruptions, the Service needs to implement comprehensive, tested Continuity of Operations Plans to protect resources, minimize the risk of unplanned interruptions, and to recover critical operations.

6. **Hyperion Application:** We noted that there is not an appropriate segregation of duties for general user access within the Service's Hyperion-Enterprise application database. Currently, all users within the Service's application database have the same level of access, granting them

the abilities to: 1) upload and process quarterly financial data, 2) create, change and delete all manual journal entries, and 3) create, change and delete all user/system generated reports. Also, all Hyperion users have the ability to view the Hyperion activity log which logs all login, data load, journal posting, edit check, and consolidation procedure. However, Service management does not periodically review this log for unusual activity.

Recommendation

We recommend that the Service develop and implement a formal action plan to improve the security and general and application controls 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.

Management Response

We agree with the general finding that the Service needs to improve security and general controls over its information/financial management systems.

KPMG acknowledges that the Service has made improvements in the security and controls over its information systems, security-related personnel policies, computer security training, as well as security policies and procedures at the National Communications Center. The Service will continue to move in the direction of complete compliance with OMB Circular A-130, Management of Federal Information Systems, as quickly as possible. Toward this goal, the Service has published updated official policy manuals that describe: the overall Service Information Technology Architecture (SITA); planning and managing information technology (IT) capital investments; policies and procedures for IT governance; management control reviews for automated information systems; data standards and data management practices; and policies, procedures, and responsibilities for the Service entity-wide IT security program.

Having established official policy, procedures, and guidance for effective security and general controls over information systems, we have the following comments for the categories cited in this report:

1. **Entity-wide Security Plan** – The Service established an entity-wide security program and security planning guidelines through the publication of Information Technology Manual titled "Automated Information System Security" in September 2002. The Service formed a new Branch of Security Management with responsibility for oversight of the Service's IT security program. To ensure full Service program and regional compliance with the Service's IT security program as established in official policy, the Service will develop and issue technical bulletins containing standards and guidance.

2. **Access Controls** – Weaknesses identified in Service web server and internal network configuration have been addressed. The Service believes other weaknesses identified by KPMG on the internal network are not a significant security threat, but we are pursuing alternative configuration methods and procedures. The Service will also inform all system owners and managers of major applications (MA) and general support systems (GSS) that they are required to complete and effect security plans per Service policy.

3. **Software Development and Change Control** – The Service has issued policy governing Automated Information Systems Capital Planning and Management which clarifies responsibilities for system owners and managers including configuration management and change control. The Service will publish additional technical bulletins for system owners and managers that provide a more detailed System Development Life Cycle (SDLC) methodology.

4. **Segregation of Duties** – The Service partially disagrees with the audit findings concerning segregation of duties. The Service believes the program offices cited in the findings have provided for adequate separation of duties in their security plans and procedures based on the limited staff available. The system owners accept any residual risk. Further, such residual risk is unlikely to affect the integrity of financial management systems. The Service has issued official policy governing Automated Information System Security. The Service is planning to provide system owners and managers with appropriate guidance for self-review concerning segregation of duties.

5. **Service Continuity** – The Service will issue a technical bulletin to provide guidance and procedures for the proper preparation of continuity of operations plans and/or business resumption plans.

6. **Hyperion Application** – While the Department of the Interior is responsible for core security of Hyperion and the server environment, KPMG's findings address the Service's use of the Hyperion application, with particular emphasis on control of access to Hyperion by Service employees, on whether the Service has provided an adequate audit trail with this application, and on whether the Service has adequate segregation of duties during its use:

   a. Access control of the Hyperion application – The Service maintains a list of input activity; and employee access granted by Department officials generally is reviewed and approved by Service management. Also, an activity log is reviewed to monitor employee access and access purpose and activity is approved by Service management. Thus, the Service believes that the Service has adequate controls over Service employee access; however, there have been a few instances where the Department has provided employee access to Service records and did so by circumventing the Service's approving official. We are working with the Department on ensuring that such circumvention does not occur again.

   b. Segregation of duties – Preparing journal entries in software compatible with the Hyperion application was part of the Service's effort to automate the journal voucher process. With thousands of lines of property, accruals, and corrections, the Service designed controls concomitant with available resources. Since the Service has completed it staffing plan and hired appropriate staff as discussed under B. above, the Service has assigned responsibilities among several knowledgeable staff in a manner where we believe we have adequate separation of duties. Also, with the addition of staff, operational processes now require journal vouchers to be initialed by the preparer and signed by the approving official.

G. Grant Controls and Processes Over Reporting Requirements

The Federal Aid in Sport Fish and Wildlife Restoration Act was created to fund restoration efforts for the benefit of fish, wildlife, and the American people. The Service's Division of Federal Aid makes funds available from these appropriations to eligible state agencies in the form of grants. Receipt of these grants require certain financial and performance reporting at interim periods for the grant and at its close.

During our test work, we noted that the Service did not receive SF-269 Financial Status Reports in a timely manner. Our test work revealed 103 overdue reports as of September 30, 2002. A majority of these were due as of year-end; however, 26 reports were due prior to this time. We also noted 6 instances in our sample of 45 items in which the States did not request filing extensions and filed the SF 269s past the 90-day timeframe.

We also noted the Service did not receive performance reports within the 90 days of the close of the grant. Our test work revealed approximately 170 overdue performance reports at September 30, 2002; 22 of these reports were due prior to the Federal Aid Information Management System (FAIMS) conversion on January 1, 1999. These performance reports are used in part to monitor grant performance and also generate capital investment disclosure information for the Service's investment in nonfederal physical property.

While the Division of Federal Aid has made efforts to request reports from states after they become delinquent, it has not performed sufficient monitoring to ensure states submit required Performance Reports and SF-269 Financial Status Reports in a timely manner.

SF-269 Financial Status Reports are used to properly record grant expense in the FAIMS and receipt of these reports also triggers deobligation of funds at the close of grants. Failure to receive reports in a timely manner could result in a misstatement of the Service's financial statements. Performance reports are the primary source for required disclosure of investments in nonfederal physical property. As a result of not obtaining such reports in a timely manner, the Service's required supplementary information may be incomplete.

Recommendation

The Division of Federal Aid should ensure that Performance Reports and SF-269 reports are obtained and entered into FAIMS in a timely manner. The Service should consider implementing remedies available in Code of Federal Regulations Section 43 in order to increase state compliance with reporting provisions.

Management Response

The Service agrees with this finding and is completing action plans designed to accommodate KPMG's recommendations. Further, the Service will explore all available options to encourage States to comply timely with financial and performance reporting requirements in a manner that improves the information available for the Service's financial statements.

H. IDEAS-Procurement Desktop Controls

The IDEAS-Procurement Desktop (IDEAS-PD) is used by the Service to process obligations. The reconciliation process surrounding the IDEAS-PD and access controls over the system needs improvement. We noted that:

- The Citrix-based interface between IDEAS-PD and FFS does not consistently complete interface transactions. An individual user attempting an interface transaction is notified when the interface transaction has rejected; however, the Service has not established a formal process to reconcile obligations in IDEAS-PD to FFS;
- Numerous users have access to databases outside their region;
- Generic accounts are used; and,
- IDEAS-PD does not have an approved risk assessment, security plan, or contingency plan in place.

We also noted that IDEAS-PD has not been formally authorized by the Service's Division of Contracting and Facilities Management for use in the Service. This authorization normally occurs via an accreditation from system owners. The application is used in markedly different ways across the Service. For example, some regions use the electronic Purchase Request (PR) feature whereas other regions pick up the procurement transaction from the approved and certified paper PR.

The cause of some of the issues noted above is that the Service replicated all databases in each region when IDEAS-PD moved from the centralized National Business Center (NBC) application hosting to the regional client-server architecture. This move, along with the resulting attempts to clean and administer the mirrored databases locally, resulted in users with access to other regions' databases and the use of generic accounts.

We noted that field stations and other cost centers are responsible for ensuring obligations are properly posted to FFS; however, there is no consolidated reconciliation process of IDEAS-PD and FFS. Currently, reporting from FFS has not been established to facilitate this reconciliation process. Once such a report is in place, and the Service indicated that reconciliations for FY 2001 and 2002 will be performed. If the interface between IDEAS-PD and FFS is inconsistent, the Service's obligations may be misstated. These misstatements may be exacerbated by the regions using the application differently.

Recommendation

We recommend that the Service, at a minimum, take the following steps to improve controls over IDEAS-PD:

1. Continue to isolate the problems with the Citrix-based interface from IDEAS-PD to FFS.
2. Complete the reconciliation process of initial obligations.
3. Ensure access is appropriate to regional databases and the specific job responsibilities of the regional users.
4. Eliminate the use of generic user IDs.
5. Proceed with the formal OMB Circular A-130 Major Application compliance process.

Management Response

The Service will work to improve its operational guidelines and procedures and to monitor their execution with the goal of automating reconciliation with FFS and PPMS. Also, the Service will continue its efforts to refine security features of IDEAS-PD consistent with Service and Departmental security plans.

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 is operation that we have reported to the management of the Service in a separate letter dated January 10, 2003.

Compliance With Laws and Regulations

The results of our tests of compliance with certain provisions of laws and regulations described in the responsibilities section of this report, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

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

I. **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*.

J. **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 material weaknesses related to buildings, structures, and construction work in process, financial reporting, reconciliation of intrabureau activity and intradepartmental transactions and accounts payable. The foregoing material weaknesses in internal control are also an indicator of noncompliance with FFMIA provisions relating to federal accounting standards.

Recommendation

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 2003.

2. We recommend that the Service strengthen its procedures and internal control to ensure that buildings, structures, and construction work in process is fairly stated, its financial reporting process is improved, its intrabureau activity and intradepartmental transactions are reconciled, and accounts payable are 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 Government Standard General Ledger at the transaction level.

Management Response

The Service has made substantial improvements in IT security policy and controls to comply with OMB Circular A-130, *Management of Federal Information Resources*, but acknowledges that it needs to make further progress. In our response to the recommendations in section F., the Service explains how it intends to achieve full compliance, with the goal to address all previous findings of noncompliance, as well as to pro-actively bring all offices, programs and systems in the Service into complete A-130 compliance in FY 2003.

The Service believes that the corrective actions outlined under sections A., B., and D. will implement KPMG's recommendations and will address the finding of noncompliance with federal accounting standards.

Responsibilities

Management's Responsibilities

The Government Management Reform Act (GMRA) of 1994 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, which includes:

- 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 financial statements of the Service based on our audits. Except as disclosed in the second paragraph of our opinion on the financial statements, 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States 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 2002 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 *Governmental 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 2002 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 the United States Fish and Wildlife Service management, Department of the Interior, Department of the Interior's Office of the Inspector General, OMB, 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

January 10, 2003

Exhibit I

UNITED STATES FISH AND WILDLIFE SERVICE

Summary of the Status of Prior-Year Reportable Conditions

September 30, 2002

Reference	Condition Area	Status
2001-A	Financial Reporting	This condition has not been corrected and is repeated in FY 2002.
2001-B	Capital Equipment	This condition has not been corrected and is repeated in FY 2002.
2001-C	Buildings, Structures, and Construction Work in Process	This condition has not been corrected and is repeated in FY 2002.
2001-D	Security and General Controls Over Financial Management Systems	This condition has not been corrected and is repeated in FY 2002.
2001-E	Aquatic Resource Trust Fund and Sport Fish Restoration Account	This condition has been corrected.
2001-F	FFMIA – Financial Management Systems Requirements	This instance of noncompliance has not been corrected and is repeated in FY 2002.
2001-G	FFMIA – Federal Accounting Standards	This instance of noncompliance has not been corrected and is repeated in FY 2002.

United States Department of the Interior

FISH AND WILDLIFE SERVICE
Washington, D.C. 20240

In Reply Refer To:
FWS/DFM

MAR 0 7 2003

Memorandum

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

From: Deputy Director

Subject: Draft Independent Auditor's Report on the U.S. Fish and Wildlife Service's Financial Statements for Fiscal Years 2002 and 2001

The Service reviewed the subject draft audit report, in which KPMG, LLP identifies reportable conditions concerning internal controls over financial reporting. The Service generally agrees with the findings and offers suggested revisions in addition to the Service's Management Responses. The Service recommends these revisions be incorporated into the final opinion.

General Comments

Many of the recommendations from KPMG address formulating improved accounting policies and processes for recording and managing financial information in key areas such as property assets, accounts payable and reconciling eliminations. In response to these recommendations, the Service is determined to implement KPMG's recommendations. However, the Service will be looking to the Department of the Interior to provide policy direction and leadership in addressing these important Departmental issues and processes. The Service will provide assistance and cooperation to support the Department in these endeavors.

Internal Controls Over Financial Reporting

A. **Processes, Controls, and Financial Reporting Relating to Buildings, Structures, and Construction Work in Progress**

The Service agrees with this finding and recognizes that improvements are necessary to record and report its real property assets accurately and completely. As a consequence, the Service is working on corrective actions designed to implement KPMG's recommendations.

1. **Capitalization of Assets** - The Service will establish policies for real and personal property assets. The Service will also participate in Departmental work groups designed to improve Departmentwide policies and controls over property, plant and equipment (PP&E).

Responsible Official: Assistant Director - Business Management and Operations. Technical Assistance: Chief, National Wildlife Refuge System and Assistant Director for Fisheries and Habitat Conservation. Target Date: September 2003

2. **Inventory Processes** - The Service is committed to conducting a comprehensive review of the Real Property Inventory (RPI), validating and updating information in the database during FY 2003. This review validates property information in the RPI from which financial data is derived, including verifying acquisition year, construction year, acquisition cost or value, and disposals. Additionally, the Service will standardize the RPI processes for the timely recording of acquisitions and disposals in the RPI and the FFS general ledger as well as the maintenance of source documentation.

   Responsible Officials: Chief, National Wildlife Refuge System, Assistant Director for Fisheries and Habitat Conservation and Assistant Director - Business Management and Operations. Target Date: September 2003.

3. **Acquisitions and Disposals** - As part of the comprehensive review to the RPI, the Service will evaluate existing documentation related to real property acquisitions and disposals and secure necessary support information for key data fields of the RPI. The Service will also standardize processes for the timely recording of acquisitions and disposals in the RPI and FFS as well as the maintenance of source documentation.

   Responsible Officials: Chief, National Wildlife Refuge System, Assistant Director for Fisheries and Habitat Conservation and Assistant Director - Business Management and Operations. Target Date: September 2003.

4. **Transfers and Donations** - As part of the comprehensive RPI review, the Service will revise policies and standardize procedures governing entry of new data for transferred and donated property into the RPI and FFS general ledger as well as the maintenance of source documentation.

   Responsible Officials: Chief, National Wildlife Refuge System and Assistant Director for Fisheries and Habitat Conservation. Technical and Policy Assistance: Assistant Director - Business Management and Operations. Target Date: September 2003

5. **Recording Depreciation** - The Service will develop policies and standardized processes for the timely recording of aquisitions, disposals, tranfers and donations in the RPI. The Service will also add key data fields to the RPI that will generate or calculate depreciation information so that it is available on a quarterly basis.

   Responsible Officials: Chief, National Wildlife Refuge System and Assistant Director - Business Management and Operations. Target Date: June 2003

6. **Reconciliation of RPI to the General Ledger** - As part of the overall actions described above, the improvements to the Service's RPI policies and processes will result in more timely and frequent reconciliations to assist in preparing accurate and complete financial statements.

   Responsible Officials: Chief, National Wildlife Refuge System and Assistant Director - Business Management and Operations. Target Date: September 2003.

B. Financial Reporting Process

The Service agrees that there are improvements that need to be made to its financial reporting processes and has taken steps to address KPMG's recommendations.

1. **Reviewing Internal Policies and Procedures** - The Service's Division of Financial Management is currently developing internal procedures and checklists governing roles and responsibilities, including account reconciliations, investigation and resolution for variances and illogical balances, etc.

   Responsible Official: Assistant Director-Business Management and Operations. Target Date: September 2003.

2. **Provide Adequate Succession Planning** - The Division of Financial Management is undergoing an intensive restaffing effort and has taken significant steps to ensure that its personnel are knowledgeable and adequately trained to perform key financial statement preparation functions. The Service is also participating in Departmental financial management recruiting programs to ensure a regular succession of staff.

   Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003.

3. **Assign Responsibility for Posting Models** - The Service has made the specific assignment of updating and maintaining posting models to the Branch of Financial Statements within the Division of Financial Management.

   Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003

4. **Training Division of Financial Management, Regional, Program and NBC Personnel** - The Service continues its training efforts, initiated in FY 2001, for key personnel regarding transaction coding, account analysis and financial reporting. Further, Service management and technical experts gained significant hands-on experience and enhanced key skill sets during the FY 2002 financial reporting and audit cycle that will improve Service performance in FY 2003. The Service will develop a formal training plan for priority financial reporting and transaction areas.

   Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003.

5. **Periodic Review Processes By Program Managers, Regional Budget and Finance Officers** – The Service plans to establish Regional Chief Financial Officers to promote the review of all financial management information. In addition, the Service will develop checklists for Regional program and budget and finance personnel that will define reviews for financial management information..

   Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003.

6. **Apply Consistent Processes for Manual Journal Entries**– the Service will implement a standard process for reviewing and approving manual journal entries involving review and sign-off by Division of Financial Management supervisors.

   Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003.

Several of KPMG's recommendations are based on observations regarding the Hyperion application and its impact on the Service's ability to prepare financial statements. The Department is the Hyperion system owner and responsible for core security, for operational features of the application, and for the server environment. Since the Service is not the system owner, we cannot accomplish corrective actions unilaterally. The Service can independently manage employee access to its specific application used by the Service to provide financial information for its financial statements, as well as the Department's financial statements. For comments on the Service's specific application, please refer to the "Hyperion" finding discussed under F. entitled, "Security and General Controls over Financial Management Systems."

C. **Reconciling Transactions within the Service and with Other Department of the Interior Components**

The Service concurs with this finding. KPMG has faithfully incorporated the Service's Management Response into the body of their report so we do not offer any revisions to the text in this section. As indicated in that response, reconciling intra-Departmental transactions as well as intra-governmental transactions is a problem that is being addressed by a Departmental workgroup and also the Office of Management and Budget. The Service is participating in the Departmental workgroups and will implement the resulting policies and procedures. Until the Department develops and issues new policies and procedures, or develops an automated system for reconciliation, the eliminations process will remain a difficult and intensive task for all bureaus.

Responsible Officials: Assistant Director - Business Management and Operations. Target Date: September 2003

D. **Controls, Processes and Financial Reporting Relating to Year-End Accruals**

The Service is pursuing alternative methods for accruing accounts payable quarterly and at year-end that do not rely on field stations recording individual invoices. The Service is also directly participating in Departmental efforts to establish Department-wide policies and procedures governing accruals. The Service will also work with KPMG by seeking their review and concurrence of newly developed alternative methods.

Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003.

E. **Controls, Processes and Financial Reporting Relating to Capital Equipment**

The Service is committed to using a continually updated personal property system that contributes timely information to the quarterly financial statement preparation process. We appreciate KPMG acknowledging Service improvements and advancements in achieving this goal. The Service will continue to perfect quarterly reconciliation processes, including identifying all necessary information that must be kept in the Service's Personal Property Management System (PPMS) and exploring automated means of reconciliation between PPMS and FFS. Also, the Service will develop guidelines to assist Regional property managers to record identified information into PPMS properly and timely and to use IDEAS to track new equipment purchases for proper entry into PPMS and FFS.

Responsible Official: Assistant Director - Business Management and Operations. Implementation Support: Regional Directors, Regions 1 -7. Target Date: September 2003.

F. **Security and General Controls over Financial Management Systems**

We agree with the general finding that the Service needs to improve security and general controls over its information/financial management systems, but we disagree with some of the specific audit findings in the control categories listed below. For instance, KPMG auditors identified weaknesses in Service entity-wide security program policy that were rectified by the issuance of Service policy. This policy manual was officially published during FY 2002. The Service believes the issuance of the entity-wide security policy removes the condition for a finding in this specific area. We have addressed this issue, as well as several others, in our responses to the Notification of Findings and Recommendations from the KPMG FY 2002 audit.

KPMG acknowledges that the Service has made improvements in the security and controls over its information systems, security-related personnel policies, computer security training, as well as security policies and procedures at the National Communications Center. The Service will continue to move in the direction of complete compliance with OMB Circular A-130, *Management of Federal Information Systems*, as quickly as possible. Toward this goal, the Service has published updated official policy manuals that describe: the overall Service Information Technology Architecture (SITA); planning and managing information technology (IT) capital investments; policies and procedures for IT governance; management control reviews for automated information systems; data standards and data management practices; and policies, procedures, and responsibilities for the Service entity-wide IT security program.

Having established official policy, procedures, and guidance for effective security and general controls over information systems, we have the following comments for the categories cited in this report:

1. **Entity-wide Security Plan** - The Service established an entity-wide security program and security planning guidelines through the publication of Information Technology Manual titled "Automated Information System Security." The Service formed a new Branch of Security Management with responsibility for oversight of the Service's IT security program. To ensure full Service program and Regional compliance with the Service's IT security program as established in official policy, the Service will develop and issue technical bulletins containing standards and guidance.

   Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003.

2. **Access Controls** - Weaknesses identified in Service web server and internal network configuration have been addressed. The Service believes other weaknesses identified by KPMG on the internal network are not a significant security threat, but we are pursuing alternative configuration methods and procedures. The Service will also require all system owners and managers of major applications (MA) and general support systems (GSS) to complete and effect security plans per Service policy.

Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003.

3. **Software Development and Change Control** - The Service has issued policy governing Automated Informataion Systems Capital Planning and Management which clarifies responsibilities for system owners and managers including configuration management and change control. The Service will publish additional technical bulletins for system owners and managers that provide a more detailed SDLC methodology.

   Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003.

4. **Segregation of Duties** - The Service partially disagrees with the audit findings concerning segregation of duties. The Service believes the program offices cited in the findings have provided for adequate separation of duties in their security plans and procedures based on the limited staff available. The system owners accept any residual risk. Further, such residual risk is unlikely to affect the integrity of financial management systems. The Service has issued official policy governing Automated Information System Security. The Service is planning to provide system owners and managers with appropriate guidance for self-review concerning segregation of duties.

   Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003.

5. **Service Continuity** - The Service will issue a technical bulletin to provide guidance and procedures for the proper preparation of continuity of operations plans and/or business resumption plans.

   Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003.

6. **Hyperion Application** - While the Department of the Interior is responsible for core security of Hyperion and the server environment, KPMG's findings address the Service's use of the Hyperion application, with particular emphasis on control of access to Hyperion by Service employees, on whether the Service has provided an adequate audit trail with this application, and on whether the Service has adequate segregation of duties during its use:
   (a) Access control of the Hyperion application - The Service maintains a list of input activity and employee access granted by Departmental officials generally is reviewed and approved by Service management. Also, an activity log is reviewed to monitor employee access and access purpose and activity is approved by Service management. Thus, the Service believes that it has adequate controls over Service employee access; however, there have been a few instances where the Department has provided employee access to Service records and did so by circumventing the Service's approving official. We are working with the Department on ensuring that such circumvention does not occur again.
   (b) Audit trail - Hyperion and FFS are fundamentally different systems, for both of which the Department serves as the system owner. Without an electronic interface, reconciliation between Hyperion and FFS is manual. The Service's audit trail consists of tracing corrective actions to the upload file and adjusting journal entries to bring the two systems into

alignment. Until the Department provides an electronic interface to bureau end users, the Service must continue its existing reconciliation operations.
(c) Segregation of duties - Preparing journal entries in software compatible with the Hyperion application was part of the Service's effort to automate the journal voucher process. With thousands of lines of property, accruals, and corrections, the Service designed controls concomitant with available resources. Since the Service has completed its staffing plan and hired appropriate staff as discussed under B. above, the Service has assigned responsibilities among several knowledgeable staff in a manner where we believe we have adequate separation of duties. Also, with the addition of staff, operational processes now require journal vouchers to be initialed by the preparer and signed by the approving official.

Responsible Official: Assistant Director - Business Management and Operations. Target Date: September 2003.

G. **Grant Controls and Processes Over Reporting Requirements**

The Service agrees with this finding and is completing action plans designed to accommodate KPMG's recommendations. Further, the Service will explore all available options to encourage States to comply timely with financial and performance reporting requirements in a manner that improves the information available for the Service's financial statements.

Responsible Official: Assistant Director - Migratory Birds and State Programs. Target Date: September 2003.

H. **IDEAS-Procurement Desktop Controls**

The Service will work to improve its operational guidelines and procedures and to monitor their execution with the goal of automating reconciliation with FFS and PPMS. Also, the Service will continue its efforts to refine security features of IDEAS-PD consistent with Service and Departmental security plans.

Lead Official: Assistant Director - Business Management and Operations.

Responsible Official: Assistant Director – Business Management and Operations.
Target Date: September 2003.

Compliance with Laws and Regulations

I. **Federal Financial Management Systems Requirements**

The Service has made substantial improvements in IT security policy and controls to comply with OMB Circular A-130, *Management of Federal Information Resources*, but acknowledges that it needs to make further progress. In our response to the recommendations in section F., the Service explains how it intends to achieve full compliance, with the goal to address all previous findings of non-compliance, as well as to pro-actively bring all offices, programs and systems in the Service into complete A-130 compliance in FY 2003.

Responsible Official: Assistant Director – Business Management and Operations. Target Date: September 2003.

J. Federal Accounting Standards

The Service believes that the corrective actions outlined in response to KPMG's recommendations under sections A., B. and D. address this finding and will implement KPMG's recommendation.

Responsible Official: Assistant Director – Business Management and Operations. Target Date: September 2003.

The Service appreciates your considerations concerning our comments. If you have any questions or need more information, please contact the Chief Financial Officer and Assistant Director - Business Management and Operations by calling (703) 358-1822.

cc: Curtis Crider, Office of Inspector General

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